Stocks rose in what seemed like a straight line over the first three months of 2024 as the S&P 500 (^GSPC) notched its best first quarter return in five years.

Since the start of April, it's been a different story.

The S&P 500 has dropped nearly 4% this month as investor hopes that the Federal Reserve will cut rates continue to fade.

"We've said at the FOMC that we'll need greater confidence that inflation is moving sustainably toward 2% before it would be appropriate to ease policy," Fed Chair Jerome Powell said Tuesday. "The recent data have clearly not given us greater confidence and instead indicate that it's likely to take longer than expected to achieve that confidence."

The 2-year Treasury yield popped following the comments, surpassing 5% for the first time since November while stocks sunk to session lows.

"We continue to expect a bumpier path forward relative to the abnormally smooth first quarter ride," Truist co-CIO Keith Lerner wrote in a note to clients published late Monday.

Lerner noted the S&P 500's 4% intra-year drop is still a far cry from the average 14% drawdown seen over the last forty years. And during years in which the index rose 10% during the first quarter, like 2024, Lerner noted the average maximum pullback in the S&P 500 over the balance of the year was 11% and the index did not see a decline of at least 5% during the year only three times since 1980.

"Indeed, periodic pullbacks are the admission price to the market," Lerner wrote. "And they always come with bad news."

"We've come so far, so fast," Freedom Capital Markets chief global strategist Jay Woods told Yahoo Finance.

"I don't see that next catalyst outside of individual pockets of earnings to take the market higher. And now with the rising [bond] yields again ... that broadening rally in the small caps, utilities, that story is over for now."

Inflation's path downward has proven "bumpy," as Powell put it earlier this month, with three straight Consumer Price Index reports showing larger price increases than consensus expectations.

Meanwhile, data on economic growth has continued to come in hotter than expected, fueling further inflation concerns and contributing to scaled-back market expectations for rate cuts this year.

Markets are now expecting two interest rate cuts this year, per Bloomberg data, down from a peak of seven cuts seen in January.

As Fed expectations get rewritten, bond yields have soared. The 10-Year Treasury yield (^TNX) is up roughly 50 basis points in April to as high as 4.67%, its highest level since November. And as seen last year, rising bond yields can be a headwind for further risk-taking in the equity market.

"[The 10-year Treasury yield] is not sending alarm signals yet that things are really at risk," SoFi head of investment strategy Liz Young told Yahoo Finance. "But I think there needs to be some right-sizing of stock valuations."

Still, some on Wall Street are calling any further downside in the market a "buyable dip."

The shifting narrative to one where inflation remains sticky but economic growth keeps accelerating can still help boost earnings and drive stocks higher, strategists have said.

"The weight of the evidence in our work still suggests we are in a bull market, yet this corrective period likely has further to go in price and/or time," Lerner wrote.

"For investors on the sidelines and below target equity allocations, we would use a dollar-cost averaging approach and look to be more aggressive should we get a deeper and more normal correction."

Gregory Rec/Staff Photographer -- Signs like this one warning motorists of bumps and frost heaves dot the utility poles along Route 24 in Bowdoinham. The road has been dubbed one of the worst in the state. Photo taken on Thursday, April 3, 2008. -- (Photo by Gregory Rec/Portland Press Herald via Getty Images)

Signs like this one warning motorists of bumps and frost heaves dot the utility poles along Route 24 in Bowdoinham on Thursday, April 3, 2008. (Photo by Gregory Rec/Portland Press Herald via Getty Images) (Portland Press Herald via Getty Images)

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