**Goldman Sachs Exchanges: The Markets**

**What the Fed's hike means for the S&P 500**

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**Sam Grobart, Host**

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**Sam Grobart:** This week, the Federal Reserve raised rates by 25 basis points. But is the Fed finished? This is The Markets.

Hi, I'm Sam Grobart. Today, I'm joined by Ben Snider, Senior Strategist on our US Portfolio Strategy Macro team and we're going to talk about the Fed's recent hike, what we're seeing from a busy week of corporate earnings, and the continuing AI optimism in markets.

Ben, thanks so much for joining us today.

**Ben Snider:** Good to be with you.

**Sam Grobart:** So, let's get right into it. Talk to me a little bit about your take on the Fed news from Wednesday, when of course they raised rates by 25 basis points.

**Ben Snider:** We think that was the last hike of the cycle. Market generally seems to agree if you look at futures pricing. It's not a done deal. There is some possibility that there's another hike later this year depending on how growth and inflation data shake out. That's what Chair Powell made very clear during the meeting. He's going to be data dependent. But we think we've come to the end of the cycle.

**Sam Grobart:** And we saw strong GDP numbers, in fact, just the day after that announcement as well, correct?

**Ben Snider:** Absolutely. I think from a macro perspective, everything has been going according to plan. Inflation has been coming down. Growth has remained resilient. It's exactly what the Fed would want to see.

**Sam Grobart:** And how does all of that fit then with your forecast for the S&P 500?

**Ben Snider:** Well, the combination of good growth and an easier Fed is a great thing for stock prices. You know, we've seen that part of this year. But basically, the idea that the economy can continue to grow, that earnings can continue to grow, and that interest rates will no longer be putting pressure on valuation multiples is a good thing for stocks.

**Sam Grobart:** Let's take a little bit of a step back here. I want to ask you, what is the US stock market telling us? What is it signaling for US economic growth?

**Ben Snider:** When we look at our tools, we think the stock market is pricing real economic growth, a GDP growth, of about 2 percent. Maybe a little bit better. That is about in line with the recent data. It's about in line with our economists' forecasts. So, from our perspective, it's pretty close to fair value. However, it is a far cry from a few months ago when most investors were worried about recession.

**Sam Grobart:** I want to move onto corporate earnings reports, of which there were a ton this week. What's your view on what we've seen out of those so far?

**Ben Snider:** Yeah, we just had the busiest week of the earnings season this quarter. We're about halfway through the S&P 500 reports. And so far, I have to say, so good.

We've seen a higher frequency of earnings beats than usual. We've seen earnings growth for the S&P come in a few percentage points better than expected by analysts. So, here too, another reaffirming, confidence-giving data point for equity investors.

**Sam Grobart:** Let me be a little bit of the pessimist here. Is there anything in those corporate earnings reports that may raise a flag based on particular sectors or industries about the possibility of a recession?

**Ben Snider:** Well, as I mentioned, I think the data have been overwhelmingly positive. But if I have to feed the bears, the thing I would point to is reports of capital expenditures, corporate investment spending. You know, last year in 2022, S&P 500 capex grew by more than 20 percent. In the first quarter of this year, companies reported growth of 14 percent year over year. And so far, this quarter, they're reporting growth of just 7 percent. So, we are seeing a pretty clear slowdown in corporate investment spending. But from our perspective, that's more of a normalization than a cause for concern.

**Sam Grobart:** There's been a lot of AI optimism in stock market prices these days. Have earnings from the big tech companies justified that optimism?

**Ben Snider:** It's very fair to describe the AI sentiment as optimistic. In fact, just to give you some stats, if you look at the biggest stocks in the market, which are tech companies, they're up about 60 percent in aggregate this year. Six zero percent. The other 490 something companies in the S&P 500 are up collectively just 8 percent. So, a huge gap between those.

There's a number of reasons. But I do think it's fair to point to AI as a major factor. Now again, we're only about halfway through the earnings season. But if you look at the big tech companies that have reported so far, I think it's very fair to say they've met expectations. Relative to analysts' numbers, they've reported better earnings than expected. But their share prices haven't really moved dramatically, which tells me they haven't changed the future outlook for investors dramatically.

Now that said, I think most investors buying stocks because of AI are not really looking to see results this quarter. It's more about growth in coming years.

**Sam Grobart:** I want to talk for a minute about the NASDAQ was my colleague last week John Detrixhe spoke with David Kostin, our Chief US Equity Strategist about that exchange's rebalance. How has that played out? And how does that compare with your expectations?

**Ben Snider:** Well, I'm happy to say it played out about in line with expectations.

**Sam Grobart:** Okay.

**Ben Snider:** The bad news is, we didn't expect very much. Now, if you look at the weights of the NASDAQ index, it's certainly become less concentrated as intended in those large tech stocks. But if you were to look at those stocks most affected by the rebalance, you'd be hard pressed to find any evidence that it affected their share prices. Of course, as a fundamental equity investor, that's what you hope to see.

**Sam Grobart:** Right. And then finally, what are you watching for next week?

**Ben Snider:** Well, first and foremost, we're still in the heart of earnings season. We have about a quarter of S&P 500 market cap reporting next week. But it's also actually a big week from a macro perspective. We get a lot of major economic data points, including, of course, the monthly jobs report.

**Sam Grobart:** Ben. This was great. Thanks so much for the insight.

**Ben Snider:** Thank you.

**Sam Grobart:** That does it for another episode of The Markets. Be sure to subscribe to our feed on Apple Podcasts, Spotify, or wherever you get your podcasts.

I'm Sam Grobart. Thanks so much for listening.