FINANCIAL LIFE CONCEPTS

*"Financial Planning with Integrity"*

# Looking Back at the Markets in April and Ahead to May 2023

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After moderate gains in March, markets continued to rally in April. U.S. markets were up by low single digits, while bond markets were moderately positive. International markets were mixed, with developed markets showing modest gains while emerging markets ticked down. Given the downbeat expectations for earnings at the start of the month, the gains may be a positive sign for the next several months.

## Looking Back

**The markets.** For the actual numbers, the S&P 500 gained 1.56 percent in April, while the Dow Jones Industrial Average rose 2.57 percent. The Nasdaq Composite did the worst of the three, with the technology-heavy index up only 0.07 percent. Developed markets, as represented by the MSCI EAFE Index, rose 2.82 percent, and the MSCI Emerging Markets Index lost 1.1 percent. Fixed income also showed gains, with the Bloomberg Aggregate Bond Index up 0.61 percent for the month, while the Bloomberg U.S. Corporate High Yield Index gained 0.61 percent as both rates and spreads ticked down. Overall, it was a solid month for financial markets, with trends remaining positive for all indices.

**Earnings and fundamentals.** Better-than-expected fundamentals drove the gains in April. First-quarter earnings came in much better than anticipated, while interest rates also ticked down. We may see better-than-expected results this month as well, which could be a tailwind for stock prices.

**The economy.** While financial markets largely gained last month, the economy showed signs of slower growth. Labor market indicators, including job openings and hiring, continued to slow, while some measures of consumer confidence ticked down. Business confidence indicators also declined. The manufacturing survey stayed in recessionary territory, while the service sector remained below its previous strong level.

**Banking system health.** April saw the continuation of the banking crisis, with First Republic Bank failing in early May, suggesting that the system remains under strain. That pressure will likely slow lending growth, which could be a drag on both consumers and business. This drag and the building effects of prior Fed rate hikes could slow the economy through the rest of the year.

## Looking Ahead

**Prospect of lower rates.** Despite the headwind from slower growth and the possibility of a recession, there is some potential good news. With inflation dropping and likely to drop further as the economy slows, the Fed will have less incentive to raise rates further.

The Fed increased rates at the start of May, but it also changed the language to suggest future increases may be less likely. And while the current data shows that higher rates were needed to curb inflation, such increases now seem less likely moving forward. Although slower growth could be a headwind for the market, it could also mean even lower rates, which would help support markets.

In the short term, the economy is expected to grow more slowly. But what we see so far is that earnings growth is holding up, which is good news. Between that and the prospect of lower rates, markets may have some cushion this month.

**Political and international risks.** Beyond the economic and policy angles, May also faces political challenges. The federal debt ceiling was hit again in January. The U.S. Treasury is now using extraordinary measures to pay the bills and is expected to run out of money in the next month or so, which could disrupt markets. While this situation will be resolved, it will likely be at the last minute as it has been before. Until then, the rising uncertainty will weigh on markets. With the Ukraine war underway and China's Covid-19 reopening still uncertain, there are multiple risks that will act as market headwinds this month.

## Slow Growth Is Still Growth

Overall, the news from April was broadly good. The economy is slowing but still growing. Progress on inflation has allowed the Fed to consider putting a pause on rate hikes. And earnings are coming in much better than expected. While we face risks, with the debt ceiling at the top of the list, the solid results from April mean the prospects for the rest of the year continue to look good.

That is the bottom line here: while we do have headwinds, the current economic slowdown and adjustment in interest rates could put the economy and markets in a better place. Over time, we may see economic resilience as those improvements continue.

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