Week Ending 2/24/23

WEEK IN PERSPECTIVE

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Short Week Brings Sizable Losses

This holiday-shortened week was another losing one for the stock market. Investors were still saddled with the same issues that drove last week's downbeat price action.

Those issues included a lingering sense that the market was due for consolidation, another jump in Treasury yields, and a growing belief that the Fed is likely to keep rates higher than expected for longer than expected.

The latter point was drawn to the forefront midweek when investors received the FOMC Minutes for the Jan. 31-Feb. 1 meeting. They weren't overly hawkish-sounding and they weren't overly-dovish sounding. That doesn't mean, however, that they were just right. That's because they weren't really dovish at all. The default position continues to be a rate-hike position.

Market participants are cognizant that many of the data releases following the last FOMC meeting are not likely to change members' mindsets. Namely, a stronger than expected January employment report, the stronger than expected ISM Services PMI, the January CPI and PPI reports, all capped off by this week's stronger than expected core-PCE Price Index, which is the Fed's preferred inflation gauge.

Some anxiousness surrounding rate hikes may have been tempered on Friday by St. Louis Fed President Bullard (not an FOMC voter), who is generally a more hawkish Fed official. Mr. Bullard, after the hotter than expected core-PCE Price Index was released, remarked that "it appears that the Fed may be able to disinflate in an orderly manner and achieve a relatively soft landing."

There were some upside moves in the market following NVIDIA's pleasing earnings and guidance before the positive bias was overshadowed by rate hike concerns. The downside bias this week had the S&P 500 take out support at its 50-day moving average before flirting with its 200-day moving average, which ultimately held up.

Price action in the Treasury market was another headwind for equities this week, creating valuation concerns and worries about competition for stocks. The 2-year note yield rose 17 basis points to 4.78% and the 10-year note yield, which tested the 4.00% level, rose 12 basis points to 3.95%. The U.S. Dollar Index also rose noticeably this week, up 1.4% to 105.26.

Only one of the 11 S&P 500 sectors registered a gain this week -- energy (+0.2%) -- while the consumer discretionary (-4.4%) and communication services (-4.4%) sectors suffered the steepest losses.

WTI crude oil futures fell 0.1% this week to $76.41/bbl. Natural gas futures surged 10.1% to $2.50/mmbtu.

- Nasdaq Composite: -3.3% for the week / +8.9% YTD
- Russell 2000: -2.9% for the week / +7.3% YTD
- S&P Midcap 400: -2.5% for the week / +7.0% YTD
- S&P 500: -2.7% for the week / +3.4% YTD
- Dow Jones Industrial Average: -3.0% for the week / -1.0% YTD

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