

What's Hot: When the doves fly, so does the NASDAQ 100

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Key Takeaways

- Bad news in the form of weak labour market data became good news for equity markets with renewed expectations of dovishness from the Fed.
- Not only were the earnings from US corporates strong in the first quarter, but markets are also optimistic about the outlook for the second quarter.
- Big tech names have made strong announcements helping lift sentiment. Markets await Nvidia's earnings.
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Equity markets have been upbeat at the start of May following a dip in April. The VIX Index, also referred to as the fear index, spiked in the first half of April signifying elevated uncertainty regarding actions of the Federal Reserve (Fed) and earnings for US corporates for the first quarter of the year.

But the fear index has now settled back down implying that investor sentiment has become positive again. In this blog, we discuss what might be driving this.

Bad news is good news

It is strange but it is true. For equity markets, often bad news becomes a tailwind. This was certainly the case when US labour market figures were announced on 3rd May. The US economy added 175,000 jobs in April 2024, a deceleration compared to the upwardly revised 315,000 jobs added in March and falling short of market expectations for a 243,000 increase. This marked a material slowdown compared to the acceleration in the first quarter and the average monthly gain of 242,000 jobs in the preceding twelve months.

Since this data point, markets now anticipate the Fed to become more dovish again. Until now, most of the data points had kept the doves grounded. Most important of these data points had been inflation, which accelerated to 3.5% in March compared to 3.2% in February¹.

Investors should mark a few important dates in their diaries for the coming days. On 14th May, Fed Chair Powell will speak, and his comments could provide useful clues regarding what can be expected from the central bank in their interest rate meeting in June. On 15th May, the inflation figure for April will be announced which, again, could be critical in determining market sentiment for the rest of the month.

Corporates continue to deliver

Luckily, fundamentals also matter. And they have also painted a positive picture so far. As of 3rd May, for the first quarter of 2024, 80% of S&P 500 companies had reported their actual earnings. 77% of S&P 500 companies have reported a positive earnings per share (EPS) surprise and 61% of S&P 500 companies have reported a positive revenue surprise.

The rate of growth in earnings was healthy too. The year-over-year earnings growth rate for the S&P 500 was reported at 5.0%. If this rate is maintained once all companies have reported their earnings, it will be the highest quarterly year-over-year growth rate for the index since Q2 2022.

Moreover, analysts remain optimistic about the earnings outlook for the second quarter. In April, analysts on aggregate increased their EPS estimates for the second quarter. This is noteworthy, given analysts typically reduce their earnings estimates during the first month of a new quarter with the average decline in the first month over the past 20 quarters being 1.9%².

Big stocks making big moves

Not all stocks in the NASDAQ 100 or the S&P 500 are created equal. Indeed, market sentiment is often shaped by the announcements from some of the biggest names in the market.

Apple shares have picked up since its earnings announcement. Even though the company's revenues declined 4% and net income declined 2%, partly attributable to weak sales of the iPhone, those numbers were better than market expectations. Moreover, the company announced a record \$100 billion-plus stock buyback which was received well by markets.

Amazon announced very strong earnings with net income more than tripling to \$10.4 billion, up from \$3.7 billion a year ago. The strong growth was partly attributed to its cloud business, Amazon Web Services, which the company believes can be a boon for the business given strong demand for cloud services from generative artificial intelligence (AI).

Microsoft's stock was also up on the back of strong earnings. The company announced revenue growth of 17% year-over-year and net income growth of almost 20% year-over-year. Microsoft's cloud business Azure is also experiencing strong growth as it provides cloud services for OpenAI's ChatGPT. The company stated that its near-term AI demand has been higher than its capacity prompting the company to increase its capital expenditure and procure more Nvidia chips³.

Nvidia itself announced stellar earnings for the fourth quarter of last year justifying the hype that has made it one of the hottest companies in the market right now. The company is due to release its first quarter

earnings on 22nd May, another day that could determine the short-term direction of travel for the NASDAQ 100 and the S&P 500.

Source

1 US Bureau of Labour Statistics.

2 FactSet Earnings Insight as of 3rd May 2024.

3 Company earnings insights from CNBC, May 2024.

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