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TRADING_

Weekly Trader's Outlook

Stocks Rally as Investors Welcome First Rate Cut in Four Years

September 20, 2024 [Nathan Peterson](#)

- Stocks are on track for weekly gains, accompanied by new all-time highs for the S&P and Dow, as investors applaud the Federal Reserve's 50-basis-point rate-cut decision.

The Week That Was

If you read last week's blog you might recall that my outlook for this week was "slightly bullish for the first half of this week and breakout for the back half of this week."

Although Wednesday turned out to be a volatile session, the forecast was essentially accurate as the S&P 500 broke out to a fresh all-time high yesterday. As expected, the highlight of this week was the two-day Federal Open Market Committee (FOMC) which resulted in a 50-basis-point (bp) cut from the Federal Reserve (more on this in the "Economic Data, Rates & the Fed" section below). For the bulls, it's nice to see the Fed back in accommodation mode and stocks hitting fresh highs, but some traders might be left with a feeling of "now what?" The S&P is currently trading at a forward P/E of 21 which suggests that a lot has been priced regarding the bull thesis. For now, perhaps the investor adages, "don't fight the Fed" or "don't fight the trend" are enough to sustain near-term bullish momentum. Aside from the Fed, the economy still appears to be on firm footing (see "Economic Data, Rates & the Fed" section below), and the current FactSet forecast for S&P earnings growth in 2025 is roughly 15%. However, markets

still have to navigate some bearish seasonality over the next couple of weeks and the uncertainty surrounding the upcoming U.S. presidential election.

Outlook for Next Week

At the time of this writing (1:35 p.m. EDT), stocks are recovering off the lows of the day (DJI + 90, SPX - 5, COMP - 35) as markets continue to digest the recent move by the Fed. Next week the earnings and economic calendar is relatively light, outside of next Friday's PCE report, but perhaps this can be conducive for recent bullish momentum (i.e. in the absence of news the path of least resistance is higher). Yes, we are still in the midst of bearish seasonality, but the technicals look encouraging (more on this in the "Technical Take" section below) and today's minor consolidation is relatively bullish given yesterday's rally. As long as the SPX can remain above July's prior all-time closing high (5,667), it feels to me like the path of least resistance is higher.

Therefore, my forecast for next week is "bullish." What could challenge my outlook? On the technical front, an SPX close below 5,667 could introduce concerns of a false breakout to all-time highs, which would likely introduce some additional selling pressure and an overall down week.

Other Potential Market-moving Catalysts:

Economic:

- **Tuesday (Sep. 24):** Consumer Confidence, FHFA Housing Price Index, S&P Case-Shiller Home Price Index
- **Wednesday (Sep. 25):** EIA Crude Oil Inventories, MBA Mortgage Applications Index, New Home Sales
- **Thursday (Sep. 26):** Continuing Claims, Durable Goods Orders, EIA Natural Gas Inventories, GDP - Third Estimate, Initial Claims, Pending Home Sales

- **Friday (Sep. 27):** Advanced International Trade in Goods, Advanced Retail Inventories, Advanced Wholesale Inventories, Personal Consumption Expenditures Price Index (PCE), Personal Income, Personal Spending, University of Michigan Consumer Sentiment - Final

Earnings:

- **Monday (Sep. 23):** AAR Corp. (AIR)
- **Tuesday (Sep. 24):** AutoZone Inc. (AZO), Thor Industries (THO), KB Home (KBH), Progress Software Corp. (PRGS)
- **Wednesday (Sep. 25):** Cintas Corp. (CTAS), Micron Technology Inc. (MU), Jefferies Financial Group Inc. (JEF)
- **Thursday (Sep. 26):** Accenture PLC (ACN), Jabil Inc. (JBL), CarMax Inc. (KMX), Costco Wholesale Corp. (COST), Vail Resorts Inc. (MTN)
- **Friday (Sep. 27):** No earnings reports

Economic Data, Rates & the Fed:

This week's FOMC meeting was the highlight of the week. Here's a summary of the Fed's message to the markets:

- 50-basis-point cut to the Fed funds Rate, which currently stands at 4.75-5.0%.
- The Fed's dot plot suggest an additional 50 bp of cuts in 2024, 100 bp of cuts in 2025 and another 50 bp of cuts in 2026.

- The committee has gained "greater confidence" that inflation is moving towards its 2.0% target, the economy continues to expand at a stable pace.
- However, the Summary of Economic Projections (SEP) included upticks in Unemployment Rate expectations - 0.4 increase this year (4.4% from 4.0%), 0.2 increase in 2025 (4.2% to 4.4%) and a 0.2 increase in 2026 (4.1% to 4.3%).

Outside of Wednesday's FOMC meeting, the other economic data was largely supportive of an economy that is healthy. Here's the breakdown from this week's reports:

- **Retail Sales:** +0.1% in August, better than -0.2% expected and July's was revised 0.1 higher than previously reported to 1.1%. August Retail Sales ex-auto increased 0.1% versus the +0.2% expected.
- **Industrial Production:** +0.8%, which was above the +0.2% expected and a sharp rebound from last month's -0.9%.
- **Initial Jobless Claims:** 219K, below the 230K expected and below the (upwardly revised) 231K in the prior week. Continuing Claims came in at 1.829M, below the 1.854M expected and down from 1.843M last week.
- **Philadelphia Fed Index:** 1.7, above the -3.0 expected and better than the -7.0 in the prior month.
- **The Atlanta Fed's GDPNow forecast** for Q3 was slightly revised down to 2.9% on September 18th from 3.0% on September 17th.

Despite the Fed's 50 bp cut, U.S. Treasury yields moved up this week, perhaps in an attempt to price in higher growth or inflation down the line. Two-year Treasury yields are

up slightly to 3.612% versus 3.587% last Friday and 10-year Treasury yields are up ~10 basis points to 3.745% from 3.65% last Friday.

Perhaps unsurprisingly, markets still appear to be expecting the Fed to lower rates more than what the Fed has communicated via the median projections in the dot plot.

Currently, Bloomberg probabilities are suggesting expectations for an additional 75 bp of cuts this year vs. the Fed's forecast for 50 bp. Having said that, looking back at the volatility of revisions in both Fed and market expectations over the past couple of years suggest that these figures be taken with a grain of salt.

Technical Take

S&P 500 Index (SPX - 12 to 5,701)

The S&P 500 (SPX) has been in a bit of a roller coaster ride over the past two months due to a combination of growth concerns and bearish seasonality but was finally able to notch a fresh all-time closing high yesterday. While still firmly in an uptrend, the SPX appeared to have a lot of difficulty breaking above the prior all-time closing high back on July 16th (5,667), which could have been related to valuation (forward P/E = 21) or a "wait to hear from the Fed" mentality. Breaking out to a fresh all-time high is certainly bullish, technically speaking, but I believe it's important for the index to either move higher or at a minimum consolidate above the prior all-time closing high over the next week or so for bullish confirmation. If the index were to drop back below that level perhaps the price action could be interpreted as a "head fake" by traders. *Near-term technical translation: slightly bullish, provided the index remains above 5,667*



Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

Nasdaq 100 Index (NDX - 42 to 19,797)

Following a two-month period of consolidation, which resulted in a pennant pattern on the charts, the Nasdaq 100 (NDX) appears to have resolved to the upside, which is a bullish development. The pennant pattern is considered a "bullish pennant" since it was preceded by a longer-term uptrend. Furthermore, it was encouraging to see yesterday's relative outperformance (+2.55%) among the other majors. Outside of some potential upside resistance around 20,000, which was roughly the high from June and again in mid-August, the next major hurdle to clear is the prior all-time closing high of 20,675. *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. In short, stocks had an up week and there was a corresponding expansion in breadth. One note though, while the SPX hit fresh all-time highs this week, market breadth on the index is roughly 5% below the 52-week high hit back in March. On a week-over-week basis, the SPX (white line) breadth jumped to 80.20% from 72.00%, the CCMP (blue line) moved up to 47.23% from 42.80%, and the RTY (red line) increased to 62.90% 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 (91 today): American Express Company (AXP - \$0.47 to \$268.28), Eastman Chemical Company (EMN - \$2.19 to \$106.08), Lennar Corp. (LEN - \$8.85 to \$183.60), Meta Platforms Inc. (META + \$1.73 to \$560.83), Sherwin-Williams Company (SHW - \$3.34 to \$376.40), Zillow Group Inc. (ZG - \$0.69 to \$65.10)

***This Week's Notable 52-week Lows (42 today):* America's Car Mart Inc. (CRMT - \$0.25 to \$42.87), Atlas Lithium Corp. (ATLX - \$0.80 to \$7.10), BioMarin Pharmaceuticals Inc. (BMRN + \$0.02 to \$71.43), Boeing Co. (BA - \$1.06 to \$153.53), Mullen Automotive Inc. (MULN + \$0.58 to \$8.27), Progyny Inc. (PGNY + \$0.11 to \$16.57)**