Stock prices traded back and forth in a narrow range during April, reflecting conflicting trends in the economy. While the economy grew at a slower pace during the first quarter, consumer spending surged. Gross domestic product adjusted for inflation rose 1.1% in the first quarter, down from 2.6% in the last three months of 2022.[1] But consumer spending rose at an annual rate of 3.7%, the fastest rate since mid-2021.[1] These conflicting trends were reflected in stock prices during the month. The large cap industrials sector was the strongest area with the Dow Jones Industrial Average gaining 2.57%.[1] The S&P 500 Index was up 1.56% and the NASDAQ-100 Index eked out a gain of 0.52%.[1] Small cap stocks continued to be the weakest area with the Russell 2000 Index falling -1.80%.[1]

Equity valuations remained above their historical average, both in absolute terms and relative to inflation. Monetary policy remained negative, although some observers are anticipating a pause in the Federal Reserve's (Fed's) tightening program in the next few months. However, while the Fed may indeed pause its hiking cycle in coming months, since 1928 there have been 14 hiking cycles in which more than half of the time the stock market was lower in the 6- and 12-month periods following the final rate hike.[2] Like the stock market, the bond market was little changed with the 10-year U.S. Treasury Note yield at 3.44% at the end of April, almost unchanged from 3.43% at the beginning of the month.[3] Investor sentiment reflected the narrow trading range in both stocks and bonds and sentiment was largely neutral throughout the month. Momentum too reflected this lack of direction. The team's volume model continued in negative territory, but breadth measures showed some modest improvement.

The team held a modest exposure to large cap stocks during April but retained a relatively large cash position. This cash position is now providing a competitive return with the 13-week U.S. Treasury Bill now yielding 5.10%.[3] The team would raise exposure further if interest rates declined, investor sentiment became pessimistic and the team's volume and breadth momentum models showed more improvement. The team would lower exposure if interest rates rose, credit spreads widened, investor sentiment became overly optimistic and the team's volume and breadth momentum models once again deteriorated.

Our assessment of the four pillars of our investment process is as follows:

*Valuation*: The S&P 500 median price-earnings ratio (using trailing 12-month earnings) at 24.2x is well below its 2021 high of 34.0x but still above its 59.2-year median of 17.6x.[2] From a longer-term perspective, it would seem that equity valuations are still too high and have further to decline during the current cycle.

*Monetary factors and credit conditions*: Interest rates were nearly unchanged in April. The 10-year U.S. Treasury Note yield rose modestly to 3.44% from 3.43%. Also, despite concern over the banking system, credit spreads remained near their 23.3-year average, [4] suggesting that the banking crisis has not spilled over into the general economy. The team will be watching credit spreads closely, particularly as we near the debt ceiling discussions in the next month.

The Fed may pause its hiking cycle in coming months. However, since 1928 there have been 14 hiking cycles and while the market has often rallied for several months following the final rate hike, more than half of the time the stock market has been lower in the 6- and 12-month periods after the final hike.

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*Sentiment*: The NDR Crowd Sentiment Poll, which measures intermediate-term sentiment, climbed back into neutral territory along with the stock market's modest strength in April. The NDR Daily Trading Sentiment Composite data showed that investor sentiment revealed more optimism but remained in neutral territory despite the market's gains.[5]

*Momentum*: The team's momentum measures remained mixed. The up/down volume model remained in negative territory during April but breadth continued to be positive.[4] Further improvement in these models would signal a possible continuation of the market's recent strength. Both models are so close to neutral that a break either up or down would be significant.

[1] *Source: Bloomberg. April 30, 2023*
[2] *Source: Ned Davis Research. April 30, 2023*
[3] *Source: U.S. Department of Treasury. April 30, 2023*
[4] *Source: Ned Davis Research. April 28, 2023*
[5] *Source: Ned Davis Research. April 24, 2023*