WEEK IN PERSPECTIVE

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Third Straight Losing Week for S&P 500 and a Fourth for the Dow

The S&P 500 dropped 2.8% this week, unable to get past concerns about rising rates and the Fed's hawkish mindset.

The Nasdaq Composite (-3.8%) and Russell 2000 (-3.2%) underperformed the benchmark index with losses over 3.0% while the Dow Jones Industrial Average fell 1.9%.

It was reported last week that bullish sentiment among individual investors recently hit a 30-year low, setting the stage for a contrarian-minded rally this week. The rally took place on Tuesday, and briefly continued on Thursday, before a bearish sentiment took hold of the market.

Nine of the 11 S&P 500 sectors closed lower with the worst performers being the communication services (-7.7%), energy (-4.6%), and materials (-3.7%) sectors. The defensive-oriented real estate (+1.2%) and consumer staples (+0.4%) sectors ended the week in positive territory.

The market had done a good job fending off the Netflix (NFLX) disappointment in which NFLX tanked 35% the day after reporting a decline in subscribers. Earnings reports, after all, were mostly better than expected, and they were from a diversified batch of companies, including Tesla (TSLA) and seven Dow components.

The problem this week was mainly threefold: 1) the 10-yr yield rapidly approached 3.00%, hitting 2.97% before ending the week eight basis points higher at 2.91%, 2) Fed Chair Powell wasn't ready to declare peak inflation and said the Fed could move to a tight policy after reaching a neutral rate, and 3) weakening technical factors.

On the latter, the S&P 500 couldn't stay above its 200-day moving average (4497) and fell back below its descending 50-day moving average (4407).

A few more notes on the Fed, it didn't help that

Chicago Fed President Evans, who is one of the move dovish Fed members and was supposed to be a FOMC voter next year, announced plans to retire in early 2023. In addition, St. Louis Fed President Bullard (FOMC voter) said the fed funds rate should be at 3.50% by the year-end.

The 2-yr yield, which is sensitive to expectations for the fed funds rate, climbed 27 basis points to 2.72%.

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