Ropes Wealth Reviews Record Breaking Markets & Slipping Economic Statistics

Wall Street advanced into uncharted territory on Thursday, with the Dow Jones Industrial Average topping 40,000 for the first time after a blowout earnings report from Walmart cast a positive light on the U.S. economy. The S&P 500 and Nasdaq Composite also rose to record levels before paring their gains modestly on some profit-taking. Maybe the age-old adage “Sell in May and go away” will be off the mark this year as investors want to be fully invested in what are normally lackluster summer months. Will it be November we have to look out for instead? Gulp.

Stocks are climbing as the economic data this week showed inflation receding to more normal levels and key economic statistics slowing but still on track. The highlight was Wednesday’s Consumer Price Index (CPI) report, which bolstered hopes that inflation may be resuming a downward path following a resurgence during the first quarter. Overall CPI rose 0.3% in April from March, while the core rate, which excludes food and energy, also rose 0.3%, The closely followed core CPI rose 3.6% from April 2023, its smallest annual advance in three years though still admittedly above the Fed's 2% long-term inflation target.

Consumer prices were more benign than producer prices, as April’s Producer Price Index (PPI) jumped 0.5% from March for both the overall rate and the core rate, which excludes food and energy prices. Producer prices are growing at a 2.2% rate since last year, with most of the pressure coming from increased services costs, a contrast to the pattern seen post-pandemic when almost all of the inflation pressure stemmed from the cost of goods.

Higher prices are taking some pep out of the consumer’s step, evidenced by April’s weaker-than-expected retail sales report that showed no growth in sales from March and a decrease in sales when excluding the more volatile automobile category. Housing starts and building permits also missed analysts' expectations, growing at a seasonally adjusted annual rate of 1.36 million and 1.44 million, respectively. Higher interest rates were cited as the culprit, delaying projects, and keeping inventory at record lows. Last but not least, the Philadelphia Fed Index, a measure of manufacturing health in that region, fell to 4.5 in May from 15.5 in April, perhaps in a foreboding sign of the slowing to come.

While all of these updates point to a downshift in economic activity and an easing in inflation, it will probably take three months of softer inflation readings and weakness in the labor market for the Fed to gain enough confidence to cut rates. Even so, traders are now betting those cuts will begin in September, just in time for the election. Notably, legendary investor Ray Dalio was quoted this week in the Financial Times saying that he sees about a 35% to 40% chance that the U.S could end up in a civil war given the worsening divisions in the U.S.: “We are now on the brink.” He also said if Taylor Swift ran for president, he would consider supporting her, given the way she brings people together of all sorts. At this point, why not?

All in all, it was a good week for the stock market, though slightly less so for the economy as data releases showed some dents in the resilience story. Perhaps those dents are ones that are shallow enough to be plugged by a quick rate cut. Time will tell, but it is notable that after a few years of hand wringing over recessions and bear markets, stocks are once again back to new highs. It just goes to show that investors who are patient and ignore the noise are rewarded, just as they have been throughout history.

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