CHARLES SCHWAB

Weekly Trader's Outlook

Stocks Bounce Back This Week as Mega-Cap Tech Earnings Help Lift Investor Sentiment

April 26, 2024 Nathan Peterson

-

Stocks bounce back from an oversold state and are on track to register a better than 2.0% gain this week. Mega-cap tech reminds investors of the AI growth potential by delivering robust results.

The Week That Was:

If you read last week's blog, you might recall that my outlook for this week was "breakout," which I defined as a 2.0%+ move, either higher or lower, in the S&P 500 (SPX) by today. At the time of this writing the SPX is up 2.63% on the week so this forecast turned out to be accurate. This is an impressive gain given that the SPX was down over 1.5% at one point yesterday following the GDP report (but subsequently recovered) and the SPX rallied in the face of bond yields hitting fresh five-month highs this week. Therefore, this tells me that the dominant factor for this week's bounce was a technically oversold bounce. Recall last Friday that there was indiscriminate selling in tech (SMCI -20%, ARM -14%, NVDA -9%) and the SPX was hovering around 30 on the Relative Strength Index (RSI), the technically oversold line in the sand. Another contributing factor for the bulls this week was impressive earnings results from mega-cap tech. While META suffered a sharp drop due to raised expense guidance, the announcement seemed to boost stock prices in companies that stand to benefit from higher AI spend (NVDA, SMCI, AMD, etc.). Then last night, MSFT delivered a beat/raise with 31% Azure revenue growth (above 28% est.) and GOOGL delivered a beat/raise along with a first-ever dividend and $70B stock buyback plan. Admittedly, I was a little concerned about the AI secular growth story heading into the week (following lackluster results from ASML and the absence of raised guidance from SMCI), but these earnings reports convey AI investment remains strong.

Outlook for Next Week:

Once again, we've got multiple potential market-moving catalysts next week–the Treasury's Quarterly Refunding estimates come out Monday; on Tuesday we'll get some key tech/AI earnings from AMZN, AMD and SMCI after the bell; AAPL earnings are out Thursday after the bell; and Friday morning we'll get the monthly employment data. Last month's Nonfarm Payrolls Report handily beat economist's estimates (303K vs. 210K est.), and stocks responded positively because the wage data was benign, from an inflationary perspective. However, it's unclear to me whether or not good news is good news at this point in time given the market's recent sensitivity to yield volatility. And while technically we healed some of the damage sustained over the past two weeks, the current assessment is a little less clear with most of the major indices hovering just below their respective 50-day SMAs (more on this in the "Technical Take" section below). So where does all of this leave me regarding a potential forecast next week? Honestly, I'm not feeling a high level of confidence with this week's forecast because I'm not sure about the trajectory of yields (do we notch fresh five-year highs next week on robust quarterly refunding numbers or employment data?) and there are several key earnings reports which will likely impact investor sentiment. Having said that, I'll provide a forecast for "choppy sideways consolidation" with a "slightly bullish" bias next week. What could challenge this outlook? If we get a firm rejection at the 50-day Simple Moving Average on the SPX/NDX/COMPX early next week, this could be a bearish confirmation that brings selling pressure back into the equation.

Other Potential Market-moving Catalysts:

Economic:

- Monday (Apr. 29): U.S. Treasury Quarterly Refunding forecast for Q3

- Tuesday (Apr. 30): Consumer Confidence, Employment Cost Index, FHFA Housing Price Index, S&P Case-Shiller Home Price Index, U.S. Treasury Quarterly Refunding issuance composition

- Wednesday (May 1): ADP Employment Change, Construction Spending, EIA Crude Oil Inventories, FOMC Rate Decision, ISM Manufacturing Index, JOLTS – Job Openings, MBA Mortgage Applications Index, S&P Global US Manufacturing PMI - Final

- Thursday (May 2): Continuing Claims, EIA Natural Gas Inventories, Factory Orders, Initial Jobless Claims, Productivity-Preliminary, Trade Balance, Unit Labor Costs-Preliminary

- Friday (May 3): Nonfarm Payrolls, Average Workweek, Average Hourly Earnings, Unemployment Rate, ISM Non-Manufacturing PMI

Earnings:

- Monday (Apr. 29): ON Semiconductor Corp. (ON), Domino's Pizza (DPZ), NXPI Semiconductors NV (NXPI), Welltower Inc. (WELL), MicroStrategy Inc. (MSTR), SBA Communications Corp. (SBAC)

- Tuesday (Apr. 30): Eli Lilly & co. (LLY), Coca-Cola Co. (KO), McDonald's Corp. (MCD), Amazon.com Inc. (AMZN), Advanced Micro Devices (AMD), Stryker Corp. (SYK), Starbuck's Corp. (SBUX), Super Micro Computer Inc. (SMCI)

- Wednesday (May 1): Mastercard Inc. (MA), Pfizer Inc. (PFE), Automatic Data Processing (ADP), CVS Health Corp. (CVS), Qualcomm Inc. (QCOM), DoorDash Inc. (DASH)

- Thursday (May 2): Linde PLC (LIN), ConocoPhillips (COP), Apple Inc. (AAPL), Amgen Inc. (AMGN), Booking Holdings Inc. (BKNG), Coinbase Global Inc. (COIN)

- Friday (May 3): Hershey Co. (HSY), Cheniere Energy Inc. (LNG), Cboe Global Markets Inc. (CBOE)

Economic Data, Rates & the Fed:

There was a good amount of data for markets to digest this week on the economic front which included an advanced read on Q1 GDP and some stubborn inflation data. Although the advanced read on Q1 GDP shows a deceleration in quarterly output (1.6% in Q1 vs. 3.4% in Q4 and 4.9% in Q3), the softness was driven by exports and trade data and the Atlanta Federal Reserve's GDPNow estimate for Q2 GDP (which came out this morning) is a healthy 3.9%. Here are some highlights from this week:

- **S&P Global US Manufacturing PMI** came in at 49.9, down from 51.9 in March and representing a four-month low. S&P Global US Services PMI came in at 50.9, down from 51.7 in March and representing a five-month low.

- **Initial Jobless Claims** dropped 5K from the prior week to a seasonally adjusted 207K, below the 215K economists expected, and continuing to convey a tight labor market.

- **Q1 GDP – Advanced** reading came in at 1.6%, well below the +2.5% expected, driven by weakness in trade and exports data. Personal Income (current dollar and disposable) both increased while personal savings declined. More importantly to the markets, the Q1 "core" Personal Consumption Index, which excludes food and energy components, came in at +3.7%, which is well above the 2.0% gain seen in the prior quarter and above the +3.4% economists had expected.

- The **Atlanta Fed GDPNow** current expectation (nowcast) for Q2 GDP came out this morning at 3.9% (quarter-over-quarter, annualized).

- **Personal Consumption Expenditures (PCE) Prices:** both headline and core came in at +0.3%, which was in-line with expectations. On a 12-month basis, headline PCE rose to 2.7% from 2.5% in the prior month's year-over-year read while core PCE was unchanged from the prior month's year-over-year read at 2.8%.

Bond yields crept higher this week, driven by stickier-than-expected inflation data. Yields on two-year Treasuries hit a five-month high of 5.025% yesterday but have eased some to the current level of 4.991% (note: 5.20% is the cycle high for the two-year). Yields on the 10-year (TNX) hit a fresh five-month high of 4.737% yesterday but are currently 4.663%, perhaps helped by in-line PCE data. The bond market continues to price in higher for longer, driven by sticky inflation data, and equity investors have been taking it in stride, provided the economic data remains firm.

Market hopes around the potential for Fed rate cuts continue to gradually diminish, like they've done for most of the year. On a week-over-week basis, the Bloomberg probability of a June rate cut has moved down to 12% from 18% last Friday, and July currently stands at 36%, down from 48% last Friday. Based on the 65% threshold (which represents the approximate line in the sand for a Fed action, either a hike or a cut, over the past nine years or so), September looks like the first meeting where a Fed cut is expected.

Technical Take:

S&P 500 Index (SPX + 62 to 5,110)

Last Friday I mentioned that the SPX was right around the 30 level on the Relative Strength Index (RSI), suggesting a near-term technically oversold state. This week the index bounced and "mean reverted" from its oversold state (and right around the 23% Fibonacci Retracement level from the October low to the April high), which brought the SPX nearly back to the underside of its 50-day Simple Moving Average (SMA) and the RSI reading from 30 back to the midpoint of 50. Some technical traders look for an RSI bounce back to the 50 level from a sub-30 RSI level as a sign that the bounce may have run its course since the technicals are more balanced. Additionally, if the SPX gets rejected at its 50-day SMA this could signal a bearish confirmation of a change in trend. However, if the SPX can close back above its 50-day SMA the technicals flip in favor of the bulls. So, at least on a near-term basis, we may be approaching an inflection point on the charts. My sense is that yields will be a driver of which we way we pivot from here. If yields can continue to ease next week, then the SPX might have enough bullish momentum to get back above the 50-day SMA. We've got several potential yield catalysts next week, including the Treasury's Quarterly Refinancing figures along with the monthly employment data. Until more clarity around the near-term trajectory of yields is known we may in for some choppy sideways action. *Near-term technical translation: sideways trend (consolidation) to slightly bullish.*

Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

Nasdaq Composite Index ($COMPX + 330 to 15,942)

Similar to the SPX, the Nasdaq Composite bounced back to the underside of the 50-day SMA and the RSI moved back to the 50 level from last Friday's oversold levels. As mentioned in "The Week That Was" section above, I feel that META, MSFT, and GOOGL breathed life back into the AI secular growth story, and this is generally positive for the tech-heavy $COMPX. However, it's hard for me to provide a bullish technical outlook until, and if, the index reclaims its 50-day SMA. Therefore, I feel the $COMPX is likely in for some choppy, sideways consolidation action next week with the potential to see additional upside momentum if the index gets above the 50-day SMA (currently 16,051). *Near-term technical translation: sideways trend (consolidation) to slightly 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. This week we saw a modest expansion in breadth, which was helped by a bounce back in equities. Compared to last Friday, the SPX (white line) breadth moved up to 75.90% from 69.22%, the COMPX (blue line) increased to 41.31% from 39.03%, and the RUT (red line) improved to 48.65% from 43.60%.

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 (10 today): Agnico-Eagle Mines Ltd. (**AEM** + $2.14 to $67.08), Alphabet Inc. – Class A (**GOOGL** + $15.50 to $171.50), American Express Company (**AXP** - $0.81 to $236.29), Heico Corp. (**HEI** + $2.25 to $209.07), Skechers U.S.A. (**SKX** + $10.02 to $68.84), Teck Resources Ltd. (**TECK** + $0.96 to $50.50), Wheaton Precious Metals Inc. (**WPM** + $0.09 to $53.82)

This Week's Notable 52-week Lows (114 today): AON PLC (**AON** - $28.03 to $277.97), Boeing Company (**BA** + $0.07 to $166.88), Charter Communications Inc. (**CHTR** - $2.85 to $256.25), Gilead Sciences Inc. (**GILD** + $0.11 to $65.38), Pfizer Inc. (**PFE** + $0.18 to $25.44), Verisgn Inc. (**VRSN** - $4.18 to $178.50), Walgreens Boots Alliance Inc. (**WBA** + $0.32 to $17.92), Whirlpool Corp. (**WHR** + $0.50 to $95.47).