

TRADING >

Weekly Trader's Outlook

Powell Helps Fuel Fresh Record Highs for Stocks

✉ March 22, 2024 • Nathan Peterson

Most of the major stock market indices rallied to fresh all-time highs this week thanks to a dovish tone from the Fed. Next week it appears the path of least resistance is higher still.



The Week That Was:

If you read last week's blog, you might recall that my outlook for this week called for "Higher Volatility," citing several potential market-moving catalysts (SMCI addition to the S&P 500 index, Nvidia GTC conference, FOMC conference, etc.). We certainly saw downside volatility in tech early in the week (SMCI experienced a "sell on the news" reaction as referenced last week), but then we saw upside volatility in the back half of the week thanks to a relatively dovish Fed (more on this in the "Economic Data, Rates & the Fed" section below). Remember that volatility is non-directional, it can be up or down and refers to the size and/or velocity of the move. Although there is no guarantee that the Fed will give the markets three rate cuts this year, investors cheered the fact that they maintained that forecast despite the recent hotter-than-expected inflation reports. Most of the major indices notched fresh all-time highs this week and the melt-up mode persists. If there is a bearish argument here, it is either valuation (the S&P forward P/E is currently 21, which is a couple points above the five- and 10-year averages), a belief that we are overdue for a mean reversion pullback (more on this in the "Technical Take" section below), or a belief that sentiment and positioning is too optimistic and could be a contrarian indicator. However, none of these reasons will tell you when stocks are about to undergo a corrective phase. Therefore, the path of least resistance still appears to be higher.

Outlook for Next Week:

We are still a couple weeks away from the start of Q1 earnings season and there aren't a ton of potential catalysts for traders to focus on next week. Next Friday's PCE Prices report probably has the most potential to move markets (if it contains any "surprises" vs. expectations), but markets have been able to overlook "sticky inflation" data so far this year, so it's unclear what will really rattle the bulls at this point of the rally. To me, the biggest risk to markets won't really be on the radar until later this year, and that's the potential issues related to corporate debt refinancing. If inflation remains sticky and rates remain relatively elevated, this *could* surface credit concerns in some areas of the economy. Until then however, the economic data continues to come in relatively strong and this bodes well for corporate earnings. Back to next week's outlook, the uptrend is still intact, and I see little to get in the way of "more of the same" next week. Therefore, my outlook for next week is "Slightly Bullish". What could challenge this outlook? Perhaps surprisingly hot PCE data would be enough to trigger some kind of a profit-taking pullback.

Other Potential Market-moving Catalysts:

Economic:

- Monday (Mar. 25): New Home Sales

- Tuesday (Mar. 26): Consumer Confidence, Durable Goods Orders, FHFA Housing Price Index, S&P Case-Shiller Home Price Index
- Wednesday (Mar. 27): EIA Crude Oil Inventories, MBA Mortgage Applications Index
- Thursday (Mar. 28): Continuing Claims, EIA Natural Gas Inventories, GDP – Third Estimate, Initial Jobless Claims, Pending Home Sales, University of Michigan Consumer Sentiment – Final
- Friday (Mar. 29): PCE Prices, PCE Prices – Core, Advanced International Trade in Goods, Advanced Retail Inventories, Advanced Wholesale Inventories, Personal Income, Personal Spending

Earnings:

- Tuesday (Mar. 26): McCormick & Company (MKC), TD Synnex Corp. (SNX), GameStop (GME), Concentric Corp. (CNXC), nCino (NCNO), Progress Software Corp. (PRGS)
- Wednesday (Mar. 27): Cintas Corp. (CTAS), Paychex Inc. (PAYX), Carnival Corp. (CCL), Jefferies Financial Group (JEF), Braze (BRZE)
- Thursday (Mar. 28): Walgreens Boots Alliance (WBA), BRP Inc. (DOOO), Oxford Industries (OXM), Semtech Corp. (SMTC)

Economic Data, Rates & the Fed:

This week's Federal Open Market Committee (FOMC) meeting was the highlight on the economic front. Here are the high-level takeaways:

- Fed funds rate unchanged at 5.25-5.50%
- 2024 GDP outlook raised to 2.1% from 1.4%, citing higher labor force participation and immigration.
- Inflation forecast bumped up 0.2% to 2.6%
- Dot plots did see some shifts but the year-end (2024) projection for the fed funds rate was left unchanged at 4.625%, which suggests three 25-basis-point rate cuts in 2024.

If you consider that the last FOMC meeting was back on January 30-31st and we received two hot inflation prints from the CPI and PPI in between then and this week's meeting, there was a bit of angst from markets that the Fed would lean hawkish, but that wasn't the case. The fact that the Fed maintained its outlook for three rate cuts in 2024 was interpreted positively by markets. Although the Fed can shift their forecast as additional data points are received, as it has done so several times over the past several years, investors responded by sending stocks to fresh all-time highs this week.

This week's data on the housing market reinforced the notion of a strong economy:

- Housing Starts: 1521K vs. 1420K expected
- Building Permits: 1518K vs. 1450K expected (highest level since last August)
- Existing Home Sales: 4.38M vs. 3.94M expected

Another bright spot in this week's data was the Leading Economic Index (LEI), which posted a surprise gain of +0.1% vs. expectations for a 0.1% decline. This represents the first positive LEI read since February of 2022.

Yields appeared to be on the verge of breaking out to the upside prior to this week's FOMC meeting but found relief following the relatively dovish message from the Fed. On Monday, yields on the 10-Year Treasury (TNX) closed at a year-to-date high of 4.34%, but have pulled back to 4.218% at the time of this writing.

Market hopes around the potential for Fed rate cuts made a push higher this week. On a week-over-week basis, the Bloomberg probability of a June rate cut moved up to 83% from 61% last Friday. However, as I mentioned above, Fed forecasts are subject to change based on incoming data and there is no guarantee that we'll actually get three cuts this year.

Technical Take:

S&P 500 Index (SPX - 9 to 5,232)

You may have heard the trader axiom "the trend is your friend" and the chart on the S&P 500 over the past five to six months helps illustrate why. The index has steadily continued to notch fresh all-time highs every one to two weeks, which is classic bull market behavior. But as an investor or trader you always need to consider the alternate, or bearish in this case, perspective. The biggest knock against the SPX's ascent is that it has not experienced a 5% or more pullback since late October, and historically the index encounters a consolidation move of this magnitude three to four times a year on average. So, the bearish perspective is that the SPX is overdue for a 5% pullback and mean reversion is a reality. The problem with this thesis is that although it may hold some validity, it doesn't reveal anything about the timing of such a pullback. One technical signal that may indicate

such a pullback is underway is a breach of a key support level. In the case of the SPX, it appears that support has been coming in the form of the 20-day Simple Moving Average. Therefore, if we get a close below this moving average perhaps this is a trading signal to become a little more cautious or conservative in your long exposure. If you want a "faster" signal, you can adjust to a lower day count, say 10 days, or you can utilize the exponential moving average (EMA), which gives more weight to recent price action. *Near-term technical translation: bullish.*



Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

PHLX Semiconductor Index (SOX + 3 to 4,901)

Back on March 8th marked a key reversal day for SOX posterchild Nvidia (the stock gapped up and rallied to a fresh all-time high of \$974 only to reverse course and drop over \$100, creating a significant bearish engulfing candle on heavy volume) as this started a textbook 10% correction for the semiconductor sector as a whole. However, the correction appears to be bullish for the following reasons: a) the correction was sharp and swift, which is characteristic of a bull market, and b) the correction found interested buyers through price discovery and it appears that the uptrend is attempting to resume. If you are bullish, you would like to see the SOX notch a fresh "higher high" in the coming weeks to confirm that the uptrend is still intact. We may have to wait for Q1 earnings season to get underway in mid-late April, but the price action looks encouraging for now. *Near-term technical translation: bullish.*



Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

Market Breadth:

The Bloomberg chart below shows the current percentage of members within the S&P 500 (SPX), Nasdaq Composite (CCMP) and Russell 2000 (RTY) that are trading above their respective 200-day Simple Moving Averages. Most of the major U.S. indices notched fresh record highs this week, so perhaps unsurprisingly, market breadth improved across the board. In fact, market breadth on the S&P 500 index is just below a three-year high today (81.96% vs. 82.16% on March 11th). Compared to last Friday, the SPX (white line) breadth moved up to 81.96% from 78.36%, the COMPX (blue line) expanded to 49.40% from 45.97%, and the RUT (red line) jumped to 60.30% from 52.44%.



Source: Bloomberg L.P.

Market breadth attempts to capture individual stock participation within an overall index, which can help convey underlying strength or weakness of a move or trend. Typically, broader participation suggests healthy investor sentiment and supportive technicals. There are many data points to help convey market breadth, such as advancing vs. declining issues, percentage of stocks within an index that are above or below a longer-term moving average, or new highs vs. new lows.

This Week's Notable 52-week Highs (73 today): Arista Networks Inc. (**ANET** - \$1.07 to \$303.53), Citigroup Inc (**C** - \$0.62 to \$60.72), General Dynamics Inc. (**GD** + \$1.45 to \$282.79), Hilton Inc. (**HLT** + \$0.32 to \$210.87), JPMorgan Chase & Co. (**JPM** - \$0.31 to \$198.75), Tractor Simon Property Group (**SPG** - \$1.35 to \$154.46), Valero Energy Corp. (**VLO** - \$1.79 to \$169.18)

This Week's Notable 52-week Lows (106 today): Asana Inc. (**ASAN** - \$0.33 to \$15.25), Atricure Inc. (**ATRC** - \$1.16 to \$28.57), BioNTech SE (**BNTX** - \$0.42 to \$91.57), Boston Beer Co. (**SAM** + \$3.34 to \$297.26), iRobot Corp. (**IRBT** - \$0.26 to \$8.14), Jinkosolar Holding Company (**JKS** - \$0.73 to \$22.93), Spirit Airlines Inc. (**SAVE** - \$0.09 to \$4.64), Utah Medical Products Inc. (**UTMD** + \$0.22 to \$68.75)

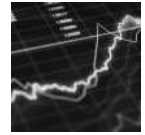
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