WEEK IN **PERSPECTIVE**

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Stocks find a catalyst in face of weak economic data

Headlines that reinforced a slower growth environment were persistent this week, but just as persistent -- or resilient we should say -- was the stock market. It did not let the growth worries get it down.

In fact, it traded through the growth worries to record a winning week that had been looking a lot better before Snap went crackle pop in the wake of its Q2 earnings report and dour view of conditions for online advertising.

Before the Snap news after Thursday's close, the Nasdaq Composite was up 5.2% for the week and the S&P 500 was up 3.5% for the week. They would eventually close the week with gains of 3.3% and 2.5%, respectively, while the S&P Midcap 400, Russell 2000, and Dow Jones Industrial Average gained 4.0%, 3.6%, and 2.0%.

In turn, they all reclaimed a posture above their 50-day moving average and the S&P 500 briefly traded above 4,000 on Friday after flirting with 3,600 in mid-June.

Overall, it was a good week for stocks despite Friday's pullback but not a good week for the economic outlook. Specifically:

- The July NAHB Housing Market Index fell to 55 from 67, registering its biggest monthly drop on record outside of the drop seen in April 2020.
- June housing starts were weaker than expected and building permits (a leading indicator) for single-unit dwellings fell in every region.
- Existing home sales were weaker than expected in June and declined for the fifth straight month.
- Initial jobless claims topped 250,000 for the first time since mid-November 2021.
- The July Philadelphia Fed Index fell to -12.3 from -3.3, paced by a sharp decline in the new orders index.
- The June Leading Economic Index decreased 0.8%, which was the fourth consecutive decline, prompting the Conference Board to suggest that a U.S. recession around the end of this year and early next year is now likely.
- The preliminary July IHS Markit Manufacturing PMI slipped to 52.3 from 52.7 while the IHS Markit Services PMI slumped to 47.0 from 52.7 (a number below 50.0 is indicative of a contraction in business activity).

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On top of the economic data, Apple, Alphabet's Google, Microsoft, and Snap were reported to have indicated that they plan to slow their hiring activity.

The deteriorating economic environment registered more in the Treasury market than it did in the stock market. The 2-yr note yield fell 14 basis points for the week to 2.99% and the 10-yr note yield fell 15 basis points for the week to 2.78%. The inversion, whereby shorter-dated securities yield more than longer-dated securities, is a reflection of growth concerns and is seen by some as a harbinger of a possible recession.

The recession view didn't register in the stock market -- not this week anyway. The best-performing sector was the consumer discretionary sector (+6.8%), which was helped by a huge move in Tesla after its better-than-feared Q2 report, followed by the materials (+4.1%), industrials (+4.1%), information technology (+3.6%), and energy (+3.5%) sectors.

Conversely, two of the three sector losers this week were the countercyclical health care (-0.3%) and utilities (-0.5%) sectors.

It was the communication services sector (-1.2%), though, that was the worst-performing sector this week. Netflix did what it could do to lend support, rallying nicely after its better-than-feared Q2 earnings report; however, some gloomy earnings results and/or guidance from AT&T and Verizon, coupled with the retreat in Alphabet and Meta Platforms after Snap's disappointment, undercut the sector. Snap for its part plummeted 39% on Friday.

The stock market behaved as if the bad economic news and more challenging earnings environment heard throughout the week was not a surprise. It wasn't in one respect, as the fallout in the first half of the year was largely predicated on a belief that the stock market would be dealing with the bad economic news and more challenging earnings environment it heard about this week.

Aside from that, though, the stock market found a rally catalyst on Tuesday in the BofA Global Fund Manager Survey, which revealed the lowest equity allocation since the Lehman Bros. crisis and the highest cash level since 2001. This news became the focal point for a contrarian-minded approach that supported the market throughout the week.

It overshadowed the poor economic data, as well as the first rate hike from the ECB in 11 years that was more aggressive than most investors expected it would be. Specifically, the ECB raised its key lending rates by 50 basis points when the majority of market participants thought it would raise rates by only 25 basis points. The Bank of Japan for its part left its key lending rate unchanged at -0.10%, as expected.

With clear signs of slower growth and falling long-term rates, it was the growth stocks that took the lead this week in driving the broader market's gains. The Russell 3000 Growth Index was up 3.2% versus a 2.4% gain for the Russell 3000 Value Index. The Philadelphia Semiconductor Index surged 5.5%, aided by reports that the bill that will provide $52 billion for the semiconductor industry should pass the Senate next week.

- Dow Jones Industrial Average: -12.2% YTD
- S&P 400: -15.7% YTD
- S&P 500: -16.9% YTD
- Russell 2000: -19.5% YTD
- Nasdaq Composite: -24.4% YTD

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