

# The S&P 500 Posted Strong Gains YTD as Stocks Delivered on Earnings. We Remain Bullish



## Major Indices Post Gains in May

Despite weakness in the last week of the month, all three major stock market indices were up in May amid strong earnings results and slightly cooler inflation. The S&P 500 posted its largest monthly gain since February (+5.0%) while the Nasdaq Composite had its best month since November 2023 (+7.0%). US growth (+6.7%) was among the best performers, followed by US large-caps (+5.1%) and US small-caps (+4.9%). Aside from munis (-0.3%), bonds were also up as investment grade corporates rose 2.0%, 7-10 year US Treasuries increased 1.8%, and the US Aggregate Bond Index gained 1.8%. Though crude oil was down 4.5%, commodities fared well as silver was up 15.4%, broad-based commodities rose 2.2%, and gold increased 1.6%.

**Exhibit 1: Trailing Returns as of May 31, 2024**

Index/ETF	1-Mo	3-Mo	YTD	1-Y	3-Y	5-Y
<b>US Growth (SPYG)</b>	6.67%	4.71%	15.46%	31.57%	8.89%	16.64%
<b>US Large-Caps (SPY)</b>	5.06%	4.12%	11.30%	27.98%	9.46%	15.74%
<b>US Small-Caps (SPSM)</b>	4.92%	2.44%	1.52%	20.24%	0.56%	9.93%
<b>International Developed Equities (SPDW)</b>	4.73%	4.79%	6.70%	17.73%	1.75%	8.04%
<b>US Mid-Caps (SPMD)</b>	4.43%	3.77%	7.85%	25.86%	4.63%	12.27%
<b>US Value (SPYV)</b>	2.96%	3.16%	6.45%	23.84%	9.32%	13.77%
<b>Broad-based Emerging Markets (SPEM)</b>	2.36%	5.34%	5.34%	15.56%	-3.36%	4.69%
<b>Investment Grade Corporate Bonds (SPBO)</b>	1.98%	0.69%	-0.80%	4.70%	-2.54%	1.13%
<b>US Treasury 7-10 Year (IEF)</b>	1.80%	-0.66%	-2.66%	-2.30%	-4.69%	-1.37%
<b>US Aggregate Bond Index (SPAB)</b>	1.75%	0.11%	-1.51%	1.33%	-3.09%	-0.22%
<b>High Yield Credit (JNK)</b>	1.57%	1.40%	1.85%	11.04%	1.01%	3.26%
<b>Treasury Inflation Protected Notes (SPIP)</b>	1.49%	0.51%	0.35%	1.50%	-1.77%	1.83%
<b>Municipal Bonds (MUB)</b>	-0.31%	-1.34%	-1.51%	2.24%	-1.05%	0.96%
<b>Silver (SLV)</b>	15.43%	33.91%	27.46%	28.39%	2.33%	15.25%
<b>Broad-based Commodities (BCI)</b>	2.17%	8.04%	6.87%	10.81%	6.18%	7.72%
<b>Gold (GLD)</b>	1.62%	13.73%	12.62%	18.05%	6.45%	11.78%
<b>Crude Oil (USO)</b>	-4.54%	1.99%	12.26%	23.35%	18.04%	-3.37%

Source: FactSet. Data as of May 31, 2024. 1Y, 3Y, and 5Y numbers are annualized.

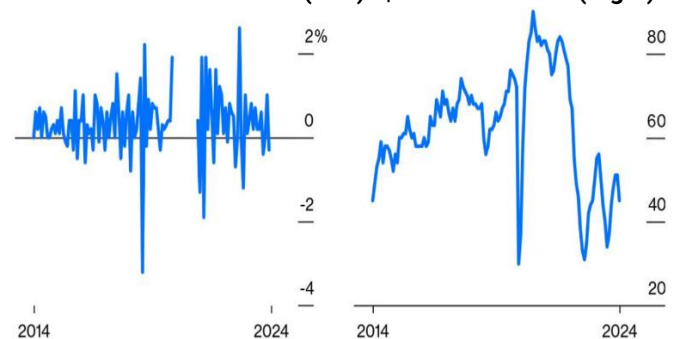
## FOMC Minutes Lean Hawkish

The Federal Reserve kept interest rates unchanged at the May FOMC meeting, leaving the fed funds rate at the 5.25–5.50% range. Although Fed Chairman Jerome Powell downplayed the idea of additional rate increases after the meeting, the FOMC minutes released on May 22<sup>nd</sup> leaned more hawkish. The report revealed various officials are willing to hike rates further if risks materialize, and that several policymakers expressed “uncertainty about the degree of restrictiveness.” The minutes also indicated that in the beginning months of 2024, inflation made less progress than policymakers anticipated. The Consumer Price Index (CPI) and Personal Consumption Expenditure (PCE) reports showed inflation eased slightly in April, but both core annualized measures remain stubborn and above the Fed’s 2% target (3.6% and 2.8%, respectively). Currently, investors are pricing in a 56% chance for the first rate cut to occur in September per the CME FedWatch Tool.

## Is the US Economy Cooling, or Will it Strengthen Ahead?

The second preliminary GDP print for Q1 2024 came in at 1.3%, below both the estimate and first preliminary reading of 1.6%. This, along with cooling consumer spending from the April PCE report, a flat month-over-month April Retail Sales reading, and homebuilder sentiment unexpectedly turning negative via the May NAHB Housing Market Index release (see Exhibit 2), all support a cooling US economy.

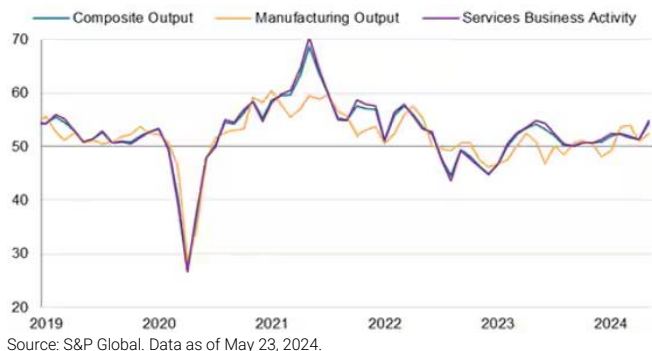
**Exhibit 2: US Retail Sales (Left) | US NAHB HMI (Right)**



Source: Bloomberg. US Retail Sales chart shows monthly change, and pandemic year data excluded for clarity. Data as of May 15, 2024.

However, preliminary S&P Global Flash US PMI data for May (see Exhibit 3) suggest growth strengthened midway through Q2 2024. The composite print, which combines services and manufacturing activity, rose to 54.4, its highest level in two years. The services component alone reached 54.8, notching a twelve-month high, and manufacturing also trended higher into expansionary territory.

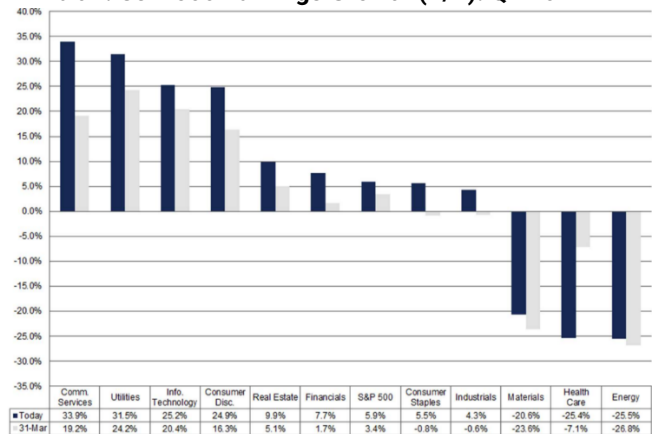
**Exhibit 3: S&P Flash US PMI**



### A Strong Q1 2024 Earnings Season

Per FactSet, of the 98% of S&P 500 companies that reported Q1 2024 results, 78% beat earnings estimates, and in aggregate, companies are reporting results 7.4% above estimates. Notably, the blended earnings growth rate (companies that reported and predicted results for those yet to report) is currently 5.9%, well above the 3.4% expected at March-end. If maintained, this would also mark the best year-over-year earnings growth rate since Q1 2022. As seen below, communication services, utilities, and technology lead earnings growth for the quarter.

**Exhibit 4: S&P 500 Earnings Growth (Y/Y): Q1 2024**



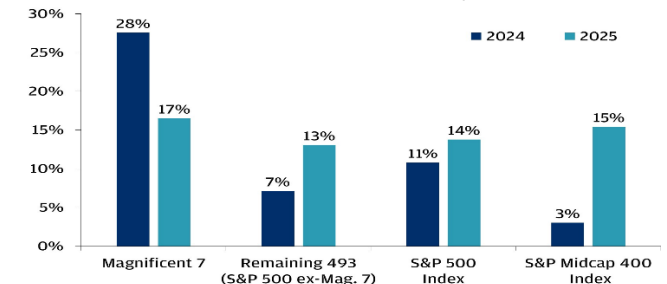
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### Opportunities Outside the Magnificent Seven

Going forward, earnings growth is expected to broaden out. For instance, the S&P 493 and S&P Mid-cap 400 are projected to improve from single-digit earnings growth in 2024 to double-digit earnings growth in 2025. Meanwhile, that of the Magnificent Seven is forecasted to nearly be cut in half.

**Exhibit 5: EPS Consensus Growth Est. by Calendar Year**



Source: J.P.Morgan, FactSet. Data as of May 8, 2024. Estimates represent FactSet consensus.

### The S&P 500 Posted Strong Gains YTD as Stocks Delivered on Earnings. We Remain Bullish

In our December commentary, we provided an outlook explaining why we were the most constructive we had been in years. In short, our bull thesis was centered around 1) better earnings, 2) a significant decline in inflation, and 3) an accommodative Fed.

We acknowledge that the S&P 500's rally in the first five months of this year (+11.3% YTD through May 31<sup>st</sup>) has been strong. Nevertheless, we remain constructive on equities.

We believe the overall S&P 500 isn't nearly as attractive as the S&P 493 or even the rest of the world, which both present an abundance of opportunities. To be clear, we are still very constructive on stocks, but more so in non-Magnificent Seven names, US mid-caps, natural resources, commodity equities, precious metals, and non-US markets, particularly Japan.

Prudent in our methodology, our US large-cap portfolio construction includes equal-weighted exposures. If one only owns US large-cap market-cap-weighted products, their portfolio will have a relatively expensive valuation. However, if investors incorporate equal-weighted strategies, valuations can be lowered by approximately five turns or so.