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So Far, So Good:

The S&P 500 powered to a succession of 21 new record highs over the past 3 months, producing a 10.2% quarterly gain and hitting a new all-time high on Thursday of 5254. This superlative performance, which defied a crescendo of bubble warnings, resulted from the refusal of the economy to roll over without any inflation expectations distortion. Real GDP rose at the annual rate of 3.4% in Q4 and NowCasting models are predicting that it grew another 2.3% in Q1. Meanwhile, inflation expectations derived from bond bets, which at 2.40% on September 29, 2023, were still 2.40% at the end of March 2024. The latest Bloomberg monthly survey of economists expects a 2.2% growth factor in 2024, more than twice as fast as anticipated in September: decreased the odds of a recession in the next 12 months to 35%, down from 55% in September: and stuck to their former outlook for tamer inflation at 2.6%. Unsurprisingly, the University of Michigan consumer sentiment, which has been on an upward trajectory since last September, is holding, suggesting no deterioration in confidence, just improvement.

Since 1950, when the S&P 500 index gained 10% or more in the first quarter, it has finished the year higher 91% of the time and averaged a gain of 6.5% in the remainder of the year. In order for this to happen, earnings will need to follow through. In this connection, the blended earnings per share for the S&P 500 rose to a record high at the end of last year and the growth rate is promising. LSEG Institutional Brokers' Estimate System reported that companies in the S&P 500 grew earnings by 9.8% y/y in Q4/2023, and consensus estimates for 2024 and 2025 suggest a sustained earnings rebound - 11.9% in 2024 versus 0.8% in 2023 and 12.6% in 2025. These bottom-up forecasts translate into earnings per share of $250 this year and $275 in 2025.

It should be noted that history shows companies tend to beat consensus analysts' estimates. Given the resilience of corporate profits, valuations may not be as rich as bearish speculators broadcast. This earnings growth mode mantra is preventing many sceptics from waging against the market, despite some concerns over possible inflation flirtation. The PCE reported that core inflation rose 0.3% m/m in February in line with expectations, but stalled at a y/y increase of 2.8%. Instead, stock traders are hiding behind larger exposure in bullion and bitcoin.