WEEK IN PERSPECTIVE

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Evergrande Scores Early Knockdown, but Market Comes Out on Top

The S&P 500 was down as much as 3% early in the week amid a host of concerns, but the benchmark index rallied back to end the week with a 0.5% gain. The Dow Jones Industrial Average (+0.6%), Nasdaq Composite (+0.02%), and Russell 2000 (+0.5%) also completed their own comebacks, although the Nasdaq underperformed.

The energy (+4.7%) and financials (+2.2%) sectors finished atop the standings with 4.7% and 2.2% gains, respectively. Conversely, the real estate (-1.5%) and utilities (-1.2%) sectors finished with losses over 1.0%.

The scapegoat for the early weakness was China's Evergrande: reports indicated that the property developer was on the brink of defaulting on its $300 billion in debt. Secondary issues concerned the debt ceiling and infrastructure.

The seemingly unexpected news presumably fed into the narrative that something (anything) was going to catalyze a pullback in the market, and in this case, it was fear of a financial contagion. The weakness, however, invited dip-buying efforts on the accompanying belief that concerns were overblown, which was Fed Chair Powell's thinking when he said Evergrande's issues seemed particular to China.

The Fed's policy announcement on Wednesday, while less dovish, was attributed as a source of comfort for the market. The interpretation was that monetary policy is still going to be accommodative, even when the Fed starts to taper asset purchases, which could happen as soon as November.

On a technical basis, the S&P 500's 50-day moving average (4439) appeared to be another influential driver for buying interest. This key technical level has always presented a good buying opportunity since last year, so it was encouraging for buyers to see the benchmark index reclaim this level on a closing basis.

The 10-yr yield jumped nine basis points to 1.46% amid some relatively encouraging economic data, including a four-week trend for initial and continuing claims that continued to decline. New home sales, existing home sales, housing starts, and building permits data for August each beat expectations.

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