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TRADING_

Weekly Trader's Outlook

Stocks Remain in Melt-up Mode

September 27, 2024 [Nathan Peterson](#)

- Stocks are on track for weekly gains, accompanied by new all-time highs for the S&P and Dow, as investors ride recent bullish momentum.

The Week That Was

If you read last week's blog you might recall that my outlook for this week was "bullish." At the time of this writing the S&P 500 (SPX) and Dow Jones (DJI) are up roughly 1.0% on the week, so a "slightly bullish" forecast would have been more accurate. Nevertheless, despite bearish seasonality, stocks have still been able to melt higher into all-time-high territory. One of the main factors helping the bullish thesis is the encouraging economic data (see "Economic Data, Rates & the Fed" section below). Another contributing factor this week was a series of stimulus measures that were launched by the Chinese government to help them achieve year-end-growth targets. China stocks recorded one of the largest weekly gains on record following the news. In the U.S., several industries that potentially benefit from China's stimulus plan, such as materials and industrials, outperformed this week. While stock valuations are fully priced, as long as the economic data continues to support the case for a soft-to-(potentially) no landing, it seems the path of least resistance continues to be higher. However, the bulls will likely need Q3 earnings, which start in about two weeks, to come

in relatively strong to support current valuations. The current FactSet estimate for Q3 earnings growth is +3.8%, which is down from the +7.8% estimate at the start of the quarter (June 30th).

Outlook for Next Week

At the time of this writing (1:10 p.m. ET), stocks are off the highs of the day (DJI + 167, SPX - 4, COMP - 54) as markets appear to be digesting some of the weekly gains. The Russell 2000 is still 0.75% higher, but it bears watching as the index appeared to be breaking out of a bull flag formation earlier today (see "Technical Take" section below). If the RUT is able to clear its prior 52-week high from back in July, this could shift the "rotation trade" into a higher gear and would likely be viewed as a bullish confirmation for the overall economy. Next week we only have a few off-schedule earnings reports (though Dow-component Nike reports on Tuesday), so the focus will likely remain on the economic data. Friday's monthly jobs data will be the highlight, but Tuesday's JOLTS report will provide an important read on the labor market as well. The S&P sold off following the release of the last two monthly jobs reports (-1.8% & -1.7% respectively), so while I don't have a sense of whether the data will be strong/weak this time around, above-average volatility (either higher or lower) is expected. In the days leading up to Friday's report however, I don't expect a lot of movement either higher or lower. Therefore, my forecast for next week is "neutral to slightly bullish" for the first four days of the week, and "breakout" on Friday. I define "breakout" as a >1.0% move, either higher or lower, in the SPX. What could challenge my outlook? There is an upcoming negotiation deadline (Monday at midnight) between East Coast dock worker unions and terminal operators which could result in a strike. If the dock workers end up striking, this *could* put some selling pressure on stocks because of the potential inflationary impact on goods prices.

Other Potential Market-moving Catalysts:

Economic:

- **Monday (Sep. 30):** Chicago PMI
- **Tuesday (Oct. 1):** Construction Spending, ISM Manufacturing Index, JOLTS – Job Openings, S&P global US Manufacturing PMI
- **Wednesday (Oct. 2):** ADP Employment change, EIA Crude Oil Inventories. MBA Mortgage Applications Index
- **Thursday (Oct. 3):** Continuing Claims, EIA Natural Gas Inventories, Factory Orders, Initial Claims, ISM Non-Manufacturing Index, S&P Global US Services PMI
- **Friday (Oct. 4):** Nonfarm Payrolls, Average Workweek, Average Hourly Earnings, Unemployment Rate

Earnings:

- **Monday (Sep. 30):** Carnival Corp. (CCL)
- **Tuesday (Oct. 1):** Paychex Inc. (PAYX), McCormick & Company Inc. (MKC), Acuity Brands Inc. (AYI), Uniter Natural Foods (UNFI), Nike Inc. (NKE), Lamb Weston Holdings (LW), Cal-Maine Foods Inc. (CALM)
- **Wednesday (Oct. 2):** RPM International Inc. (RPM), Conagra Brands (CAG), Levi Strauss & Co. (LEVI)
- **Thursday (Oct. 3):** Constellation Brands Inc. (STZ), AngioDynamics Inc. (ANGO)
- **Friday (Oct. 4):** Apogee Enterprises Inc. (APOG)

Economic Data, Rates & the Fed:

This week's economic data was mostly bullish for equity markets: this morning's inflation data helps support the case that inflation is on track toward the Fed's 2.0% target; jobless claims continue to come in below estimates; and GDP estimates point to a healthy economy. Here's the breakdown from this week's reports:

- **PCE Prices:** Headline month-over-month (MoM) came in at 0.1%, in line with estimates, bringing the headline year-over-year (YoY) figure to 2.2%, which is the lowest annual increase since February 2021. Core PCE rose 0.1% MoM, below the +0.2% expected, with Core PCE YoY coming in at 2.7%, in line with analyst expectations.
- **S&P Global Flash US Composite PMI:** fell to a two-month low of 54.4 from 54.6 in the prior month. Within the report, Services Business Activity fell to a two-month low of 55.4 from 55.7 and Manufacturing PMI fell to a 15-month low of 47.0 from 47.9. A reading of 50 for both indexes is the demarcation point between expansion and contraction.
- **Consumer Confidence:** Dropped 6.9 points from August to 98.7, well below the 104.0 economists had expected. The 98.7 reading is at a three-year low and the month-over-month decline was the largest drop since August of 2021.
- **GDP - Third Estimate:** 3.0%, slightly above the 2.9% expected.
Initial Jobless Claims: Came in at a four-month low of 218K and was below the 225K expected. Continuing Claims came in at 1.834M, below the 1.838M expected but up from 1.829M last week.
- **The Atlanta Fed's GDPNow** forecast for Q3 was revised upward to 3.1% today from 2.9% on September 18th.

Bond yields mostly held steady this week with most increases being seen on the long end of the curve. 30-year Treasury yields increased three basis points (bps) to 4.117%, while two-year yields (3.594% vs. 3.597%) and 10-year yields (3.752% vs. 3.742%) are virtually unchanged.

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.

Technical Take

Russell 2000 Index (RUT + 30 to 2,240)

Those who have been wondering when the small caps are going to fully participate in the rotation trade may get an answer soon. First thing to note is that the index is exhibiting some relative strength today (+1.4%). Next, it looks like we've got a bull flag formation on the chart. Technically, confirmation occurs on this bullish continuation pattern when the price moves above the upper boundary on heavy volume. While we can't measure volume on this index (though IWM volume looks average at the time of this writing), it looks like it is on track to break out above the upper boundary. Now, the index appears to be set up for a test of near-term resistance around the July highs, roughly 2,260-2,280. If the RUT can clear that area this would technically help validate that the rotation trade is on. *Near-term technical translation: slightly bullish, fully bullish if July highs are cleared.*



Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

Nasdaq 100 Index (NDX - 50 to 20,065)

Money flow into the tech space continued this week as the Nasdaq 100 (NDX) tacked on a 1.4% gain this week. Perhaps more importantly from a technical perspective, the index moved above near-term resistance at the August high. Looking at the two red candles on the right side of the chart, it's possible that we pull back and test that August high (19,983), but it's also possible that a "bull flag" may be forming on the charts. Regardless, assuming the index remains above the August high the recent price action looks bullish in my view. *Near-term technical translation: bullish*



Source: ThinkorSwim trading platform

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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. Stocks are higher on the week, but market breadth contracted. On a week-over-week basis, the SPX (white line) breadth ticked down to 79.40% from 80.20%, the CCMP (blue line) dropped to 45.57% from 47.23%, and the RTY (red line) decreased to 58.85% from 62.90%.



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 (86 today): Arista Networks Inc. (ANET - \$5.90 to \$380.40), Caterpillar Inc. (CAT + \$0.20 to \$391.16), Cintas Corp. (CTAS - \$2.98 to \$204.03), Meta Platforms Inc. (META - \$0.08 to \$567.76), Royal Caribbean Cruises Ltd. (RCL - \$2.48 to \$180.32), T-Mobile US Inc. (TMUS + \$0.51 to \$203.76)

This Week's Notable 52-week Lows (12 today): Celsius Holdings Inc. (CELH + \$0.93 to \$32.25), Concentrix Corp. (CNXC + \$0.74 to \$52.28), Devon Energy Corp. (DVN + \$0.60 to \$38.47), Matador Resources Company (MTDR + \$1.36 to \$48.76), Murphy Oil Corp. (MUR + \$0.76 to \$33.55), Ovintiv Inc. (OVV + \$1.07 to \$38.07)