

Stock Market Rally Continues on Bank Strength, Trade Optimism

The S&P 500 gained 2.9% this week, rising on the back of a strong financial sector (+6.1%) and growing optimism surrounding U.S.-China trade talks. The benchmark index has now posted its fourth straight weekly gain and is now up 6.5% in January.



The Dow Jones Industrial Average (+3.0%), the Nasdaq Composite (+2.7%), and the Russell 2000 (+2.4%) also had solid performances, increasing their monthly gains to 5.9%, 7.9%, and 9.9%, respectively.

10 of the 11 S&P 500 sectors finished the week higher with the heavily-weighted financial sector rallying on bank earnings. Conversely, the utilities sector (-0.2%) was the only group to finish in the red this week amid an increase in Treasury yields.

The banks kicked off the earnings season for the fourth quarter reporting period with a mixed slate of results. Strikingly, the financial space seemed undeterred by reports that missed expectations while a handful of positive results proved to be a

rallying cry for the sector.

For instance, the overwhelmingly positive response to upbeat reports from Goldman Sachs (GS) and Bank of America (BAC) was a telling sign of how negative sentiment surrounding the stocks -- and sector -- had gotten last month. The sector has now climbed 16.5% from its Dec. 24 low.

The strength from the financials had the S&P 500 butting up against its 50-day moving average for the first time since early December.

Then, positive-sounding trade reports from The Wall Street Journal and Bloomberg boosted an already-improved investor sentiment and helped the benchmark index end the week above its 50-day moving average.

The Wall Street Journal indicated that Treasury Secretary Mnuchin proposed to lift tariffs on some, or all, Chinese imports during negotiations. Meanwhile, Bloomberg's report indicated that China made an offer during trade negotiations earlier this month to boost the amount of U.S.

imports, resulting in balanced trade with the U.S. by 2024.

Though the Journal's report was refuted, market participants were encouraged by the tenor of the headlines, which fed hope that both sides are intent on avoiding a worst-case trade scenario that would be detrimental to both economies.

In other earnings news, Citigroup (C), JPMorgan Chase (JPM), Wells Fargo (WFC), Morgan Stanley (MS), Delta Air Lines (DAL), and Netflix (NFLX) disappointed investors with fourth quarter results and/or lower guidance. Conversely, UnitedHealth (UNH), American Express (AXP), and United Continental (UAL) provided better-than-expected results.

U.S. Treasuries sold-off amid the extended gains in the stock market, driving yields higher. The 2-yr yield rose 14 basis points to 2.61%, and the 10-yr yield rose 12 basis points to 2.78%. The U.S. Dollar Index gained 0.7% to 96.37, and WTI crude rose 4.4% to \$53.84/bbl.

Regarding the Brexit uncertainty, the British Parliament voted against PM Theresa May's Brexit deal this week, and Ms. May survived a subsequent no-confidence vote. Both outcomes were expected and produced little impact on U.S. markets.

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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