

Stocks Extend Rally into Earnings Season

The S&P 500 gained 2.5% this week, rising for the third straight week and extending its rally to 10.4% since its Christmas Eve low. The Dow Jones Industrial Average gained 2.4%, the Nasdaq Composite gained 3.5%, and the Russell 2000 gained 4.8%.



All 11 S&P 500 sectors finished higher with industrials (+4.1%), real estate (+4.0%), consumer discretionary (+3.7%), energy (+3.4%), and information technology (+3.4%) outperforming the broader market.

Many have characterized the market's rally to be a technical rally from a deeply oversold condition. The market, however, has benefited from improved investor sentiment that has been lifted by the stronger than expected December employment report, the assurance from Fed Chair Powell that the Fed will be patient with its policy approach, and reports U.S.-China trade talks among deputy officials went well. Those developments have fostered a propensity to buy the intraday dips and have made the market resilient to selling efforts.

The buy-the-dip mentality lifted the market whenever it

was down and allowed the S&P 500 to flirt with its 2600 level, which approximates the bottom end of the trading range that persisted for most of 2018.

Strikingly, this week's gains were forged in the face of earnings warnings from Macy's (M), American Airlines (AAL), Apple (AAPL) supplier Skyworks Solutions (SWKS), and Samsung Electronics.

It was this resilience to selling efforts amid bad news that presumably drew in sidelined participants fearful about missing out on further gains and pushed out weak-handed short sellers expecting a downturn after a 10% increase in the S&P 500 from its December 24 low.

Investors saw some room for trade optimism this week when a scheduled two-day trade meeting in Beijing extended into a third day. In addition, China's Vice Premier Liu He is reportedly expected to visit Washington for further trade talks at the end of the month.

Separately, the Federal Reserve released its minutes from its December policy meeting. The minutes revealed a view that the path of U.S. monetary policy is "less clear" than before, and a contention that the Fed can

“afford to be patient” about future rate hikes. In light of more recent remarks from many Fed officials discussing a more patient-minded approach, including Fed Chair Powell, the view communicated in the minutes wasn’t altogether surprising. Still, it is this rhetoric from the Fed that is contributing to the fed funds futures market’s belief that there won’t be another rate hike in 2019.

U.S. Treasuries lost ground amid the gain in equities, pushing yields higher across the curve. The 2-yr yield increased seven basis points to 2.55%, and the 10-yr yield increased four basis points to 2.70%. The U.S. Dollar Index lost 0.5% to 95.68, and WTI crude rose 7.8% to \$51.68/bbl.

The fourth quarter earnings reporting period will get its official start in the coming week and will be closely watched to see if the market got ahead of itself with concerns about an earnings slowdown in 2019. Additionally, there will be a key Brexit vote in the UK Parliament and continued attention to the partial government shutdown in the U.S., which is about to become the longest on record.

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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