

TRADING_

Charles Schwab

Weekly Trader's Outlook

Stocks Still in Melt-up Mode

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Investors approved of this week's inflation read and responded by pushing most of the major indices to fresh all-time highs. Although we're overbought, the near-term path of least resistance appears to be higher.

The Week That Was:

If you read last week's blog, you might recall that my outlook for this week called for a "Slightly Bearish", citing the potential for a modest profit-taking pullback due to waning technical momentum and a lack of catalysts to incite more buying. For the first three days of the week the forecast looked like it was on target (SPX down ~0.5%), but then a relatively bullish catalyst came in the form of a "better than feared" PCE report (more on this in the "Economic Data, Rates & the Fed" section below). Investors applauded the "in-line" PCE data, plus slightly lower bond yields with fresh all-time closing highs in the SPX and COMPX (RUT is at a two-year high today). What also stuck out to me over the last 48 hours is significant money flow into the semiconductor sector. The PHLX Semiconductor Index (\$SOX) is up 4.5% today after notching a fresh all-time closing high yesterday. It seems to me that the money is being drawn toward the areas within technology that are perceived to be the highest quality growth, and apparently that's chip stocks. The discernment by investors can also be witnessed within the formerly

anointed "Magnificent 7," as GOOGL and AAPL and have been relative underperformers to their peers in recent weeks. Regardless, the price action this week signals to me that the "melt-up" mode in risk assets is still underway and it's difficult to fight the strong uptrend which has been in place since the beginning of November.

Outlook for Next Week:

Next week we've got the highly watched monthly jobs data, JOLTS report and several large-cap tech earnings reports (such as CRWD, AVGO, and MDB) as potential market-moving catalysts. Meanwhile, stocks are continuing to push into all-time high territory at the time of this writing (2:30 ET SPX + 43, COMPX + 208, DJI + 102), and the VIX has crept into positive territory (VIX + 0.10 to 13.50). The move in the VIX suggests some investors may be reaching for some protection via options and/or expect slightly higher volatility in the future. Yes, we are currently in overbought territory (more on this in the "Technical Take" section below), but as the technician's axiom goes, "the trend is your friend." Given what's going on with the \$SOX today (+4.5% on no apparent news), I have the feeling that the rally in stocks may be kicking into another gear and I expect higher volatility (either up or down). Therefore, my outlook for next week is overall "Bullish" with expectations for "Higher Volatility." What could challenge this outlook? Since we are overdue for a "profit-taking" pullback, that's the most likely catalyst in my mind. However, as I've mentioned before, we never know ahead of time when such a pullback might manifest.

Next Week's Potential Market-moving Catalysts:

Economic:

- Tuesday (Mar. 5): Factory Orders

- Wednesday (Mar. 6): ADP Employment Change, Beige Book, EIA Crude Oil Inventories, JOLTS – Job Openings, MBA Mortgage Applications Index, Wholesale Inventories
- Thursday (Mar. 7): Consumer Credit, Continuing Claims, EIA Natural Gas Inventories, Initial Jobless Claims, Productivity (Revised), Trade Balance, Unit Labor Costs (Revised)
- Friday (Mar. 8): Average Workweek, Average Hourly Earnings, Nonfarm Payrolls, Nonfarm Private Payrolls, Unemployment Rate

Earnings:

- Monday (Mar. 4): Sea Ltd. (SE), GitLab Inc. (GTLB), AeroVironment Inc. (AVAV)
- Tuesday (Mar. 5): Target Corp. (TGT), Nio Inc. (NIO), CrowdStrike Holdings Inc. (CRWD), Ross Stores Inc. (ROST), Franco-Nevada Corp. (FNV), Box Inc. (BOX), Nordstrom Inc. (JWN)
- Wednesday (Mar. 6): Brown-Forman Corp. (BF/B), Campbell Soup Co. (CPB), Thor Industries (THO), Abercrombie & Fitch Co. (ANF), Foot Locker (FL), Victoria's Secret & Co. (VSCO)
- Thursday (Mar. 7): Kroger (KR), Burlington Stores Inc. (BURL), BJ's Wholesale Club Holdings (BJ), Ciena Corp. (CIEN), Broadcom Inc. (AVGO), Costco Wholesale Corp. (COST), MongoDB (MDB), Samsara Inc. (IOT), DocuSign (DOCU)
- Friday (Mar. 8): Algonquin Power & Utilities Corp. (AQN), America's CAR-MART Inc. (CRMT), Genesco (GCO)

Economic Data, Rates & the Fed:

There was a lot of anticipation around this week's Personal Consumption Expenditures (PCE) Price Index report given the hotter-than-expected CPI and PPI reports earlier this month, but there wasn't a lot of surprises in the data. Headline PCE increased 0.3% on a month-over-month (MoM) basis and 2.8% on a year-over-year basis (YoY). Core PCE increased 0.4% MoM and 2.8% YoY. All of these metrics were in-line with consensus estimates. Yes, the 0.4% MoM increase was the largest gain in a year, but the Core 2.8% YoY rise was the lowest level in over two years. While the market found relief in the data yesterday, we'll need to see how this month's CPI (March 12th) and PPI (March 14th) turn out before labeling last month's data an outlier.

Looking at the consumer, February's Consumer Confidence came in at 106.7, which was below the 115.3 expected and a decrease from 110.9 in the prior month. This represented the first decrease in four months. Additionally, February's University of Michigan Consumer Confidence declined to 76.9 from 79.0 in January and was below the 79.4 analyst's had expected. Some analysts were attributing the drop, at least in part, to anxiety around political elections.

Turning to the economy, we got the "second" estimate on Q4 GDP from the Bureau of Economic Analysis which was just a 0.1% downtick from the "advance" reading of 3.3% we received last month. Regarding a "nowcast" (GDPNow) on Q1 GDP from the Atlanta Fed, there was a significant downward revision this morning to 2.1% from 3.0% on February 29th. 2.1% is still healthy expansion, but it's important to monitor both GDP and consumer confidence as they tie directly into corporate profits. As a reminder, one of the key pillars of the bullish thesis for stocks is earnings growth in 2024.

Bond yields are slightly lower on a week-over-week basis, largely driven by today's soft ISM Manufacturing Index read (47.8% vs. 49.4% expected). Yields on the 10-Year Treasury (TNX) are currently down six basis points from last Friday to 4.20%.

Lastly, Fed rate cut expectations saw a slight uptick versus last Friday. On a week-over-week basis, the Bloomberg probability for a Fed rate cut in May moved up to 22% from 19% while June moved up to 86% from 81%. As I mentioned last week, it doesn't seem like investors are deterred by the potential of "higher for longer" from the Fed, provided the U.S. economy remains healthy.

Technical Take:

S&P 500 Index (SPX + 30 to 5,126)

The S&P 500 index (SPX) continues to be in "melt-up" mode and it's really difficult to go against the current trend. However, let's not lose sight of the fact that the index is up 25% in roughly four months and we are in overbought territory. One way of measuring how overbought, or "stretched," the index is on the upside is to measure the difference between the current level and the index's 200-day Simple Moving Average (SMA). As you can see in the chart below, that distance is currently greater than it was back in late July of last year. As a reminder, the SPX went through a 10%+ correct from the beginning of August to late October. I'm not suggesting that the SPX is about to go through a similar pullback, because this observation is not a timing mechanism, but it's important to be aware of where we currently stand. Having said that, the near-term uptrend is still intact, and it appears that, at least for now, the path of least resistance is higher. *Near-term technical translation: slightly bullish.*



Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

Russell 2000 Index (RUT + 19 to 2,074)

The RUT appears to be ready to join the party as the index is breaking out to fresh two-year highs today. The rate-sensitive index has been a relative underperformer over the past two years primarily because of higher yields. However, the index has been able to exhibit some relative strength in the face of higher yields over the past month. Multiple indices and sectors around the globe have been hitting fresh all-time highs this year so perhaps the money flow is looking for places that have not participated in the recent rally in risk assets. *Near-term technical translation: bullish.*



Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

Market Breadth:

There was a slight improvement in market breadth across the board this week. This can be seen in the Bloomberg chart below, which shows the current percentage of members within the S&P 500, Nasdaq Composite, and Russell 2000 that are trading above their respective 200-day Simple Moving Averages. Compared to last Friday, the SPX (white line) breadth moved up to 76.55% from 75.55%, the COMPX (blue line) moved up to 49.62% from 48.86%, and the RUT (red line) lifted to 56.68% from 54.79%.



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 (155 today): American Express Company (**AXP** + \$0.29 to \$219.71), Assurant Inc (**AIZ** - \$0.39 to \$181.06), Cummins Inc. (**CMI** + \$3.70 to \$272.31), Danaher Corp. (**DHR** - \$0.86 to \$252.28), Hilton Inc. (**HLT** + \$0.15 to \$204.47), Sherwin Williams Company (**SHW** + \$1.06 to \$333.09), TJX Companies (**TJX** - \$0.43 to \$98.71)

This Week's Notable 52-week Lows (46 today): American States Water Company (**AWR** - \$0.38 to \$71.03), Concentrix Corp. (**CNXC** + \$0.03 to \$72.48), Exact Sciences

Corp. (**EXAS** + \$1.81 to \$59.34), Fulgent Genetics Inc. (**FLGT** + \$0.29 to \$22.86), Newmont Mining Corp. (**NEM** + \$0.09 to \$31.34), New York Community Bancorp (**NYCB** - \$1.01 to \$3.77), Royal Gold Inc. (**RGLD** + \$0.90 to \$103.53)