

Fed Policy Statement Not Enough to Derail U.S. Midterm Gains

The S&P 500 rose 2.1% this week but had to weather a late week sell-off after the latest policy statement from the Federal Reserve humbled an upbeat reaction to the midterm elections. Neither outcome was a surprise, but they were representative of recent market volatility.



The Dow Jones Industrial Average and the Nasdaq Composite also finished the week higher, adding 2.8% and 0.7%, respectively. The Russell 2000 added 0.1%.

The midterm elections produced a split Congress with the Democrats taking control of the House and the Republicans retaining control of the Senate. The prevailing assumption in the market was that a newly divided Congress would preserve market-friendly policies, namely the tax cut and deregulation efforts. In addition, investors took delight in the fact that the stock market has historically done well in years with a Republican president and split Congress.

The Fed released its policy statement on Thursday, in which it decided to leave the fed funds rate

unchanged as expected. The central bank noted that it expects further rate hikes that are consistent with sustained economic growth, strong labor market conditions, and inflation near its symmetric 2% target over the medium term, but omitted October's sell-off and U.S.-China trade developments from its policy statement. Those omissions were a clear, between-the-lines message that the FOMC remains poised to raise rates for a fourth time this year in December.

In the stock market, the health care (+4.0%), real estate (+3.6%), and utility (+3.1%) groups led the way. Of note, health care has surpassed the information technology (+1.4%) and consumer discretionary (+2.0%) sectors for the top spot in the yearly sector standings with a 2018 gain of 12.4%. For comparison, tech is up 10.7%, and consumer discretionary is up 10.9%.

Conversely, the communication services sector was the only group to finish in negative territory with a weekly loss of 0.2%.

In earnings, some notable companies that had

upbeat reports included Berkshire Hathaway (BRK.B), CVS (CVS), Eli Lilly (LLY), Humana (HUM), and Walt Disney (DIS). On the other hand, Skyworks Solution (SWKS) led chip stocks lower on Friday after it issued below-consensus Q1 earnings and revenue guidance. Skyworks, which is an Apple (AAPL) supplier, warned of slowing chip demand, continuing a disappointing trend out of the semiconductor industry.

On a related note, Japan's Nikkei Asian Review reported that Apple decided to cancel a production increase in its newest low-end iPhone XR. However, the Nikkei also said that demand for the older generation iPhone 8 and iPhone 8 Plus has been higher than expected. Nevertheless, the report corroborated fears over the company reaching peak iPhone sales.

In politics, Attorney General Jeff Sessions resigned his post effective immediately per President Trump's request. Pot stocks initially surged in response to his resignation, as his adamant anti-marijuana stance has been seen as a roadblock to advancing the national discussion for legalization. However, pot stocks pulled back as replacement names currently being floated are against marijuana legalization; acting Attorney General Matthew Whitaker has a mixed record on the issue.

Looking at other markets, U.S. Treasuries had a volatile week, and closed near last week's levels. This week, the 2-yr yield decreased two basis points to 2.91%, and the 10-yr yield added two basis points to 3.21%.

Also of note, WTI crude lost 4.8% this week, entering bear market territory and extending its decline from last month's four-year high. U.S. President Donald Trump granted temporary waivers on Monday to eight countries who import oil from Iran after the U.S.'s energy sanctions on the OPEC member were officially reimposed.

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