

Week in Review: S&P 500 Sets New Yearly Low amid Continued Uncertainty

The S&P 500 dropped 7.1% this week, setting a new yearly low at 2408.12, amid ongoing concerns over economic growth, trade, politics, and fear the Federal Reserve could be on course for making a policy mistake. This week's losses brought the benchmark index's decline to 12.5% in December.



The Dow Jones Industrial Average (-6.9%), Nasdaq Composite (-8.4%), and Russell 2000 (-8.4%) also extended monthly losses to 12.1%, 13.6%, and 15.7%.

Losses were widespread with all 11 S&P 500 sectors posting weekly losses, ranging from 4.5% (utilities) to 9.0% (energy) as there was a broad-based de-risking effort.

The S&P 500 would test its February low (2532.69) three times this week: twice before the Fed's decision and once after the Fed's decision.

The first two re-tests invited some late buying interest that enabled stocks to close off their worst levels in their respective sessions. The third test, however, failed on Wednesday due to a sense of disappointment that the

Federal Open Market Committee, and Fed Chair Powell, didn't deliver on the market's wishes for a more dovish-sounding perspective regarding the interest rate outlook for 2019 and the Federal Reserve's balance sheet management.

In terms of the Fed decision, the target range for the fed funds rate was increased by 25 basis points to 2.25% to 2.50%, as expected, and the so-called dot-plot was revised to show a median projection for two rate hikes in 2019, versus three previously.

Fed Chair Powell irked the market during his press conference when he said (1) policy does not need to be accommodative now and that he doesn't believe the current policy is restrictive and (2) he does not see the Fed altering its approach to balance sheet normalization and sees the preferred policy method being use of the fed funds rate.

New York Fed President John Williams offered a seemingly more dovish-minded perspective on Friday when he said in a CNBC interview that the Fed is listening to the market and that a balance sheet runoff is not "inflexible." Those remarks triggered a rally effort, but true to recent form, there was selling into strength.

Some other nettlesome elements that weighed on investor sentiment this week included (1) the possibility of a partial government shutdown due to disagreements over a funding request for a border wall (2) a bothersome sense that the U.S. and China aren't going to be able to reach a trade agreement on structural issues in their prescribed 90-day window (3) the understanding that credit markets appear to be anticipating a growth slowdown due to tighter monetary policy and (4) falling oil (\$45.59/bbl, -\$5.50, -10.7%) and copper (\$2.67/lb, -\$0.09, -3.4%) prices that fed into growth concerns.

Uncertainty, and the inability to sustain any rebound effort from short-term oversold conditions, ultimately held back buying interest and led to a flight to safety in U.S. Treasuries. The Fed-sensitive 2-yr yield and benchmark 10-yr yield dropped 10 basis points each to 2.63% and 2.79%.

S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Indices are unmanaged and one cannot invest directly in an index. Each company's security affects the index in proportion to its market value. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Dow Jones Industrial Average is a widely-used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service oriented firms. Data and rates used were indicative of market conditions as of the date shown and compiled by briefing.com. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security. Past performance is not a guarantee of future results. Russell 2000 Index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

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