

S&P 500, Nasdaq Set Record Highs in Week Where Fed Cuts Rates and Jobs Growth Exceeds Expectations

The S&P 500 (+1.5%) and Nasdaq Composite (+1.7%) both set record highs in this macro-driven week that featured the Fed, economic data, earnings reports, and trade news. The Dow Jones Industrial Average rose 1.4%, and the Russell 2000 rose 2.0%.



The Fed is a good place to start after it cut the target range for the fed funds rate by 25 basis points to 1.50-1.75%. This was expected, but the central bank signaled that another quarter-point cut shouldn't be expected soon. Fed Chair Powell added that he would need to see a significant rise in inflation for rates to increase, suggesting that the Fed is on hold as expectations for inflation remain relatively low.

The latter point took the S&P 500 to fresh all-time highs on Wednesday, which was then jolted by a better-than-expected employment report for October and better-than-feared ISM Manufacturing Index for October on Friday. At week's end, eight of the 11 S&P 500 sectors were up, with the value-oriented health care sector (+3.0%) rising above the cyclical information technology (+2.1%), industrials (+2.0%), and financials (+1.5%) sectors.

Unfortunately, the real estate (-0.7%), energy (-0.3%), and utilities (-0.1%) sectors were left out of the rally, as were growth stocks following their earnings reports.

Expectations for jobs growth were subdued given the 40-day strike at GM, but the 128,000 nonfarm payrolls (Briefing.com consensus 80,000) added to the economy not only exceeded estimates but also followed upwards revisions for August and September. It should be noted that the manufacturing sector remained in contraction territory for the third straight month.

There was still more good than bad for the market to digest: Rates are expected to remain low amid a resilient labor market and low inflation levels, the U.S. and China continue to work towards a trade deal, and Apple (AAPL) and Facebook (FB) reported positive quarterly results.

As for trade, it was reported that Chinese officials have expressed doubts about securing a comprehensive trade deal with President Trump, but the USTR office reportedly said that progress has been made in resolving outstanding issues. "Phase one" is also on track to be signed later this month, but not at the planned APEC summit in Chile due to the ongoing protests in the country.

U.S. Treasuries did see increased demand this week, which drove yields lower. The 2-yr yield declined seven basis points to 1.56%, and the 10-yr yield declined seven basis points to 1.73%. The U.S. Dollar Index fell 0.6% to 97.24.

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