

Inflation Jitters Send Market Lower, but Investors Buy the Dip at the End of the Week

The stock market finished the week in negative territory, but it could have been a lot worse after hot inflation data upset the market mid-week. The Nasdaq Composite (-2.3%) and Russell 2000 (-2.1%) were this week's losers with losses over 2.0% while the S&P 500 (-1.4%) and Dow Jones Industrial Average (-1.1%) declined closer to 1%.



Through the first three sessions of the week, the Dow was down 3.4%, the S&P 500 was down 4.0%, the Nasdaq was down 5.2%, and the Russell 2000 was down 6.0%. Over the next two days, the Dow gained 2.4%, the Nasdaq gained 3.0%, the S&P 500 gained 2.7%, and the Russell 2000 gained 4.2%.

The horrible start was attributed to negative momentum in the growth stocks, rotational factors, and a noticeably hot Consumer Price Index (CPI) report on Wednesday. The m/m changes in consumer prices exceeded expectations, and when looking at the last six months to exclude easy base effect comparisons, total CPI was running at an annualized pace of 5.0%.

Investors used the weakness as an opportunity to buy the dip with a little help from several factors:

- A retracement in long-term interest rates, signaling that the Treasury market wasn't concerned about inflation even after receiving additional hot inflation data apart from the CPI report.
- Apple (AAPL) reclaiming its 200-day moving average (123.28) and the S&P 500 respecting its 50-day moving average (4064).
- The CDC saying fully vaccinated people can engage in most activities without masks.
- A view that the market was oversold on a short-term basis and was likely due for a bounce.

Eight of the 11 S&P 500 sectors still ended in negative territory, though, including the consumer discretionary (-3.7%), information technology (-2.2%), and communication services (-2.0%) sectors amid weakness in their mega-cap components. The consumer staples (+0.4%), financials (+0.3%), and materials (+0.1%) sectors closed higher.

It'll be interesting to see how the growth/technology stocks perform moving forward when money has been flowing into the cyclical/value stocks on reopening/inflation expectations and analysts have been calling for sustained underperformance. Many growth stocks are down substantially from their peaks in February.

The 10-yr yield increased six basis points to 1.64% from last Friday's settlement, but this was below the 1.70% settlement on Wednesday. Copper prices decreased 2% to \$4.648/lb., representing many of the commodities that cooled off this week.

Past performance is not a guarantee of future results. Indices are unmanaged and one cannot invest directly in an index. Diversification does not guarantee investment returns and does not eliminate the risk of loss.

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. 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. 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. 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. Guardian, its subsidiaries, agents and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

Park Avenue Securities LLC (PAS) is a wholly owned subsidiary of The Guardian Life Insurance Company of America (Guardian). PAS is a registered broker/dealer offering competitive investment products, as well as a registered investment advisor offering financial planning and investment advisory services. PAS is a member of FINRA and SIPC.