Mischler Capital Markets

June 3, 2024

April Showers > May Flowers> Then Meh, Then the Month-End Mark-Up…..

For those of you having finance and IR roles within F500 C-Suites and who we count as constituents of Mischler Financial Group's month-end equities market commentary distribution list, you were likely pre-occupied the past few weeks preparing quarterly earnings reports and earnings calls, as opposed to keeping a daily (and distracting) eye on equities markets gyrations.

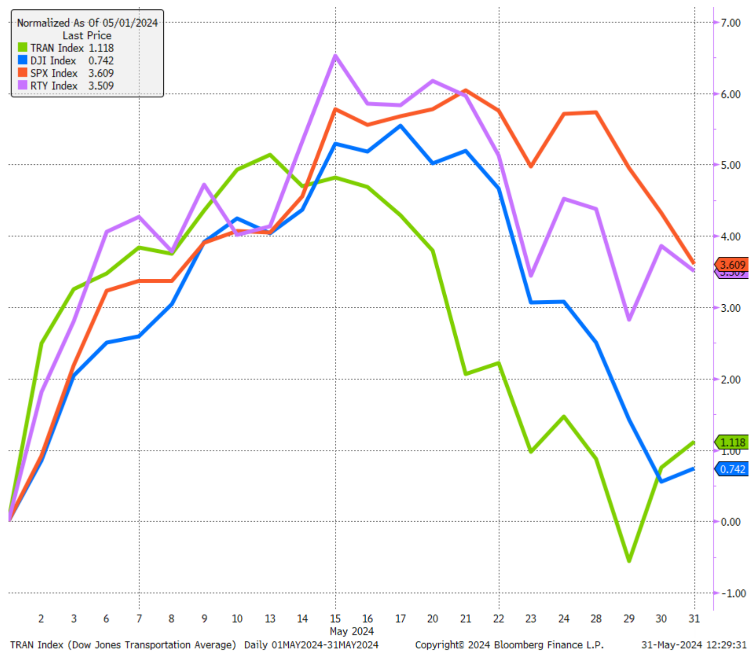
To your credit, many of you delivered good financial results for the quarter. According to FACTSET, 78% of S&P 500 companies reported a positive EPS surprise and 61% a positive revenue surprise.

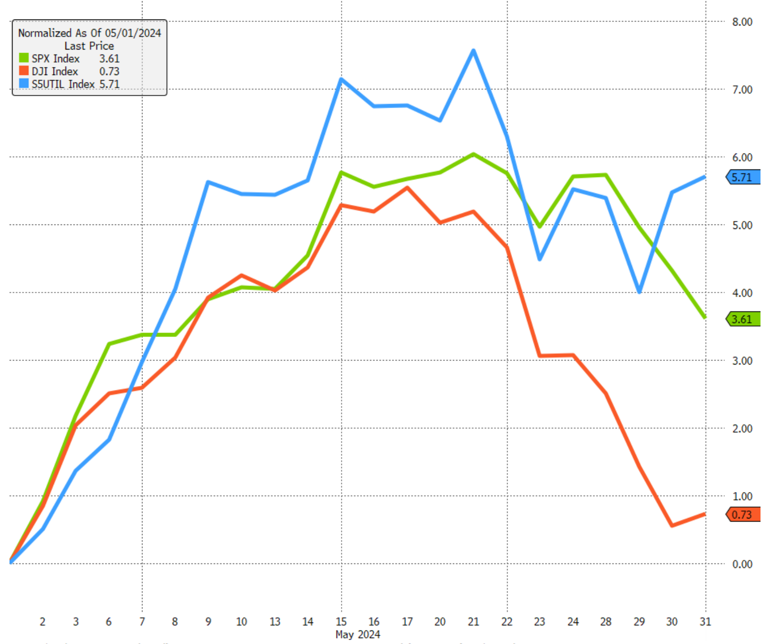
That said, you may have over-celebrated mid-month as markets were driving to an assortment of yet more ATHs, and of course the tech-laden indices led the way once again. (Can you say "Nvidia" 5x fast?)

Few overlooked the outsized monthly gains achieved by the S&P 500 and NASDAQ 100 benchmarks, each of which were buffeted by the 35% monthly gain in AI darling Nvidia, and further aided and abetted by the very tight knit group of tech sector and semi-conductor cohorts. As of this writing, those indices will have closed the month with 4.5% +/- gains. That said, divergences were stark when comparing the various indices.

What Really Happened…Earnings Beats; Margins Better; Utes Make Historic Moves; Outlooks Tempered (Again)

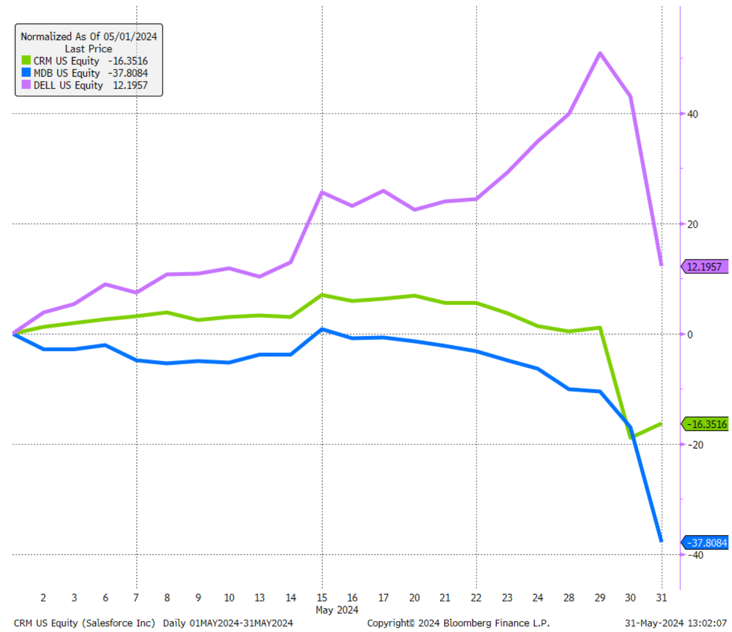
Had you blinked, however, you may have missed the surge in the benchmark DJIA (surpassing 40,000 for the first time) and the Dow Transport indices; both of which gave back half of the nearly 7% gains respectively achieved in early mid-May.



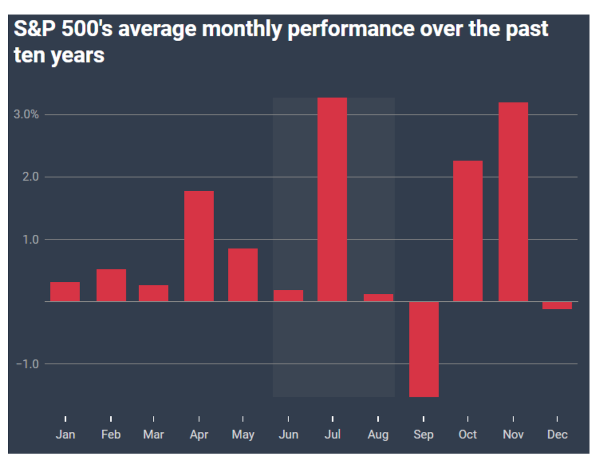


To the previous image, and in case you missed the early month headlines profiling the historically blasé utilities sector's record setting run that topped out at a 10% intra-month gain, this unheard of one-month price rally in "Utes" (which did slip back a bit for a month end gain of nearly 6%) was attributed entirely to Wall Street's infatuation with anything and everything that can power and deliver exponential scale to the AI revolution; you know, the revolution that will re-define the phrases efficiency and productivity for the next generations.

In over their skis? The surge in S&P 500 and the Nasdaq 100 was tempered somewhat in the final trading days of the month, as the favorite names across enterprise software and hardware were dealt a dose of sobriety after meeting revenue and profit expectations, yet delivering cautious forward outlooks. Iconic tech names' share prices have arguably been "in over of their skis" as the AI meme theme has become the primary cocktail party and business meeting topic. Several of the most followed companies gave back between 20%-50% of their early month gains.



Yet, still no real fear! And, whilst the mid-month rally was in full motion, sell-side gurus revised upward their respective year-end SPX forecasts. Not only did a leading IB's "glass is half empty" equity strategist throw in the bear towel *again*, 6 of 9 top banks prediction pundits raised their SPX targets. Per the chart below, year-end price targets, which averaged 5200 only six months ago, are now aimed at 5500-5600.



Most Banks Are Bullish on S&P 500

Among prominent Wall Street firms, J.P. Morgan is the only one that's holding a bearish forecast

Bank	Lead Strategist	Latest S&P 500 Target	Implied Gain/Loss From Wednesday's Closing
UBS	Jonathan Golub	5600	6%
BMO Capital	Brian Belski	5600	6%
Wells Fargo Securities	Christopher Harvey	5535	5%
Deutsche Bank	Binky Chadha	5500	4%
Bank of America Merrill Lynch	Savita Subramanian	5400	3%
Morgan Stanley	Mike Wilson	5400	3%
Goldman Sachs	David Kostin	5200	−1%
Citi Research	Scott Chronert	5100	−3%
J.P. Morgan	Marko Kolanovic	4200	−20%

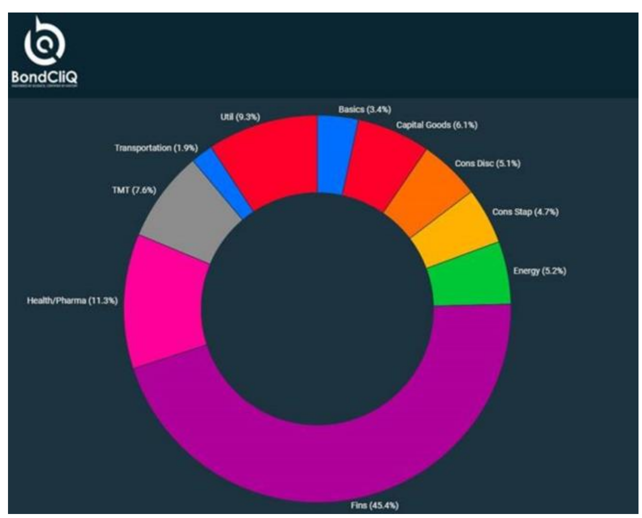
Note: All targets are year-end except Morgan Stanley, which has a target for 12-month or Q2 2025
Source: Notes from banks

The 3 outliers are led by JP Morgan's Marko Kolanovic, who remains resolute in his view that equity prices are headed down soon, and come New Year's Eve, the US equities markets will find stock prices as much as 20% lower vs. May 31 closing prices. Citi's Scott Chronert opines that equity indices will be 2%-3% lower from current levels, and Goldman Sach's David Kostin thinks we'll close a tad lower at year-end. As we have pointed out in each of the prior month-end "look backs", financial market history and probabilities (for what that may be worth) still suggest that robust gains leading into election years (e.g. price action from November 2023 through March 2024) will once again deliver YoY gains well in excess of a typical 7% return.

Notably, a number of you, along with brethren running less-large enterprises, caveated your forward guidance with succinct messages of caution. Depending on your industry sector, concerns range from inflationary pressures to the ongoing resiliency of consumers to remaining 'data dependent' when it comes to hard-coding capital expenditure plans.

Mixed Bags. What Keeps F500 CEOs and CFOs up at night now? Retailers serving high-end consumers and those aiming at cost-conscious buyers delivered good results. According to those selling to middle-tier customers, earnings outlooks were less sanguine. Adding to this month's perplexity on the part of trading market professionals, who are generally accustomed to conforming to relative correlations between interest rate markets and the spectrum of stock and commodity indices (yet continue to suffer from relationships that have been 'broken' for a number of months), A Harris Poll survey for the Guardian last month found that 55% think the economy is shrinking, 49% think unemployment is at a 50-year high when actually at a low, and 49% think the benchmark S&P 500 stock index is *down* for the year.

Don't Interest Rates Still Matter? For Fed Watchers, yes. For IG Corporate Debt Issuers, also yes, but maybe not as much, given the $138bil of corporate debt issued across multiple sectors; and where proceeds not only replaced maturing debt, but have been earmarked for acquisitions and further capital investments.



The potential black swans, pink flamingos and evil witches and warlocks that frame geopolitical risk narratives, the anxiety over the increasing US Government deficit, and of course, the prospective chaos that could color the upcoming US presidential election. To the former, those narratives will always remain, yet the discount value will remain volatile. To latter, the short-term impact of a presidential election on the economy and by default, US equity prices, is de minimis.

Generative AI: Should the FDA be called in to regulate this?? Advocates (chip sellers/manufacturers and fans of transformation) continue to pound the tables. We've lost count re: the number of times "AI" was mentioned in this month's earnings calls, and the outsized revenue forecasts attributed to this evolution. Caveat: there has been an uptick in concerns as to whether the AI tools might need a review by the FDA, along with the host of other regulatory agencies.

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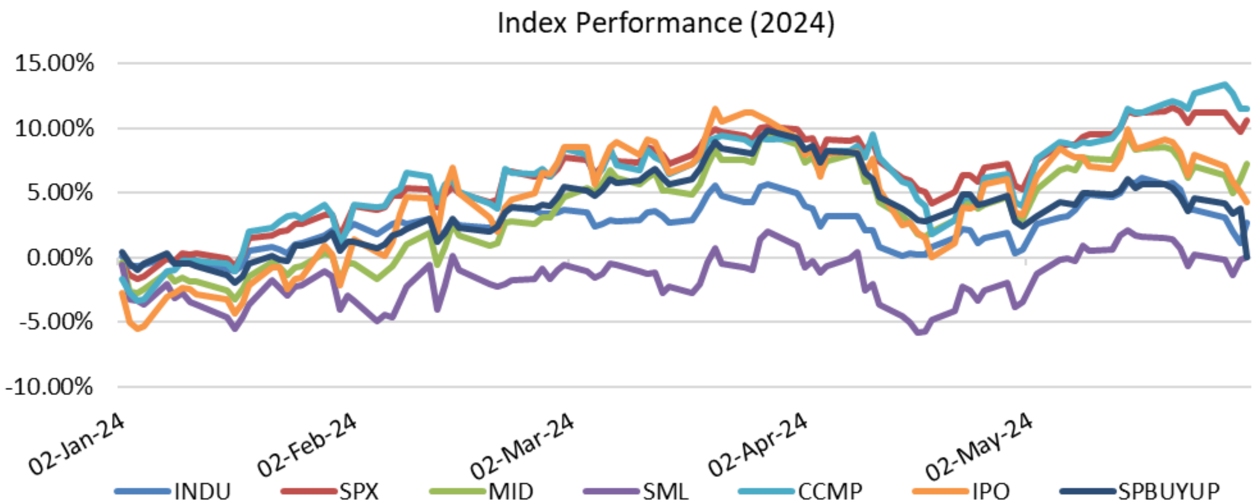
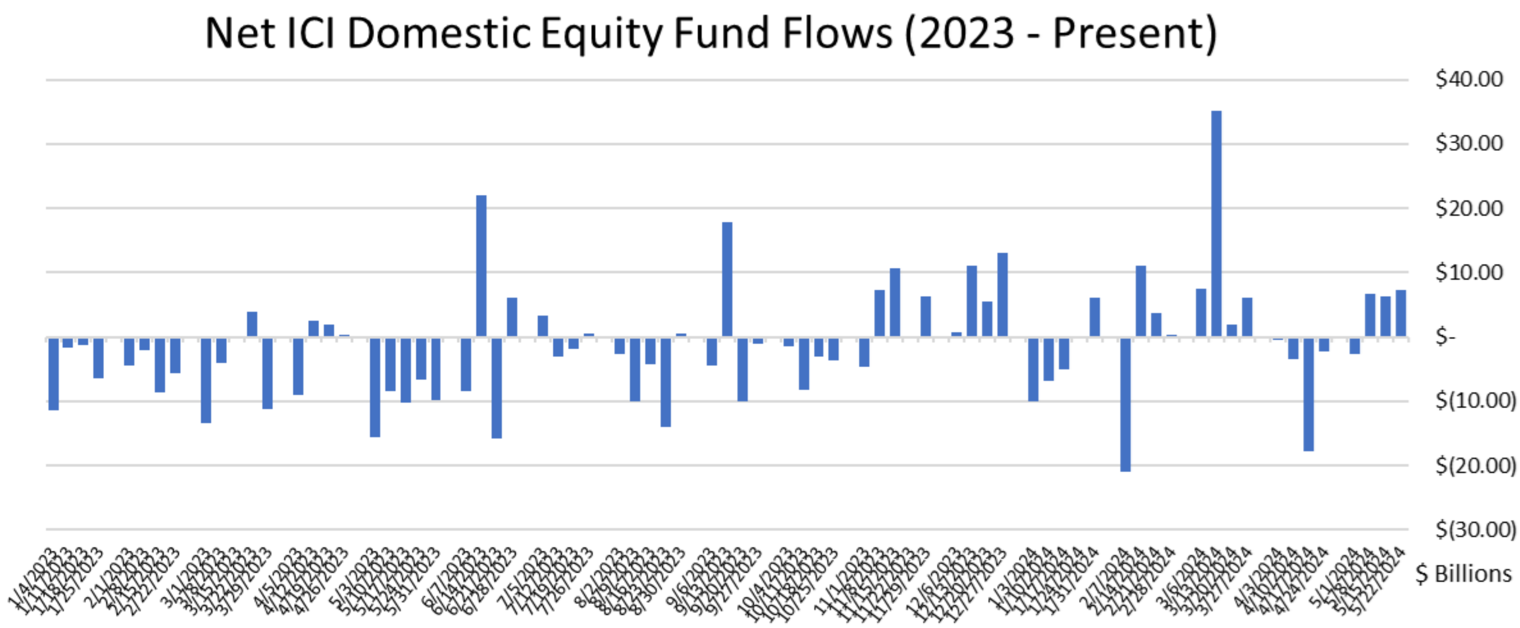
Market Benchmark and Sentiment Data





	Spot Price	YTD	MTD	% YTD High	% YTD Low
INDU	38,686.32	2.64%	2.30%	-3.29%	3.81%
SPX	5,277.51	10.64%	4.80%	-0.82%	12.56%
MID	2,982.86	7.24%	4.26%	-2.08%	10.81%
SML	1,329.65	0.86%	4.87%	-1.19%	7.09%
CCMP	16,735.02	11.48%	6.88%	-1.67%	15.33%
IPO	4,502.91	4.22%	0.74%	-6.49%	10.28%
SPBUYUP	28,285.09	5.24%	2.42%	-4.13%	7.35%
VIX	12.93	3.86%	-17.38%	-32.76%	9.02%

*As of close of business 05/31/2024