

OBSERVATIONS

- Markets traded flat-to-lower last week, despite NVIDIA's strong earnings (see One More Thought), but the S&P 500 remains near its new record high set last Tuesday. The S&P 500 gained +0.1% last week, while small caps (Russell 2000 Index) fell -1.2% and the yield on a 10-year Treasury rose 5 basis point to 4.47%.¹
- Existing home sales disappointed in April, falling to 4.14 million (annualized rate) which was below expectations and -1.9% below March's 4.22 million figure.¹
- New home sales also came in below expectations, falling to 634k in April down -4.7% from March's newly revised lower figure. Meanwhile, mortgage applications inched higher last week but remain about -11% lower than same week last year.¹
- The architectural billings index—a leading indicator of non-residential construction activity—rose in April to 48.3 from March's 43.6 figure, but any reading below 50 indicates that a majority of architectural firms are seeing a decline in activity suggesting a slowdown in commercial construction in about 9 to 12 months.²
- Initial unemployment claims registered 215k last week, which was below expectations and on-par with some of the lowest number of claims filed during this time of the year over the past 50 years.¹
- For the first time since the spring of 2023 durable goods orders, while subject to revisions, rose for a third consecutive month. Orders jumped +0.7% in April over March in stark contrast to expectations for a month-over-month decline of -0.8%.¹
- US GDP for Q2 2024 continues to track higher than the first quarter of this year, so far resembling the growth witnessed in Q4 2023. Based on most recent economic data, forecasts from the Atlanta Federal Reserve Bank's GDPNow model shows real GDP growth tracking at +3.5%.³

EXPECTATIONS

- The minutes from the last Fed meeting were hawkish as most Fed officials noted “there had been a lack of progress” toward their goal of a 2% inflation rate and that recent data had shown “significant increases in components of both goods and services” price inflation. Perhaps most notable was that considering recent data, several Fed officials worried if the current monetary policy was “insufficiently restrictive” to soften the economy and push inflation toward their 2% target, which suggests the possibility that some Fed officials would support an additional rate hike if more progress were not achieved this summer to cool inflation.¹
- In contrast, an interview with head of European Central Bank (ECB), Christine Lagarde, last week strongly suggested that the ECB was ready to begin easing rates at its next policy meeting in early June.¹

ONE MORE THOUGHT: NVIDIA beats expectations, S&P 500 earnings increase, and investor sentiment continues to rise.¹

Probably the most anticipated Q1 earnings call occurred last week with NVIDIA comfortably beating market expectations for both top line revenues as well as operating earnings. Perhaps more importantly, the firm provided confidence that its future looked equally good “for some time”—the firm does not provide formal projections of financial results beyond the current quarter. Bear in mind that NVIDIA recorded \$7.2 billion of sales in Q1-2023, but its reported Q1-2024 sales were over \$26 billion—showing sales increased more than 3.5x in one year. Even more impressive, quarterly profits rose from about \$2 billion a year ago to almost \$15 billion in Q1-2024. The stock price has tripled over the past year and its market capitalization is now over \$2 trillion and represents over 5% of the S&P

¹ Bloomberg LP, as of 5/24/2024

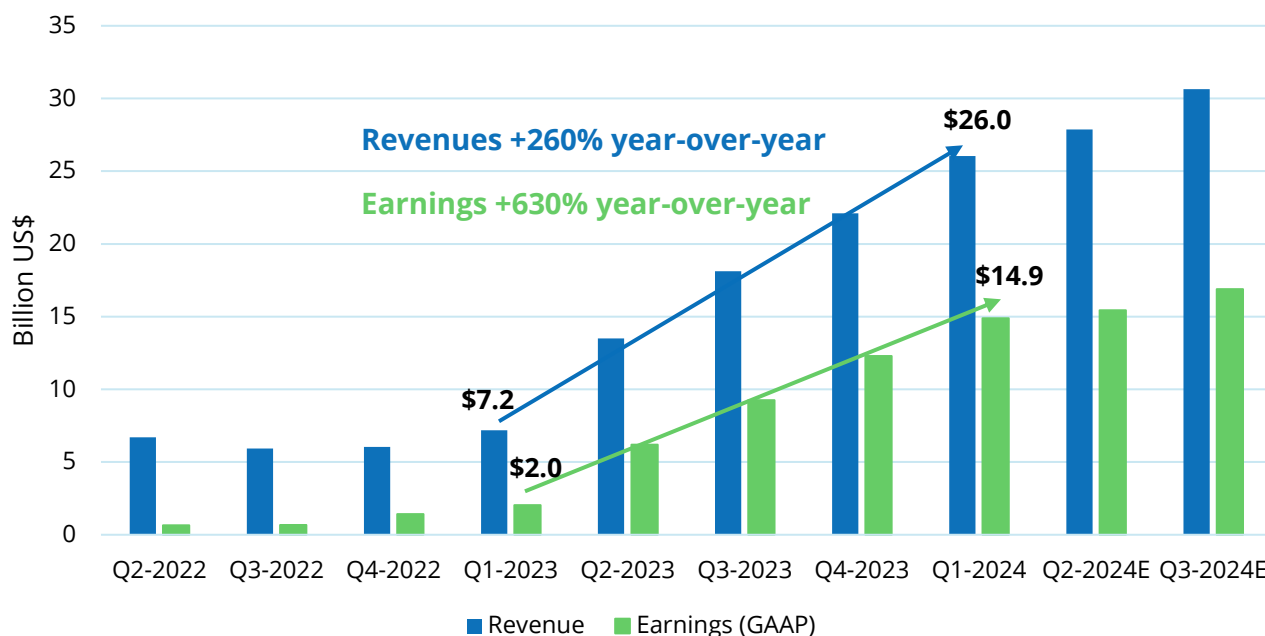
² <https://live-aia-web.pantheonsite.io/resource-center/abi-april-2024-pace-billings-decline-architecture-firms-slows-slightly>

³ <https://www.atlantafed.org/cqer/research/gdpnow>

500 index—NVIDIA's stock accounts for one-third of the S&P 500 index's year-to-date return. As we have noted earlier in the month, NVIDIA and the rest of the Magnificent 7 have been a driving force behind the preponderance of earnings growth in the S&P 500 this year ([see our May 13 Research Corner](#)). NVIDIA, however, is arguably the most important stock for driving expectations around the growth of the 'AI enablers' ecosystem—think the picks and shovels that enable AI applications to function—and its most recent earnings report suggests near-term momentum for a number of these AI enabler stocks. The backdrop of a solid Q1 earnings season and a reasonably strong US economy have given investors a lot to cheer. Notwithstanding this week's decline, the S&P 500 has gained about 4% since mid-April when Q1 earnings season began and marked two new record highs including last Tuesday. As May winds down and post-Memorial Day Summer vacations begin to take shape, investors can take some comfort in that solid earnings and a growing economy may provide some buffer against any geo-political risks, interest rate uncertainty, or noise related to the upcoming US election.

CHART OF THE WEEK

NVIDIA Delivers Robust Growth



Source: Clearstead, Bloomberg LP, 5/24/2024

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