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Weekly Trader's Outlook

Softer Economic Data, Lower Yields Fuels Weekly Gains for Stocks

May 10, 2024 Nathan Peterson

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Stocks are higher on the week, driven by evidence of some recent cooling in the labor market. Volatility could pick up next week as we'll get two key inflation data points and a read on the health of the consumer.

The Week That Was:

If you read last week's blog, you might recall that my outlook for this week was "slightly bullish." The forecast turned out to be accurate as the SPX is on track to register a ~1.7% gain on the week. The technicals for all of the majors took a turn in the bull's favor (more on this in the "Technical Take" section below) which was perhaps assisted by this week's lack of economic data. From the data that was reported this week we received further evidence that slack is developing in the labor market (more on this in the "Economic Data, Rates & the Fed" section below). Taking the softer employment data along with evidence from corporate earnings/exec commentary that the consumer is pulling back on spending suggests that the economy may finally be slowing, but to what extent? It's too early to say but the hope from the bulls is that the recent slowing is enough to put inflation down towards the Federal Reserve's target but not slow enough to hurt corporate earnings.

Outlook for Next Week:

At the time of this writing (2:10 p.m. EDT), markets are mixed and have traded within a relatively tight range so far today (DJI + 90 to 39,477, SPX + 6 to 5,220, COMP - 7 to 16,339). While investors appear to be enjoying the recent "cool but not cold" economic data (and subsequent drop in yields), whether this translates into disinflationary pressures is still unknown. Next week we'll get some inflationary data points via Tuesday's Producer Price Index (PPI) and Wednesday's Consumer Price Index (CPI). In addition, on Wednesday we'll get a read on the state of the consumer via April's Retail Sales report. We've been getting some data points that suggest consumer spending is healthy (ex. last month's strong Retail Sales, robust auto sales, cruise vacation demand, etc.) and other data points that suggest belt tightening (ex. earnings results/commentary from McDonald's, Starbucks, Planet Fitness etc.), so April's report will be an important read for the markets. In sum, there are several potential market moving catalysts next week and given that we are roughly 1% below all-time highs in the SPX/COMP, we may be setting up for a push to fresh all-time highs or a break-down if the inflation data comes in hot. Therefore, my forecast for next week is "breakout." I define breakout as a 2% or more move higher or lower in the SPX. What could challenge this outlook? If the inflation and retail sales data come out inline, perhaps the price action will be more in the "consolidation near highs" camp.

Other Potential Market-moving Catalysts:

Economic:

- Tuesday (May 14): Producer Price Index (PPI)
- Wednesday (May 15): Consumer Price Index (CPI), Business Inventories, EIA Crude Oil Inventories, MBA Mortgage Applications Index, NAHB Housing Market Index, Net Long-Term TIC Flows, Retail Sales, Retail Sales ex-auto

- Thursday (May 16): Building Permits, Capacity Utilization, Continuing Claims, EIA Natural Gas Inventories, Export Prices ex-ag, Housing Starts, Import Prices ex-oil, Industrial Production, Initial Jobless Claims

- Friday (May 17): Leading Indicators

Earnings:

- Monday (May 13): Tencent Music Entertainment Group (TME), Fortrea Holdings Inc. (FTRE), StoneCo Ltd. (STNE), Agilysys Inc. (AGYS)

- Tuesday (May 14): Home Depot (HD), Alibaba Group Holding Ltd. (BABA), Sea Ltd. (SE), On Holding AG (ONON), Nextracker Inc. (NXT), DLocal Ltd. (DLO)

- Wednesday (May 15): Dynatrace (DT), Monday.com Ltd. (MNDY), Cisco Systems Inc. (CSCO), ZTO Express (ZTO)

- Thursday (May 16): Walmart Inc. (WMT), Deere & Co. (DE), Baidu Inc. (BIDU), Nice Ltd. (NICE), Applied Materials Inc. (AMAT), Take-Two Interactive Software Inc. (TTWO)

- Friday (May 17): RBC Bearings Inc. (RBC)

Economic Data, Rates & the Fed:

It was an extremely light week regarding the number of economic data points released. However, the two most important reports appear to be conveying some softness in the economy. Regarding the U.S. labor market, we've gotten three data points which are suggesting hiring may finally be cooling off, at least relative to the tight labor market we've been experiencing over the past couple of years: a) last Wednesday's JOLTS (Job Openings) report dropped to a three-year low (8.488M); b) last Friday's 175K increase in Nonfarm Payrolls was the smallest gain in six months, accompanied with an uptick in the Unemployment Rate (from 3.8% to 3.9%); c) this week's Initial Claims figure came in at a nine-month high. It's true that the levels on both the Unemployment Rate and Initial Claims are historically low, but everything is relative and the recent softening in the jobs data bears watching in the coming months. If the Fed believes that current policy is in restrictive territory, then one would think that we would begin to see evidence of that in the data. The labor market has remained tight over the past several years but perhaps we are seeing some early signs that slack is developing.

- **Initial Jobless Claims:** 231K vs. 215K expected, representing the highest figure since August of 2023.

- **University of Michigan Consumer Sentiment Index:** 67.4 vs. 76.0 expected and down from 77.2 in the prior month. May's significant decline represents the largest monthly drop since August of 2021. Within the report, inflation expectations over the next year rose to 3.5% from 3.2% in April while five-year expectations rose to 3.1% from 3.0% in April.

Bond yields are little changed on the week. After hitting a fresh five-month high of 5.046% last week, yields on two-year Treasuries are down to 4.85% this morning while 10-year (TNX) yields are unchanged from last Friday at 4.50%.

Market hopes around the potential for Fed rate cuts saw an uptick this week following the cooler-than-expected monthly jobs report. Coming into the week, the Bloomberg probability of a June rate cut was 12% but has moved up to 15% currently and the July rate cut probability currently stands at 43%, up from 31% at the start of the week. 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 + 2 to 5,216)

Last Friday the SPX closed just below its 50-day Simple Moving Average (SMA) and this week rose firmly above that indicator, which is a bullish development. Prior resistance becomes support and so the 50-day SMA is the first level of support on the downside while the prior all-time high of ~5,264 is the next area of resistance. While the longer-term uptrend in the SPX appears to be intact, the near-term outlook is a little cloudy until one of those lines is crossed. Perhaps next week's inflation data will be enough of a catalyst to push the index either to fresh all-time highs (bullish) or back below the 50-day SMA (bearish). *Near-term technical translation: longer-term bullish, near-term breakout*

Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

Nasdaq Composite Index ($COMP - 37 to 16,319)

Similar to the SPX, the COMP is sandwiched between the 50-day SMA and its prior all-time closing high (16,442) in terms of support and resistance. However, during the month of March and early April the COMP spent a lot of time consolidating around the 16,000-16,400 area, and this week the index exhibited similar behavior. The index traded between 16,197-16,437 this week and came within five points of the all-time closing high (16,442) earlier in today's session, but then reversed course after encountering some selling pressure. This type of behavior suggests the resistance level is valid and therefore puts the COMP in more of a near-term bearish category relative to the SPX. However, if the inflation data is benign next week, and the COMP is able to transcend this zone of resistance it would be a bullish development. *Near-term technical translation: longer-term bullish, near-term breakout*

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. All three indices are higher on the week and all of them saw improvement in market breadth. Compared to last Friday, the SPX (white line) breadth moved down to 77.91% from 72.09%, the COMPX (blue line) increased to 47.88% from 43.89%, and the RUT (red line) improved to 58.62% from 52.70%.

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 (260 today): AstraZeneca PLC (**AZN** - $0.04 to $77.56), Colgate-Palmolive Company (**CL** + $0.64 to $94.72), Crane Company (**CR** + $0.61 to $144.88), Duke Energy Corp. (**DUK** + $0.16 to $103.18), Eaton Corp. (**ETN** - $0.48 to $332.78), Procter & Gamble Company (**PG** + $0.73 to $166.77), Wingstop Inc. (**WING** - $4.31 to $393.47)

This Week's Notable 52-week Lows (81 today): Bumble Inc. (**BMBL** - $0.18 to $11.26), Community Healthcare Trust Inc. (**CHCT** - $0.23 to $24.03), Cracker Barrel (**CBRL** + $1.08 to $54.82), Dine Brands Global Inc. (**DIN** + $0.33 to $43.38), Green Plains Inc. (**GPRE** - $0.68 to $19.51), Mastercraft Boar Holdings Co. (**MCFT** + $0.04 to $20.28), Match Group Inc. (**MTCH** - $0.14 to $30.44), Sony Group Corp. (**SONY** - $2.11 to $75.36)