# CHARLES SCHWAB

TRADING

# Weekly Trader's Outlook

## Stocks Post Best Weekly Gain of 2024 Following U.S. Elections


November 8, 2024

Nathan Peterson


The S&P 500 is on track to post the largest weekly gain this year as markets interpret this week's U.S. election results as a boon for corporate earnings.

## The Week That Was

If you read last week's blog you might recall that my outlook for this week was "volatile and bearish," citing the potential to have a drawn-out election process and/or the potential to get a more hawkish Federal Reserve tone than what markets were expecting. My forecast turned out to be decidedly wrong, as Trump was declared the winner Wednesday morning, stocks surged, and the Fed didn't deliver any hawkish surprises out of the Federal Open Market Committee (FOMC) meeting. On the week the S&P 500 (SPX) is on track to post its best weekly gain of the year, as markets view the (presumably) pro-business policies from the Trump administration as fertile ground for corporate profits. What's interesting about the near-term bullish narrative (pro-business administration, friendly Fed, corporate earnings expansion, bullish technicals, bullish seasonality) is that it has translated into a significant uptrend in bond yields (ex.- yields on the 10-year are up 70 basis points since the mid-September low of ~3.60%), but that hasn't deterred "risk-on" money flow. Given the historically high forward P/E of 22 on the SPX, corporations will need to deliver on the bottom line, and so far, they have.

Regarding third quarter earnings, the SPX has posted 5% revenue growth and 7% EPS growth thus far (~90% done). Further out, FactSet is forecasting 13.4% EPS growth in Q4 and 15.2% EPS growth in 2025. Bond yields could continue to rise in the coming months, and we don't know if the EPS growth forecasts will turn out to be accurate, but in the meantime, it seems the bulls remain in control.

## Outlook for Next Week

At the time of this writing (2:30 PM ET), all the major indices are trading higher and near the highs of the day (DJI + 360, SPX + 35, COMP + 42). Additionally, the SPX is currently above the 6,000 level, so perhaps this psychologically significant large round number won't pose as near-term resistance (more on this in the "Technical Take" section below). From a near-term bullish perspective, new all-time highs are bullish, and we haven't yet seen any evidence that the post-election rally is exhausted, at least not yet. The bearish view would likely cite a near-term overbought technical status and a valuation that has become even more stretched. Next week we still have some important Q3 earnings reports, and we'll also get the October Consumer Price Index (CPI) and Producer Price Index (PPI) inflation reports. If history is any guide, it shouldn't be a surprise if we get some "back and fill" price action (consolidation of gains) from this week's surge in stocks, but the timing is difficult if not impossible to predict. Today's price action suggests to me that the post-election upside momentum is still in play, which bodes well for stocks, at least for the first half of next week. Should that occur, I'm just not sure if there is enough gas in the tank to continue to push higher, and the CPI/PPI has the potential to create a "profit taking" excuse, regardless of the data, given the recent rally. Therefore, my forecast for next week is "bullish for the first half of the week and slightly bearish for the back half." What could challenge my outlook? Persistent post-election bullish momentum.

**Other Potential Market-moving Catalysts:**

**Economic:**

- Monday (11/11): No reports
- Tuesday (11/12): NFIB Small Business Optimism
- Wednesday (11/13): Consumer Price Index (CPI), Core CPI, EIA Crude Oil Inventories, MBA Mortgage Applications Index, Treasury Budget
- Thursday (11/14): Continuing Claims, Producer Price Index (PPI), core PPI, EIA Natural Gas Inventories, Initial Claims
- Friday (11/15): Business Inventories, Capacity Utilization, Export Prices, Import Prices, Industrial Production, NY Fed Empire State Manufacturing, Retail Sales

**Earnings:**

- Monday (11/11): Monday.com Ltd. (MNDY), Zeta Global Holdings Corp. (ZETA), Assured Guaranty Ltd. (AGO)
- Tuesday (11/12): Home Depot Inc. (HD), AstraZeneca (AZN), Sea Ltd. (SE), Live Nation Entertainment Inc. (LYV), Tyson Foods (TSN), On Holdings (ONON), Spotify Technology SA (SPOT), Suncor Energy, Occidental Petroleum (OXY), Cava Group (CAVA)
- Wednesday (11/13): CyberArk Software Ltd. (CYBR), Cisco Systems Inc. (CSCO), Tetra Tech Inc. (TTEK), Helmerich and Payne Inc. (HP)
- Thursday (11/14): Walt Disney Co. (DIS), JD.com Inc. (JD), NetEase Inc. (NTES), Applied Materials (AMAT), Post Holdings (POST)
- Friday (11/15): Alibaba Group (BABA), Spectrum Brands Holdings (SPB)

# Economic Data, Rates & the Fed:

This week there was an FOMC meeting, but it didn't contain a lot of surprises. As expected, the Fed delivered a 25-basis-point cut, noting that the economy remains firm. While the Fed acknowledged that inflation has made progress towards the Committee's 2.0% objective, it remains "somewhat elevated." The rate-cut probabilities have been trending towards a "higher for longer" stance over the past month, and generally that trend remains intact. Outside of the Fed, Services data continued to remain strong and weekly Claims data remained relatively subdued. Here's the breakdown from this week's reports:

- **FOMC Rate Decision:** The Fed lowered the Fed Funds Rate down 25 basis points, from 4.75-5.00% to 4.50-4.75%.

- **ISM Services PMI:** registered 56.0% in the month of October, 1.1% higher than the prior month and above the 53.8% expected. October's reading is the highest since July of 2022.

- **S&P Global US Services PMI:** came in at 55.3 in October, up a tick from 55.2 in the prior month. This represented the strongest expansion since March of 2022. (Note: A reading above 50.0 represents economic expansion while below 50.0 indicates contraction).

- **Unit Labor Costs:** rose 1.9% in the July-September quarter, following a +2.4% advance in the prior quarter. On a year-over-year basis labor costs increased 3.4%.

- **Consumer Confidence:** rose to 108.7 from an upwardly revised 99.2 reading in the prior month, and well above the 99.5 economists had expected.

- **Initial Jobless Claims:** 221K, up 3K from the prior week but in-line with economists' expectations. Continuing Claims climbed to 1.892M from 1.862M last week, representing the highest level since November 2021.

- **The Atlanta Fed's GDPNow** forecast for Q3 was revised slightly higher to 2.5% yesterday from 2.4% on November 5th.

Bond yields jumped to multi-month highs on Wednesday following the election results but have subsequently pulled back from that pop. On a week-over-week basis, two-year Treasury yields are up ~2 basis points to 4.237% from 4.212% while 10-year yields are currently down ~5 basis points to 4.312% from 4.361.

As mentioned above, expectations around future Fed rate cuts continued to come in this week. Currently, Bloomberg probabilities are suggesting a 67% chance of a 25-basis-point cut at the December FOMC meeting, down from 85% last Friday. Looking further out in time, probabilities are now suggesting 75 basis points of cuts between now and the end of 2025 versus 100 to 125 basis points of cuts last Friday.

## Technical Take

### S&P 500 Index (SPX + 26 to 5,999)

The S&P 500 index (SPX) is continuing to see post-election upside bias today and the index is up ~4.7% on the week, at least at the time of this writing. While the RSI isn't flashing an overbought signal (generally 70+ being considered overbought), this momentum indicator moved from the mid-40s to the current level of 69, which is a considerable move. Additionally, the index has been hesitant today around the 6,000 level, and this type of behavior is not uncommon when an index approaches large round numbers like this. When the SPX first rose above the 5,000 level back in February of this year, it encountered some mild resistance over the following week but was then able to transcend it and maintain the uptrend that started in late October of 2023. Therefore, given the velocity of this week's rally, coupled with the potential for hesitant price action at the 6,000 level, the setup for next week leans cautious in my view. *Near-term technical translation: slightly bearish*


Source: ThinkorSwim trading platform

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

## Russell 2000 Index (RUT + 12 to 2,395)

What's impressive about the (usually) rate-sensitive Russell 2000 index (RUT) was that it gapped up 5.8% to fresh two-year highs on Wednesday despite a corresponding significant jump in bond yields. Furthermore, the index has held its ground, with only some minor consolidation following that move, which is characteristically bullish price action. The only near-term orange flag is that the Russell's RSI is currently sitting at a slightly warm (overbought) level of 72. *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) and Russell 2000 (RTY) that are trading above their respective 200-day Simple Moving Averages. As you might suspect, market breadth expanded significantly this week following the rally in stocks. On a week-over-week basis, the SPX (white line) breadth lifted to 75.15% from 69.74%, the CCMP (blue line) moved up to 50.83% from 45.13%, and the RTY (red line) jumped to 66.74% from 55.43%.


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 (267 today):*** **AppLovin Corp. (APP + $15.26 to $261.79), Expedia Group Inc. (EXPE + $10.40 to $184.53), Gartner Inc. (IT + $2.31 to $543.06), Tesla Inc. (TSLA + $6.75 to $303.66), Upstart Holdings Inc. (UPST + $15.64 to $71.11), Zillow Group Inc. (Z - $1.40 to $71.23)**

***This Week's Notable 52-week Lows (94 today):*** **AMN Healthcare Services Inc. (AMN - $0.30 to $42.21), APA Corp. Inc. (APA - $0.15 to $21.78), Celanese Corp. (CE - $1.75 to $87.97), Dollar General Corp. (DG - $0.37 to $77.70), Enphase Energy Inc. (ENPH - $3.93 to $67.66), Teleflex Inc. (TFX + $0.76 to $198.79)**