

S&P 500 sets new record highs on expectations for easier monetary policy

The S&P 500 gained 2.2% this week, setting new intraday and closing records in the process, on indications that central banks will supply the economy with easier monetary policy if conditions do not improve.



The Dow Jones Industrial Average gained 2.4%, the Nasdaq Composite gained 3.0%, and the Russell 2000 gained 1.8%.

All 11 S&P 500 sectors finished higher with seven sectors rising at least 1.0%. Energy led the pack with a 5.2% gain, as oil prices surged over 9% amid escalating tensions in the Middle East.

Prior to the week, the stock market had been already been climbing on hopes that the Fed would signal it was willing to cut rates sooner rather than later. The Fed didn't cut rates in its policy meeting this week, and neither did the Bank of England or Bank of Japan, but the central bank did strike the dovish tone the market desired.

In its policy statement, the Fed removed the word

“patient” and noted that it will act as appropriate to sustain the economic expansion amid increased uncertainties to the outlook. Several Fed officials, including Fed Chair Powell, and European Central Bank President Mario Draghi pointed to low inflation levels as a case for easier monetary policy.

As of Friday, the fed funds futures market saw a 100% implied likelihood of a rate cut at the end of July.

The market also welcomed some updates on the U.S.-China trade front. President Trump said he will have an extended meeting with President Xi at G-20 next week and that the teams will resume talks before the summit. The trade-sensitive semiconductor stocks reacted positively, evident by 4.0% weekly gain in the Philadelphia Semiconductor Index.

Energy stocks also outperformed, buoyed by a 9.2% gain in the price of oil (\$57.37/bbl, +\$4.83) after Iran shot down a U.S. military drone over the Strait of Hormuz. President Trump ordered a retaliatory strike on Iran but said he called it off because he didn't think the damage inflicted would have been proportional to shooting down an unmanned drone.

Expectations for lower rates sent sovereign bond yields lower across the world. In the U.S, the 10-yr note yield dipped below 2.00% for the first time since 2016, but ultimately finished at 2.07% or one basis points lower from last week. The 2-yr yield declined six basis points to 1.78%. The U.S. Dollar Index fell 1.4% to 96.20.

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