

Rate hikes and regional banks take center stage

The stock market closed out the first week of May on an upbeat note, but Friday's positive price action was not enough to recoup this week's losses for most of the major indices.



The S&P 500 breached its February high closing level (4,179) this week, hitting 4,186 at its high on Monday, before slipping below the 4,050 level on Thursday.

There was no shortage of market-moving events this week that included a barrage of earnings reports, the FOMC rate hike on Wednesday, the ECB rate hike and Apple's earnings report on Thursday, and the April Employment Report on Friday. In addition, there was a surprise announcement on Tuesday from Treasury Secretary Yellen that extraordinary measures to pay the nation's bills could be exhausted as early as June 1. Following that disclosure, it was announced that President Biden will meet with House Speaker McCarthy and other

Congressional leaders on May 9 to discuss the debt ceiling.

Overarching themes that drove the price action were growth concerns, ongoing fallout in regional bank stocks, debt ceiling worries, and uncertainty about central banks overtightening and forcing a sharper economic slowdown; however, Friday's trade was dictated by the upbeat response to Apple's earnings report, the April Employment Report, and a needed rebound in the regional bank stocks.

Market participants learned last weekend that First Republic Bank (FRC) was seized by regulators. Subsequently, the FDIC facilitated a deal whereby JPMorgan Chase acquired a substantial majority of assets and assumed the deposits and certain liabilities of FRC. Then on Thursday, PacWest confirmed it's considering strategic options. Concerns continued to mount after the FT reported that Western Alliance is also considering strategic alternatives, including a possible sale, yet Western Alliance disputed the report, calling it "categorically false in all respects."

PacWest and Western Alliance fell sharply this week, registering losses of 43.3% and 26.8%, respectively, despite outsized gains on Friday due to short-covering activity.

Worries about central banks overtightening and forcing a sharper economic slowdown came into focus on Wednesday after the FOMC voted unanimously to raise the target range for the fed funds rate by 25 basis points to 5.00-5.25%, which was largely expected. The main indices declined that day, however, on the nagging view that the Fed is not inclined to cut interest rates soon despite a contrary view that has been priced into the fed funds futures market.

Some of Fed Chair Powell's remarks in his press conference that participants were presumably reacting to included his acknowledgement that the process of getting inflation back down to 2.0% has a long way to go. He added that if the Fed's inflation forecast is broadly right, it would not be appropriate to cut rates.

The Hong Kong Monetary Authority, the Norges Bank, and the ECB all followed the FOMC rate hike by raising their key lending rates by 25 basis points.

By Friday, though, some concerns about overtightening and central banks forcing a hard landing for the economy started to dissipate. The shift in sentiment was in response to the April Employment Report, which was good enough to engender some thoughts that a soft landing for the economy may still be possible despite the Fed's aggressive rate hikes.

Apple drove a lot of the index level gains on Friday following its pleasing earnings report and capital return plan.

Only three of the 11 S&P 500 sectors closed with gains this week unsurprisingly led by the information technology sector (+0.6%), benefitting from the move in Apple. The defensive-oriented health care (+0.1%) and utilities (+0.1%) sectors also outperformed. The energy sector (-5.8%) saw the biggest decline by a wide margin followed by financials (-2.7%) and communication services (-2.3%).

In other stock specific news, there was a successful IPO on Thursday with Johnson & Johnson's consumer health spinoff Kenvue going public.

Treasuries settled the week with gains in most tenors. The 2-yr note yield fell 15 basis points to 3.91% while the 10-yr note yield was unchanged at 3.45%. The U.S. Dollar Index fell 0.4% to 101.24.

- Nasdaq Composite: +0.7% for the week / +16.9% YTD
- S&P 500: -0.8% for the week / +7.7% YTD
- Dow Jones Industrial Average: -1.2% for the week / +1.6% YTD
- S&P Midcap 400: -1.2% for the week / +1.3% YTD
- Russell 2000: -0.5% for the week / -0.1% YTD

Past performance is not a guarantee of future results. Indices are unmanaged and one cannot invest directly in an index. Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Data and rates used were indicative of market conditions as of the date shown and compiled by Briefing.com. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Each company's security affects the index in proportion to its market value. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Dow Jones Industrial Average is a widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service-oriented firms. Russell 2000 Index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Park Avenue Securities LLC (PAS) is a wholly owned subsidiary of The Guardian Life Insurance Company of America (Guardian). PAS is a registered broker/dealer offering competitive investment products, as well as a registered investment advisor offering financial planning and investment advisory services. PAS is a member of FINRA and SIPC.

Provided by Briefing.com.