

Technicals and rates dictating price action

The stock market was able to break its losing streak this week despite ongoing concerns about sticky inflation and the Fed raising rates higher for longer.



The upside bias was supported by technical buying interest, along with a drop in market rates by the end of the week.

There may have also been a feeling that the market was oversold on a short-term basis driving this week's gains. Entering Monday's session, the S&P 500 had declined 5.0% from its close on February 2 (the day before the January employment report was released).

Inflation concerns were stoked this week by data releases, including the February ISM Manufacturing Index, the weekly initial jobless claims, and the revised Q4 productivity. Weekly claims remained remarkably low, reflecting a tight labor market, while Q4 unit labor costs rose

6.3% from the same quarter last year, reflecting stubbornly high wage-based inflation. The sticking point from the ISM Manufacturing Index was that the Prices Index rose to 51.3% from 44.5%, marking the first price increase in four months. This price data, we would add, followed a higher-than-expected February CPI reading for Germany.

The Treasury market responded strongly to this week's data. The 10-yr note yield surged past 4.00%, hitting 4.07% at its high, before pulling back to 3.96% by Friday's close. The 2-yr note yield, which is more sensitive to changes in the Fed funds rate, rose eight basis points this week to 4.86%.

Despite the rising market rates, the main indices held up okay thanks to technical support. Buyers stepped in when the S&P 500 breached its 200-day moving average, and by Friday's close the index was comfortably back above its 50-day moving average.

Most of the S&P 500 sectors logged a gain this week led by materials (+4.0%), communication services (+3.3%), and industrials (+3.3%). The materials and industrials sectors may have been reacting to China reporting stronger-than-expected Manufacturing PMI and Non-Manufacturing readings for February.

The only sectors to decline this week were utilities (-0.7%) and consumer staples (-0.4%).

The U.S. Dollar Index fell 0.7% for the week to 104.50.

WTI crude oil futures rose 4.6% this week to \$79.79/bbl and natural gas futures surged 28.7% to \$3.14/mmbtu.

- Nasdaq Composite: +2.6% for the week / +11.7% YTD
- Russell 2000: +2.0% for the week / +9.5% YTD
- S&P Midcap 400: +1.8% for the week / +9.0% YTD
- S&P 500: +1.9% for the week / +5.4% YTD
- Dow Jones Industrial Average: +1.8% for the week / +0.7% YTD

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2023-152070 (Exp. 06/23)

