WEEK IN **PERSPECTIVE**

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A Big Week of Gains Closes Out a Huge Month for the Stock Market

Anyone following the market this week has a right to feel exhausted going into the weekend.

It was a huge of week of news that was ultimately matched with some big gains for the week that padded some huge gains for the month, which were driven in part by short-covering activity and a bid to add back exposure to equities following the brutal first half of the year.

Briefly, roughly 175 S&P 500 companies reported their results for the June quarter, the FOMC held a policy meeting, the economic calendar featured the Advance Q2 GDP Report, President Biden held a call with President Xi mainly to discuss Taiwan and Russia, Senator Manchin had a stunning reversal of position and reached an agreement with Senator Schumer on the provisions for the Inflation Reduction Act of 2022, and Congress passed a $280 billion bill, which included $52 billion for increasing semiconductor manufacturing capacity, that is designed to fend off competition from China.

Tucked in between was a halting earnings warning from Walmart that was pinned on food and fuel inflation detracting from spending in general merchandise categories, a warning from Best Buy about a further softening in demand for consumer electronics, a warning from Stanley Black & Decker about weakening customer demand, the highest year-over-year reading for the PCE Price Index (6.8%) since 1982, the third straight monthly drop in Consumer Confidence, and a bleak New Home Sales report for June.

The bad news, however, didn't derail the stock market, which locked in on better-than-feared results and/or guidance from Alphabet, Microsoft, Apple, and Amazon.com, a marked drop in Treasury yields, and the idea that the weak economic data would compel the Fed to take less aggressive steps with future rate hikes.

The Federal Reserve was central to this week's action. It raised the target range for the fed funds rate on Wednesday by 75 basis points to 2.25-2.50%, as expected. Fed Chair Powell, however, did a commendable job at his press conference of walking the line between needing to be tough still on fighting inflation but conceding that it would likely be appropriate in coming months to slow the pace of rate increases given how frontloaded the rate hikes have been to this point.

He didn't rule out another 75-basis point rate hike at the September meeting. He said the data would dictate that decision. He also said that the Fed wouldn't be offering any clear-cut guidance like it had been doing but would instead let the data dictate policy decisions now on a meeting-by-meeting basis.

There was ample room for interpretation in the wake of his remarks, but the prevailing view of the market was that Mr. Powell opened the door to the Fed taking a step down with its aggressive rate-hike posture. That was enough to launch a post-FOMC rally on Wednesday that was sustained through Friday's close.

Notably, the fed funds futures market is pricing in two rate cuts in the first half of 2023, according to the CME's FedWatch Tool. Mr. Powell didn't say anything that supported such thinking, yet market participants have been seemingly clinging to an expectation that weakening economic data will be the pivot point for the Fed.

The second straight quarter of a contraction in real GDP (-0.9%) contributed to that view; meanwhile, the Treasury market moved in a direction that corroborated that thinking. The 2-yr note yield dropped nine basis points this week to 2.90% and the 10-yr note yield fell 14 basis points to 2.64%, leading to a further inversion of the 2s10s spread that is seen by many as a harbinger of weak growth and/or a recession.

In that vein, it would be remiss not to point out that growth stocks once again led this week's rally effort. The Russell 3000 Growth Index rose 4.9% versus a 3.4% gain for the Russell 3000 Value Index.

Clearly, though, the otherwise solid 3.4% gain in the Russell 3000 Value Index underscored that there was broad-based buying interest. All 11 S&P 500 sectors gained ground this week with gains ranging from 1.6% (consumer staples) to 10.3% (energy). The latter closed out a huge week on the back of stronger-than-expected earnings results from Chevron and Exxon Mobil.

For the month, every sector advanced. Gains ranged from 3.1% (consumer staples) to 18.9% (consumer discretionary). A surge in Tesla and Amazon.com paved the way to that massive gain for the consumer discretionary sector, which is still down 20.4% for the year.

Altogether the Nasdaq Composite soared 12.4% in July followed by the S&P Midcap 400 (+10.8%), the Russell 2000 (+10.4%), the S&P 500 (+9.1%), and the Dow Jones Industrial Average (+6.7%). The S&P 500, which flirted with 3,600 in mid-June, closed July at 4,130.29.

- Dow Jones Industrial Average: -9.6% YTD
- S&P Midcap 400: -11.6% YTD
- S&P 500: -13.3%
- Russell 2000: -16.0%
- Nasdaq Composite: -20.8%

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