WEEK IN **PERSPECTIVE**

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S&P 500 and DJIA close busy week at record highs

The market was dealing with a busy week of news and earnings results.

Ultimately, the S&P 500 and Dow Jones Industrial Average closed at fresh all-time highs on Friday and the major indices all logged gains, except the Russell 2000.

The underperformance of the small cap index was related to weakness in regional bank stocks after New York Community Bank (NYCB) reported that its provision for credit losses in the fourth quarter totaled $552 million compared to a $62 million provision for the three months ended September 30, 2023. The increase, it said, was primarily attributable to higher net charge-offs, as well as, to address weakness in the office sector, potential repricing risk in the multi-family portfolio, and an increase in classified assets.

The added thunder came in the company's declaration that it would be cutting its dividend by 70% to $0.05 per common share to build capital. This report brought to mind the regional bank fallout from last year.

Meanwhile, mega cap stocks outperformed the broader market as a group following earnings results from some influential names. Alphabet and Microsoft reported results on Tuesday. The former logged a 6.7% decline this week while the latter climbed 1.8%. Apple, Amazon.com, and Meta Platforms all reported earnings on Thursday. AAPL declined 3.4% on the week while AMZN jumped 8.0% and META gained 20.5%.

Dow component Boeing was another notable name that reported earnings this week, logged a 1.9% gain since last Friday. BA is still down nearly 20% this year, however, following the prior grounding of 737 Max 9 planes.

In addition to earnings from influential names, this week's price action was driven by a recalibration of rate cut expectations following more strong economic data and the FOMC decision on Wednesday.

The committee voted unanimously to leave the target range for the fed funds rate unchanged at 5.25-5.50%.

This move was expected, but the market was hoping for a dovish shift in rhetoric around the Fed's rate cut path. Instead, the directive declared that, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."

Fed Chair Powell reiterated this view in his subsequent press conference. Mr. Powell spoke specifically about the possibility of a March rate cut, saying in part "I don't think it is likely that the Committee will reach a level of confidence by the time of the March meeting to identify March at as the time to do that (cut rates), but that is to be seen."

Just about everything sold off on Wednesday in response.

The FOMC decision was followed by a much stronger than expected January Employment Situation Report on Friday, which featured a big upside surprise in payroll growth that was accompanied by a larger than expected increase in average hourly earnings.

As a result, the fed funds futures market repriced the probability of a 25-basis points rate cut at the March FOMC meeting to 20.5% (from 38.0% yesterday and 47.6% one week ago) while the probability of a 25-basis points rate cut at the May FOMC meeting has been reduced to 74% (from 93.8% yesterday), according to the CME FedWatch Tool.

The price action in the Treasury market was partially in response to the rate cut rethink, and with the Treasury Department's first quarter borrowing estimate. The Treasury Department plans to borrow $760 billion in Q1, which is $55 billion below the forecast from October due to higher net fiscal flows and a higher cash balance at the beginning of the quarter. Borrowing in Q2 is expected to reach $202 billion.

The 2-yr note yield declined two basis points to 4.38% and the 10-yr note yield fell 13 basis points to 4.03%.

- Nasdaq Composite: +1.1% for the week / +4.1% YTD
- S&P 500: +1.4% for the week / +4.0% YTD
- Dow Jones Industrial Average: +1.4% for the week / +2.6% YTD
- S&P Midcap 400: +0.1% for the week / -0.5% YTD
- Russell 2000: -0.8% for the week / -3.2% YTD