

S&P 500 breaks out of six week trading range

The major indices all logged gains this week, which ends a six week stupor for the S&P 500 where it neither gained nor declined more than 1.0%.



The S&P 500 also hit a new closing high for the year on Thursday (4,199) and a new intraday high for the year on Friday (4,212). The index was unable, however, to maintain a posture above 4,200 on a closing basis, which has been an area of stern resistance since August 2022.

The continued outperformance of the mega cap stocks helped to support index performance, yet more stocks under the surface participated in this week's gains compared to recent weeks.

Market participants were contending with mixed directions signals throughout the week. Optimism about a debt ceiling deal began to emerge after President Biden met with congressional leaders on Tuesday. Commentary

from congressional leaders fueled hope that the parties were more aligned with debt ceiling negotiations. That optimism continued to build until Friday when Punchbowl News reporter Jake Sherman tweeted that "debt limit talks between the White House and House Republicans have been paused, per multiple sources involved in the talks."

Some hawkish sounding Fed commentary was also in play this week. Specifically, Dallas Fed President Logan (FOMC voter) said that current data doesn't yet support the Fed pausing in June. St. Louis Fed President Bullard (not an FOMC voter) acknowledged the need to raise rates further since inflation remains persistently high. Although Mr. Bullard does not vote on the 2023 FOMC, his view nonetheless reinforces the notion that Fed officials are not talking rate cuts this year.

Treasuries saw some unwinding of the safety premium this week, especially at the short end of the curve, as participants contemplated the possibility of the Fed raising rates again at the June FOMC meeting. The 2-yr note yield rose

29 basis points this week to 4.27% and the 10-yr note yield rose 23 basis points to 3.69%.

The bond market was also reacting to the optimism early in the week about debt ceiling talks along with some pleasing price action in regional bank stocks. The SPDR S&P Regional Banking ETF rose 7.8% after Western Alliance (WAL) said its deposits have increased by more than \$2 billion since the end of the first quarter. WAL rose 24.9% this week on the news.

Earnings season is winding down, but this week was punctuated by earnings reports from some key retailers. Dow components Home Depot (HD) and Walmart (WMT) received mixed reactions with HD losing some ground and WMT moving higher after they reported earnings. Target also moved higher on its earnings report while Foot Locker plunged 27% on Friday after reporting disappointing earnings results and issuing dismal guidance.

Most of the S&P 500 sectors logged gains this week led by information technology (+4.2%), consumer discretionary (+2.6%), communication services (+3.1%), and financials (+2.2%). Meanwhile, the utilities (-4.4%) sector saw the biggest decline by a decent margin followed by real estate (-2.4%).

- Nasdaq Composite: +3.0% for the week / +20.9% YTD
- S&P 500: +1.7% for the week / +9.2% YTD
- Russell 2000: +1.9% for the week / +1.1% YTD
- Dow Jones Industrial Average: +0.4% for the week / +0.8% YTD
- S&P Midcap 400: +1.0% for the week / +0.7% YTD

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