



# Weekly Trader's Outlook

Down Week for Stocks, Driven by Rising Yields

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The S&P 500 is on track to post weekly losses for the first time in seven weeks as rising bond yields trigger some modest profit taking in stocks.

## The Week That Was

If you read last week's blog you might recall that my outlook for this week was "slightly bullish," noting that lackluster earnings reports could challenge my view. My outlook turned out to be wrong as the S&P 500 is down ~0.4% on the week, but the culprit wasn't earnings. The selling pressure, albeit modest, was primarily driven by rising bond yields. Yields have been on the rise recently, mostly driven by strong economic data and higher treasury issuance expectations. Regarding Q3 earnings, 183 of the S&P 500 companies have reported so far, and revenue growth is currently tracking at 3.88% while earnings growth is currently only 3.59%. However, FactSet is currently forecasting 14% EPS growth for Q4 and 15.1% for 2025 which markets may be more focused on. On the economic front, the IMF increased its 2024 U.S. growth forecast by 0.2% to 2.8% on Tuesday, Initial Claims continue to trend lower, and several other reports provided further evidence of a healthy economy (more on this in the "Economic Data, Rates & the Fed" section below).

## Outlook for Next Week

At the time of this writing (1:00 p.m. ET), all the major indices are trading near the lows of the session (DJI - 260, SPX + 2, COMP + 123), which isn't bullish price action. I don't see any intraday bearish catalysts to explain the midday pullback. However, Election Day is just 11 days away and I've been wondering if at some point traders start reducing exposure ahead of the election, given the near 7% rally in the S&P over the last seven weeks. It's tough to say whether any of today's selling is related to that hypothesis, or whether any kind of a pullback occurs prior to Election Day, but it's a possibility. Next week five mega-cap tech companies will be reporting earnings, so the potential for intra-week volatility is there. Another market moving force has been the recent swift rise in bond yields. If yields continue to move higher next week this could generate selling pressure, regardless of mega-cap tech earnings. And let's not forget about the monthly jobs report on Friday which usually translates into a larger than average daily move. From a technical perspective, uptrends largely remain intact, though it looks like the COMP is not going to register a fresh all-time closing high today (More on this in the "Technical Take"). I don't know where yields are going next week, and I'm not sure whether mega-cap tech will deliver on results, but I do think some pre-election selling late next week is a possibility, along with higher volatility. Therefore, my overall forecast for next week is "slightly bearish and volatile." What could challenge my outlook? If bond yields retreat or mega-cap tech delivers exceptional earnings results, stocks will likely rally.

### **Other Potential Market-moving Catalysts:**

#### **Economic:**

- Monday (10/28): -no reports-
- Tuesday (10/29): Consumer Confidence, FHFA Housing Price Index, S&P Case-Shiller Home Price Index

- Wednesday (10/30): ADP Employment Change, Advanced International Trade in Goods, Advanced Retail Inventories, Advanced Wholesale Inventories, EIA Crude Oil Inventories, Q3 GDP – Advanced, MBA Mortgage Applications Index, Pending Home Sales
- Thursday (10/31): Continuing Claims, EIA Natural Gas Inventories, Employment Cost Index, Initial Claims, PCE Prices, Personal Income, Personal Spending
- Friday (11/1): Nonfarm Payrolls, Average Workweek, Average Hourly Earnings, Unemployment Rate, ISM Manufacturing Index

### **Earnings:**

- Monday (10/28): ON Semiconductor (ON), CenterPoint Energy (CNP), Waste Management (WM), Welltower (WELL), Cadence Design Systems (CDNS), Ford Motor Co. (F), SBA Communications (SBAC), F5 Inc. (FFIV), Crane Co. (CR)
- Tuesday (10/29): Novartis (NVS), McDonald's Corp. (MCD), Pfizer (PFE), American Tower Corp. (AMT), BP PLC (BP), PayPal Holdings (PYPL), D.R. Horton (DHI), Alphabet (GOOGL), Visa (V), Advanced Micro Devices (AMD), Stryker Corp. (SYK), Chubb Ltd. (CB), Chipotle Mexican Grill (CMG)
- Wednesday (10/30): Eli Lilly & Co. (LLY), AbbVie (ABBV), Caterpillar (CAT), Automatic Data Processing (ADP), Trade Technologies (TT), Microsoft Corp. (MSFT), Meta Platforms (META), Amgen (AMGN), Booking Holdings (BKNG), Starbucks (SBUX), KLA Corp. (KLAC), Aflac (AFL)
- Thursday (10/31): Mastercard Inc. (MA), Merck & Co. (MRK), Line PLC (LIN), Uber Technologies (UBER), Eaton Corp. (ETN), ConocoPhillips (COP), Apple Inc. (AAPL), Amazon.com Inc. (AMZN), Intel corp. (INTC), Atlassian Corp. (TEAM)

- Friday (11/1): Exxon Mobil Corp. (XOM), Chevron Corp. (CVX), Enbridge (ENB), Dominion Energy (D), Charter Communications (CHTR), Cardinal Health (CAH)

## Economic Data, Rates & the Fed:

The economic calendar was relatively light this week, but the data was relatively firm and continues to suggest the economy is holding up well. The International Monetary Fund (IMF) seems to agree as the organization increased its 2024 U.S. growth forecast by 0.2% to 2.8% on Tuesday, citing strong consumption due to rising wages and asset prices. Regarding the labor market, Initial Jobless Claims continued the recent string of coming in below estimates, though Continuing Claims are near a three-year high. Perhaps this suggests that those who are receiving unemployment benefits are having difficulty landing a new job. Here's the breakdown from this week's reports:

- S&P Global Flash US Manufacturing PMI: 47.8, up slightly from 47.3 in the prior month and representing a two-month high.
- S&P Global Flash US Services PMI: 55.3, up slightly from 55.2 in the prior month and representing a two-month high.
- New Home Sales: 738K, up from 709K in the prior month and well above the 710K expected.
- Durable Goods Orders: headline came in at +0.4%, above the 0.0% est, and Durable Goods ex-transportation came in at -0.8%, better than the -1.0% expected.
- Initial Jobless Claims: 227K, down 15K from the prior week and below the 235K economists had expected. However, Continuing Claims came in at 1.897M which represents the highest level since November of 2021.

- The Atlanta Fed's GDPNow forecast for Q3 was revised slightly lower to 3.3% today from 3.4% on October 18th.

Bond yields are continued to see some lift this week, driven by expectations for a strong U.S. economy. Two-year Treasury yields are currently 4.07%, up 12 basis points from 3.95% and 10-year yields are currently 4.212%, up from 4.073% (both week-over-week).

The stronger than expected economic data over the past month will likely translate into a more patient Federal Reserve stance, but investors seem to be ok with tempered rate cut expectations assuming it is due to a strong economy versus re-inflationary trends. Currently, Bloomberg probabilities are suggesting 50 basis points of cuts this year and a total of 125 basis points through 2025. However, back in mid-September the probabilities were suggesting roughly 175 basis points of cuts through 2025.

## Technical Take

### Nasdaq Composite Index (NDX + 241 to 18,656)

The Nasdaq Composite was a relative outperformer this week and is testing all-time highs today. Although there are still three hours left in the trading session at the time of this writing, a fresh all-time closing high would be bullish for tech. Strong earnings results from Tesla and ServiceNow, along with fresh all-time highs in Nvidia this week likely gave a boost to sentiment around tech. And perhaps investors are feeling more confident about meg-cap tech earnings as five out of the "Magnificent 7" are reporting next week. *Near-term technical translation: bullish*



Source: ThinkorSwim trading platform

**Past performance is no guarantee of future results.**

Russell 2000 Index (RUT + 4 to 2,222)

The Russell 2000 was the relative underperformer this week, and higher yields are the culprit. Last Wednesday (October 16th) the index finally notched a fresh two-year closing high, but subsequently turned lower as 10-year yields moved up 20 basis points since that day. The good news for the bulls is that the uptrend which began in early August remains intact, but the index could be challenged if bond yields continue to push higher. Assuming yields behave, since the RUT is near the bottom trend line of the channel, the bulls get the nod from a technical perspective. *Near-term technical translation: slightly bullish*



Source: ThinkorSwim trading platform

**Past performance is no guarantee of future results.**

## Market Breadth:

The Bloomberg chart below shows the current % of members within the S&P 500 (SPX), Nasdaq Composite (CCMP) & Russell 2000 (RTY) that are trading above their respective 200-day Simple Moving Averages. Stocks are little changed this week, but market breadth contracted underneath the surface. On a week-over-week basis, the SPX (white line) breadth dropped to 73.15% from 79.36%, the CCMP (blue line) declined to 45.86% from 47.95%, and the RTY (red line) moved down to 57.53% from 62.16%.



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, % 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 (83 today): Agnico-Eagle Mines Ltd. (AEM - \$1.02 to \$86.91), Cava Group Inc. (CAVA + \$1.25 to \$139.90), Dominion Energy Inc. (D - \$0.19 to \$60.57), Nvidia Corp. (NVDA + \$2.70 to \$143.11), Stride Inc. (LRN - \$0.70 to \$91.62), Sharkninja Inc. (SN + \$1.37 to \$109.16)***

***This Week's Notable 52-week Lows (21 today): Centene Corp. (CNC + \$6.86 to \$68.48), Concentrix Corp. (CNXC - \$0.96 to \$44.84), Guess Inc. (GES - \$0.09 to***



**\$17.77), Moderna Inc. (MRNA + \$0.77 to \$53.57), Nexttracker Inc. (NXT + \$0.54 to \$31.83), Polaris Inc. (PII + \$1.11 to \$71.86)**