The U.S. Manufacturing PMI Surges to 50.30, Ending 16-Month Contraction, Construction Spending Slips, Gas Prices Climb, and Wall Street Closes Mixed.

April 1, 2024

by Francisco Rodríguez-Castro
frc@birlingcapital.com

The U.S. and European stock markets began the new quarter differently, with Europe on holiday and Wall Street attempting to start on solid footing. While the trading session began higher, it slowly began its downward trend, with losses starting on the first day of the second quarter for the Dow Jones and S&P, with the Nasdaq closing up.

Across the globe, Asian markets showed a mixed performance, influenced by a stronger-than-anticipated manufacturing report from China. Meanwhile, Treasury yields rose, with the 10-year yield climbing 0.013 percentage points to close at 4.33%.

Today, all attention was on the health of the U.S. manufacturing sector as the ISM Manufacturing Purchasing Manager's Index (PMI) was released. The welcomed news is that the PMI rose to 50.30, up from 47.80 last month; this is the first time in 16 months, or since November 2022, that the PMI has risen above 50. As you know, a PMI surpassing the 50 mark heralds a broader expansion of the manufacturing economy.

The PMI beat consensus estimates that had expected the PMI to rise only to 48.5, so at 50.30, it beat the estimate by 3.71%.

Now, the attention turns again to the labor markets, with tomorrow's JOLTS job openings and expectations leaning towards a slight decrease to 8.8 million, down from January's 8.9 million. Should the decline in job openings over recent months materialize, it could signal a softening labor market, potentially leading to a better equilibrium between labor supply and demand. The week culminates with Friday's Nonfarm Payroll report and the unemployment and labor participation rates. Nonfarm payrolls are forecasted to increase by 192,000, with a slight dip in the unemployment rate from 3.9% to 3.8%.

While labor market conditions should soften throughout 2024, a significant rise in unemployment is not foreseen. This moderation, while potentially dampening consumer spending, could offer relief in terms of lower inflationary pressures, potentially supporting future Fed rate cuts.

Another consideration is Friday's PCE report, which aligned with expectations, with the PCE rising by 2.45% Year over Year, slightly above January's figure of 2.4%. Core PCE, the Fed's preferred measure, increased by 2.78% Year over Year.

In his remarks at the Federal Reserve Bank of San Francisco Conference, Fed Chair Jerome Powell reiterated the need for sustained evidence of inflation approaching the 2% target before considering rate cuts. However, Powell acknowledged the delicate balance between acting too soon, risking inflationary pressures, and waiting too long, risking economic weakness. Market sentiment suggests expectations for the first Fed rate cut at the June meeting, supported by the anticipation of continued inflation moderation in the coming months.

What should Investors be mindful of for the next quarter?

Let's delve into the opportunities within today's market.

1. **Mid-Cap Stocks**: These often overlooked gems deserve attention. Historically, they've outperformed in the 12-18 months following the last Federal Reserve rate hike. Despite lagging since the Fed's last hike in July, mid-caps offer a sweet spot—they're more cyclical than U.S. large-caps but higher quality than small-caps. As investor confidence grows, mid-caps may unleash their catch-up potential1.

2. **International Outlook**:

    - **China Uncertainty**: While some uncertainty around China has been priced in, the country's underwhelming policy support and challenging regulatory landscape continue to weigh relative performance.
    - **Emerging-Market Equities**: We recommend underweighting these due to the factors above.
    - **International Developed Equities**: Stay neutral here.
    - **U.S. Large-Cap Stocks**: Overweight these—they remain resilient and promising.

3. **Fixed Income**:

    - **Emerging-Market Debt**: Favor this over U.S. high-yield bonds. Emerging-market debt tends to perform well in periods following peak Fed policy. Its higher interest-rate sensitivity can be advantageous.

Remember, the market is dynamic, and opportunities shift. Stay informed, diversify wisely, and seize those hidden gems.

Key Economic Data:

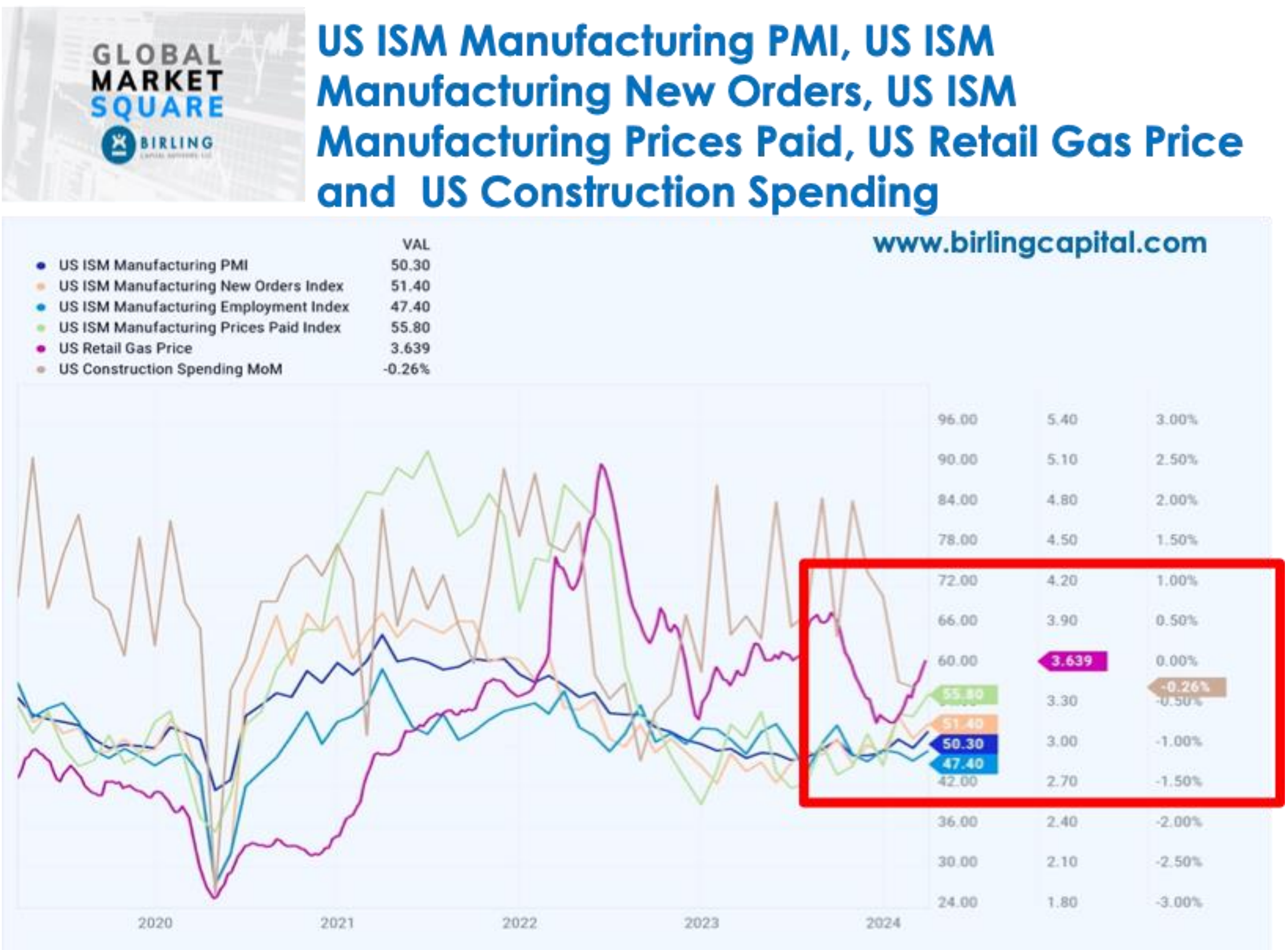
- **U.S. ISM Manufacturing PMI:** rose to 50.30, up from 47.80 last month, increasing 5.23%.
- **U.S. ISM Manufacturing New Orders Index:** rose to 51.40, up from 49.20 last month and increasing 4.47%.
- **U.S. ISM Manufacturing Prices Paid Index:** It rose to 55.80, up from 52.50 last month, increasing 6.29%.
- **U.S. ISM Manufacturing Employment Index:** rose to 47.40, up from 45.90 last month, increasing 3.27%.
- **U.S. Construction Spending MoM:** fell by -0.26%, compared to -0.20% last month.
- **U.S. Retail Gas Price:** rose to $3.639, up from $3.569 last week, an increase of 1.96%.

Eurozone Summary:

- **European Markets are closed for a holiday today.**

Wall Street Summary:

- **Dow Jones Industrial Average** closed at 39,565.79, down 241.58 points or 0.61%.
- **S&P 500** closed at 5,243.76, down 10.59 points or 0.20%.
- **Nasdaq Composite** closed at 16,396.83, up 17.37 points or 0.11%.
- **Birling Capital Puerto Rico Stock Index** closed at 3,446.14, up 30.92 points or 0.91%.
- **Birling Capital U.S. Bank Stock Index** closed at 4,981.39, up 27.92 points or 0.56%.
- **U.S. Treasury 10-year note** closed at 4.33%.
- **U.S. Treasury 2-year not**e closed at 4.72%.



The Economic Cycle

Wall Street Update

April 1, 2024