Week Ending 9/9/2022

WEEK IN PERSPECTIVE

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A Short Week that was Long on Gains

The stock market came into this shortened week of trading on a three-week losing streak. It looked on Tuesday as if that streak might be extended to four weeks, but there was an abrupt turn in sentiment that powered a strong move in the major indices over the last three sessions.

When it was all said and done, the losing streak was broken and both the S&P 500 and Nasdaq Composite had reclaimed a posture back above their 50-day moving averages.

There were enough news catalysts during the week to knock the market lower.

For instance, China extended its lockdown of Chengdu, Russia said the shutdown of the Nord Stream 1 pipeline will be long lasting, blaming it on the sanctions imposed by Western nations, the Reserve Bank of Australia, Bank of Canada, and ECB all announced aggressive rate hikes, and another litany of Fed officials, including Fed Chair Powell, continued to emphasize the need to get inflation under control and that the Fed will stay at that job for as long as it takes.

Notwithstanding Tuesday's losing session, the stock market looked impervious to negative headline developments during the week.

It also overcame another bump in market rates, some jarring moves in the foreign exchange markets that were accented by dollar strength early in the week and dollar weakness in the latter part of the week, and a Wall Street Journal report that the Fed is likely on a path to raise the target range for the fed funds rate by 75 basis points at its September 20-21 FOMC meeting.

The yen fell to a 24-year low against the dollar this week, the euro hit a 20-year low, and the British pound saw its lowest level against the greenback since 1985.

The 2-yr note yield climbed 17 basis points this week to 3.57% while the 10-yr note yield jumped 12 basis points to 3.32%. Those moves came mostly on Tuesday with a flood of corporate issuance weighing on the market along with festering angst about the Fed stepping up efforts this month to reduce the size of its balance sheet.

Still, stocks did not buckle under the weight of rising rates nor the press for another aggressive rate hike. The resilience became its own bullish catalyst as it was deemed a sign that the market had already priced in the near-term rate hike.

The stock market also entered the week in a short-term oversold condition. With Tuesday's losses, the Dow, Nasdaq, and S&P 500 were down 9.1%, 12.4%, and 9.6%, respectively, from their August 16 highs. That understanding prompted some bargain-hunting efforts that accelerated late in the week after an American Association of Individual Investors Survey showed unusually high bearish sentiment and unusually low bullish sentiment.

Specifically, bearish sentiment among individual investors hit 53.3%, versus the historical average of 30.5%, and bullish sentiment slumped to 18.1%, versus an historical average of 38.0%. Those readings, and the large spread between the two, were regarded as contrarian indicators and sparked a propensity to buy/swing trade beaten-up stocks.

The mega-cap stocks stood out as leaders this week. The Vanguard Mega-Cap Growth ETF jumped 4.1%. Mega-cap stocks had plenty of company, however.

All 11 S&P 500 sectors registered gains for the week ranging from 0.6% (energy) to 5.6% (consumer discretionary). Eight sectors gained at least 3.2%. The Russell 3000 Growth Index was up 4.1% and the Russell 3000 Value Index increased 3.6%.

With the improved standing of the stock market, the CBOE Volatility Index fell 10.5% to 22.79.

There won't be any U.S. economic data of note on Monday, but Tuesday will feature the August Consumer Price Index. That will be a market mover in the coming week knowing that it will shape the market's perspective on the inflation trend and the Fed's potential response to it.

- Dow Jones Industrial Average: +2.7% for the week / -11.5% YTD
- S&P Midcap 400: +4.4% for the week / -12.1% YTD
- S&P 500: +3.6% for the week / -14.7% YTD
- Russell 2000: +4.0% for the week / -16.1% YTD
- Nasdaq Composite: +4.1% for the week / -22.6% YTD

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