

## Mega cap and semiconductor stocks lead market higher, again

It was another winning week for the stock market. Small cap stocks saw some rebound action after underperforming to start the year.



The Russell 2000 jumped 2.4% this week. The S&P 500 closed above 5,000 for the first time, drawing support from gains in the mega cap and semiconductor spaces. The PHLX Semiconductor Index (SOX) rose 5.3%.

Many stocks participated, though, in a relatively broad advance. The equal-weighted S&P 500 gained 0.5% this week. There still has not been any concerted selling interest despite reports that the market is overbought in the short-term, which has acted as its own upside catalyst.

Another catalyst for the upside price action came in the form of positive responses to some earnings news. Ford, Eli Lilly, DuPont, Arm Holdings, and Walt Disney were among the

standout earnings-related winners this week.

Meanwhile, Amgen and PayPal were some of the more influential earnings-related laggards.

Notably, this week's broad advance occurred despite sharp declines in Treasuries. The 2-yr note yield rose 12 basis points to 4.50% and the 10-yr note yield rose 16 basis points to 4.19%.

The increased selling in Treasuries started last week in response to ongoing strength in economic data of late that has the market repricing rate cut expectations. This also followed comments from Fed Chair Jerome Powell last weekend, who said on 60 Minutes that the Fed needs to see more evidence that inflation is moving sustainably down to its 2% target before lowering rates.

This week's release of the January ISM Services PMI featured an acceleration in services sector activity in January, replete with a pickup in new orders, employment, and prices. The weekly jobless claims report showed a decrease in the number of claims.

Also, the annual CPI revisions were released this week, garnering added attention due to potential implications for the Fed's rate cut path. The revisions were relatively friendly since they did not alter the market's view on inflation much.

Treasuries did not respond favorably to this week's slate of strong auctions, including a \$25 billion 30-yr bond offering, a \$54 billion 3-yr note sale, and \$42 billion 10-yr note auction.

The probability of a 25 basis points rate cut to 5.00-5.25% at the May FOMC meeting is 63.1% now, down from 73.2% one week ago, according to the CME FedWatch Tool.

- Nasdaq Composite: +2.3% for the week / +6.5% YTD
- S&P 500: +1.4% for the week / +5.4% YTD
- Dow Jones Industrial Average: +0.04% for the week / +2.6% YTD
- S&P Midcap 400: +1.5% for the week / +1.0% YTD
- Russell 2000: +2.4% for the week / -0.8% YTD

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