

Bull Market Bounces Back to Record Highs, Fed Chair Powell Pleases Market

The S&P 500 (+1.5%) and Nasdaq Composite (+2.8%) set record highs every day this week, except for Thursday, accentuating the bull market's persistent ability to overlook concerns and attract buying interest. Both ended the week higher by 1.5% and 2.8%, respectively, following Fed Chair Powell's Jackson Hole speech on Friday.



The Dow Jones Industrial Average underperformed on a relative basis with a 1.0% gain, while the Russell 2000 raced ahead with a 5.1% gain amid a strong bounce in energy stocks.

From a sector perspective, the S&P 500 energy sector rebounded 7.3% (cutting its monthly decline to 1.0%) while five other sectors rose more than 2.0%. The defensive-oriented utilities (-2.1%), consumer staples (-1.4%), health care (-1.2%), and real estate (-0.3%) sectors closed lower, loosely reflecting a greater tolerance for riskier stocks.

Prior to Fed Chair Powell's speech, the market was in-tune with a buy-the-dip mindset amid various developments:

- An observation that last week ended on a high note.
- Data suggesting the Delta variant could be peaking in the U.S.
- The FDA granting full approval for the Pfizer (PFE)-BioNTech (BNTX) vaccine for people 16 years and older.
- The House advancing the \$3.5 trillion budget resolution and the \$1 trillion bipartisan infrastructure bill through procedural hurdles.
- Earnings reports for the most part continuing to beat expectations.
- Taiwan Semi (TSM) planning to increase prices of more advanced chips by 10-20% next year.
- Preliminary manufacturing and services PMIs for August out of the eurozone and U.S. remaining in expansion mode.
- Reports indicating White House advisors and Treasury Secretary Yellen are on board with nominating Fed Chair Powell for a second term.

Interestingly, despite all the good news, the S&P 500 was only up 0.6% entering Friday. Part of that was because of the geopolitical uncertainty in

Afghanistan, hawkish-sounding Fed commentary about wanting to taper sooner rather than later, and some hesitancy in front of Fed Chair Powell's speech.

The hawkish commentary continued Friday morning, but Fed Chair Powell struck a diplomatic tone that appeased the market. Briefly, Mr. Powell said "substantial further progress" has been met on inflation and that "clear progress" has been made on employment, implying it's not yet time for the Fed to start tapering asset purchases because the labor market still has room for improvement.

While the Fed chair acknowledged that tapering should probably start before the year ends, he reminded market participants that even when the central bank ends purchases, financial conditions will still be accommodative and that the criteria for interest-rate hikes will be based on a more careful assessment of the economy.

Treasury yields lost some rebound momentum following the comments. The 10-yr yield settled five basis points higher at 1.31% after hitting 1.37% earlier in the week. The U.S. Dollar Index fell 0.9% to 92.68.

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