Seacoast
WEALTH MANAGEMENT

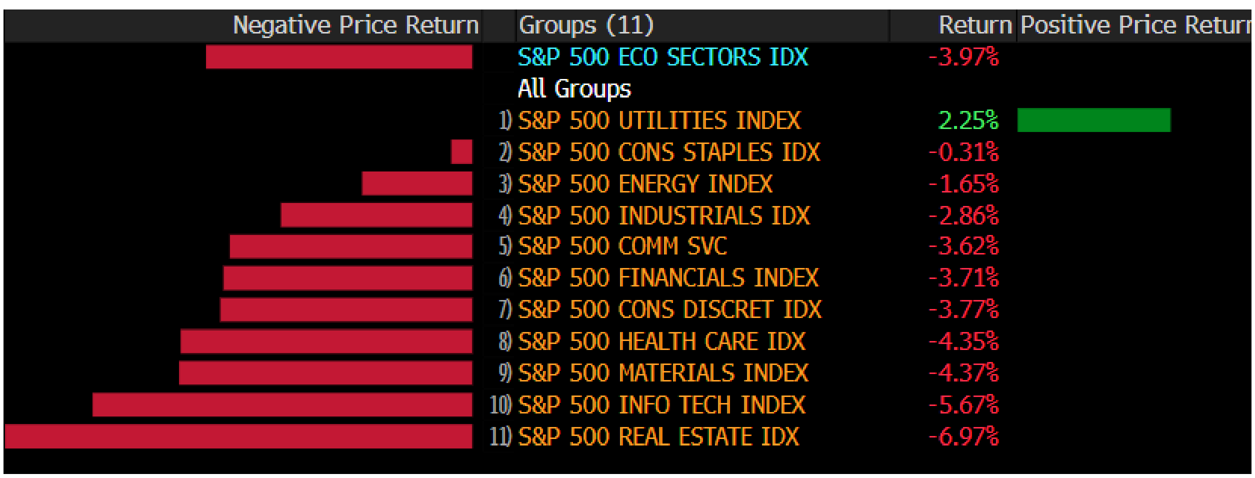
Market Update

MAY 2024

Stock Market Spring Cleaning

April has come and gone, and with it the S&P 500's streak of consecutive monthly gains that's been in place since October of 2023. Increased Fed uncertainty, heightened geopolitical risks, and elevated valuations/expectations for earnings growth all contributed to the S&P's approximate 4% decline for the month.

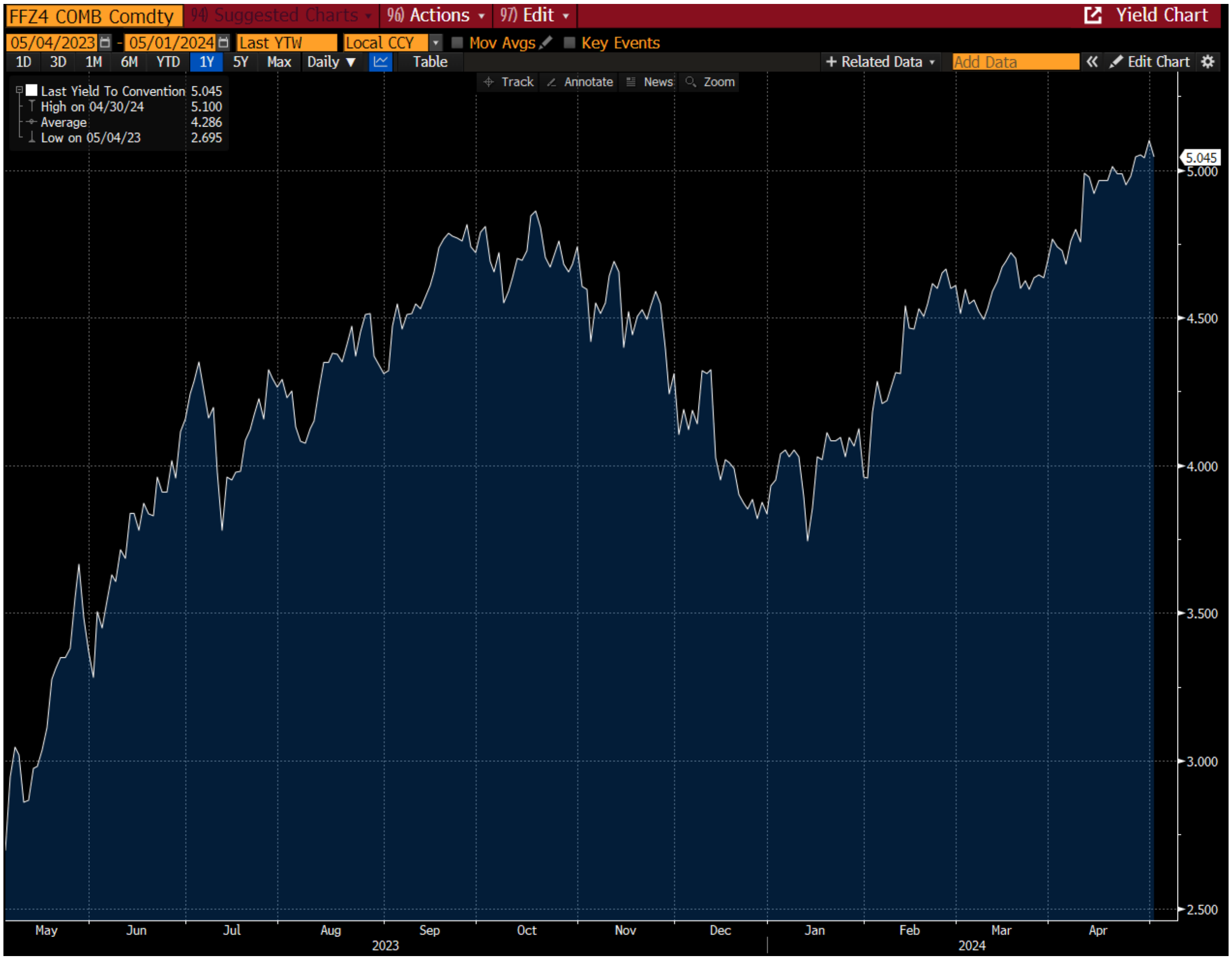
On a sector-level, there were few pockets of safety within "defensive" sectors (those that tend to outperform amid economic slowdowns), with Utilities being the only positive performer, while consumer staples saw a more modest 0.3% decline. Energy was the lone positive outperformer among cyclical industries, as the ongoing conflict in the Middle East continues to keep a floor under oil prices. Tech and the A.I. darlings that have been largely responsible for carrying this market higher over the last several months were not immune to the weakness either, as seen in MSFT and NVDA, which finished April down approximately 8% and 4.5% respectively.



Source: Bloomberg

When considering the drivers behind the negative price action in April, it would be helpful to look back at what the prevailing Fed narrative was heading into the year and to compare it to where it stands now. Prior to October, the consensus market narrative among pundits and analysts was one of recession which would be followed by interest rate cuts, cooling inflation, and the beginning of a new economic cycle. From there the consensus view shifted into one of a soft-landing scenario alongside a continued downtrend in inflation which would set the Fed up for a stream of slow and steady interest rate cuts through the year.

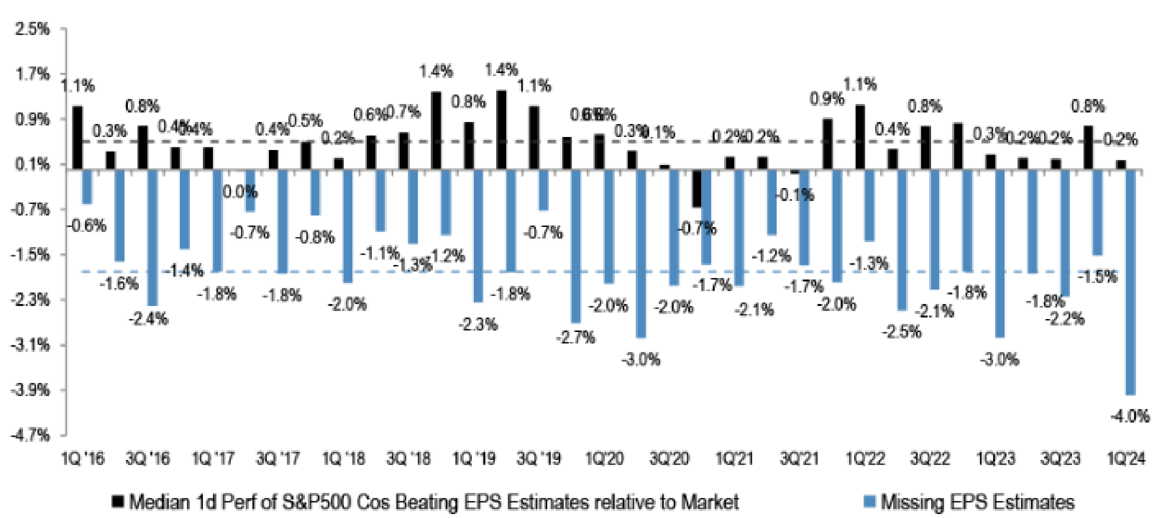
The key question among investors no longer revolves around "how many cuts?", but it has instead shifted to "will they even cut at all?" This is a function of ever-changing growth vs. inflation dynamics. The data we received this month skewed negatively, in that inflation remains stubbornly high (core CPI +3.8% year over year versus consensus +3.7%,) while growth surprised on the downside (1Q GDP +1.6% vs. consensus +2.5%.) This combination of higher inflation and lower growth puts the Fed in a precarious position, and this dynamic will be top of mind for investors as we head into the back half of the year. As seen in the December Fed Funds Futures Contracts, market expectations for the Fed Funds rate at year-end continue to move higher.



Source: Bloomberg

Looking beyond the Fed and economic data, April marked the beginning of the 1Q24 earnings season. With 42% of S&P 500 companies having reported through May 1st, 75% are beating EPS estimates (by an average of 1.7%) while only 59% are beating revenue estimates (by an average of 0.5%). While the numbers appear to be meeting expectations on a headline level, the average stock reaction to a beat has been muted. Even more interesting is that among the few stocks that have missed, the reaction on the downside has been markedly more pronounced than what's typical (see below chart courtesy of J.P. Morgan).

Figure 17: US stock price reaction* to quarterly EPS beats/misses



Source: J.P. Morgan Equity Research, Bloomberg Finance L.P., *relative 1-day performance

As active managers, fundamental analysis is the foundation of our process. Our goal is to identify a select group of investments that both endure during through difficult economic periods and thrive during times of economic prosperity. At Seacoast Wealth Management, we are not interested in making calls on a highly unpredictable macro environment. Instead, we remain steadfastly focused on conducting rigorous bottom-up research to guide our investment decisions. This is illustrated in some of the changes we made to our model this month, as we took advantage of the April weakness to add to our allocations in the information technology, communication services, and consumer discretionary sectors.

There's an old saying about accepting the things that one cannot change, having the courage to change the things one can, and having the wisdom to know the difference. The Fed, economic data, and the latest geopolitical happenings all fall firmly out of our control, but as a client of Seacoast Wealth Management, you can rest assured knowing that our team is working diligently to control what we can for your portfolio through our in-depth research, security selection, and asset allocation processes.

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Sources: JP Morgan Asset Management; NASDAQ; FactSet; Bloomberg; Broadridge: *Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks.*