Weekly Market Perspectives

May 9, 2022

Anthony Saglimbene
Global Market Strategist
Ameriprise Financial

"Now that the earnings season is winding down, the main takeaway from Q1 reports is that company fundamentals remain strong. It's just no one cares right now. Frankly, companies have little incentive to provide overly optimistic outlooks in this environment."

Volatility Likely to Remain Elevated as Stocks Reset

Stocks finished last week modestly lower. However, performance across the major U.S. averages significantly masks the rollercoaster ride equities traveled following last Wednesday's Federal Reserve meeting. The S&P 500® Index ended lower by 0.2% for the week, while the NASDAQ Composite finished off 1.5%. The S&P 500's current five-week losing streak is a first since 2011, and for the NASDAQ, its five-week slide marks the most consecutive down weeks since 2012. In fact, the NASDAQ Composite has lost at least 1.0% over the last five weeks — the first time that's happened since 2002. Notably, the S&P 500 has returned to levels last seen in May 2021.

While there has been a confluence of factors weighing on stock prices this year, last week's Fed policy meeting contributed to kicking up more dust in the face of investors. As expected, the Federal Reserve's FOMC lifted its Fed funds target rate by 50 basis points and detailed its plans to reduce its nearly $9 trillion balance sheet starting in June. Mr. Powell, in his press conference, dismissed the idea of the need for a 75-basis point move, which investors were growing more fearful of, yet he indicated additional 50 basis point hikes are on the table.

Stock prices rallied on Wednesday in a sigh of relief that the Fed didn't move more aggressively, and importantly, the FOMC is not actively looking to do so over the near term. On Wednesday, the S&P 500 logged its best day since May 2020. However, the S&P 500 and NASDAQ reversed course on Thursday, suffering some of their worst declines since June 2020. Both indexes continued their slide lower on Friday. Unfortunately, market technicals remain weak, momentum is weak, and there is a shortage of catalysts to motivate buyers. As it stands today, that backdrop is unlikely to change over the near term, given the Fed is tightening policy aggressively.

Investors now largely expect the Federal Reserve to raise its Fed funds target rate by 50 basis points at their June and July meetings in an attempt to get on top of elevated inflation. As a result, interest rates are spiking higher, which contributed to pressuring stocks (particularly in high-growth areas) in the back half of the week. The 30-year U.S. Treasury yield surged 27 basis points on the week, while the 10-year U.S. Treasury yield shot up 24 basis points. Both 30-year and 10-year yields pushed materially above 3.0% last week and currently sit at their highest levels since late 2018.

Volatility Likely to Be Elevated as Investors and the Markets Reset

We believe the stock market might continue to churn until equities move from traders' hands to longer-term investors willing to own stocks. During these transition periods, market volatility is often elevated. And that volatility remains elevated until a floor is found, and where longer-term owners of equities believe the risk is worth the reward. When precisely does the market reach that state of seller's exhaustion? And at what levels? It remains to be seen. We only know that history suggests stocks in aggregate should eventually reach a capitulation point and allow longer-term investors a solid entry point, which should help change the market narrative over time.

Below are some points to consider:

• Bullish sentiment currently sits at some of the weakest levels in 50 years. The only good thing we can say about investor sentiment at the moment is that when there is this much doom and gloom about future stock returns, forward returns over the next year tend to be outsized versus history.

- The COVID-19 rally bubble has been bursting under the surface for some time now. Within the growth-dominated NASDAQ Composite, nearly 50% of the stocks in the Index are down 50% or more from their 52-week highs as of May 6th. Three-quarters of NASDAQ constituents are down 20% or more from their highs, while a whopping 30% of the Index is down 70% or more from their 52-week highs. As Bespoke Investment Group recently noted, the average NASDAQ stock is 46.5% below its 52-week high. So, if investors are looking for stocks on sale, they'll likely find quite a few opportunities within the NASDAQ today.
- With that said, bubbles can take time to burst. Stocks can also overcorrect to the downside following rapid and powerful upswings. Although the S&P 500's price-to-earnings ratio moving back down to its 10-year average and 80% of Russell 2000 Index constituents currently sitting below their 200-day moving average demonstrate broader signs of a bubble bursting, one should not be surprised if near-term selling pressure intensifies from here. Investors should lean on sound investment advice during these periods of volatility and ensure their portfolios have ample exposure to high-quality investments.
- Now that the earnings season is winding down, the main takeaway from Q1 reports is that company fundamentals remain strong. It's just no one cares right now. Frankly, companies have little incentive to provide overly optimistic outlooks in this environment. Instead, companies can take less risk by giving conservative guidance, which still is weighing on sentiment. In our view, investors are largely underappreciating the still strong corporate backdrop, which should remain solid in Q2.
- Job growth in the U.S. remains robust and should support still healthy consumer trends this year. The U.S. economy added another +428,000 jobs in April, on top of the +428,000 jobs created in March. As a result, nonfarm payrolls have now recovered nearly 95% of the jobs lost in March and April of 2020. In addition, hours worked climbed to a new all-time high in April, recovering nearly +102% of the pandemic drop. And while the pace of job growth is slowing from its post-pandemic tear, a tight labor market, low unemployment (3.6% in April), and healthy wages are signs the consumer stands on solid footing today.

Bottom line: There may be more room for speculation to wash out of stocks over the coming weeks and months, notably if rates climb higher. This could keep overall market volatility elevated and impose some risk of collateral damage to the broader market. But as hard as it is to stomach today, washing out most of the excessive market speculation is necessary for returning to a healthy, more stable investing environment. In our view, investors should be thinking less about how much further stocks have to fall at this point and more about what might prompt a positive change in momentum and if their portfolio is positioned correctly for that change. In our view, that shift in sentiment could occur once investors have a better grip on when the pace of inflation might slow and when the Fed might stop hiking interest rates.

Investors Look for Any Sign that Inflation is Easing; 22 Companies Report Q1 Earnings this Week

Looking ahead, April reports on consumer and producer price inflation will be the week's economic highlights. Simply, investors will be looking for signs of peak inflation in both reports. The Consumer Price Index (CPI) is expected to moderate lower in April on a month-over-month and year-over-year basis. FactSet estimates see headline April CPI growing by +0.2% m/m and following the +1.2% m/m pace in March. On a y/y basis, headline CPI is expected to fall to a still very elevated +8.1% level in April versus +8.5% in March. Lower gasoline prices last month are expected to be a heavy contributor to slowing the pace of headline CPI. Core CPI (excluding food and energy) is expected to moderate on a y/y basis but remain elevated on an m/m basis. Similarly, inflation pressures across the Producer Price Index (PPI) likely moderated in April but remained high.

During the week, investors will receive updates on the NFIB Small Index for April, initial jobless claims for the week of 4/30, April import/export data, and a preliminary look at May University of Michigan sentiment. In addition, 22 S&P 500 companies will report their Q1 profit results during the week.

Important Disclosures:

The views expressed are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Ameriprise Financial associates or affiliates. Actual investments or investment decisions made by Ameriprise Financial and its affiliates, whether for its own account or on behalf of clients, will not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not account for individual investor circumstances.

Some of the opinions, conclusions and forward-looking statements are based on an analysis of information compiled from third-party sources. This information has been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by Ameriprise Financial. It is given for informational purposes only and is not a solicitation to buy or sell the securities mentioned. The information is not intended to be used as the sole basis for investment decisions, nor should it be construed as advice designed to meet the specific needs of an individual investor.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

A **10-year Treasury note** is a debt obligation issued by the United States government that matures in 10 years. The 10-year yield is typically used as a proxy for mortgage rates, and other measures.

The fund's investments may not keep pace with **inflation**, which may result in losses.

A rise in **interest** rates may result in a price decline of fixed-income instruments held by the fund, negatively impacting its performance and NAV. Falling rates may result in the fund investing in lower yielding debt instruments, lowering the fund's income and yield. These risks may be heightened for longer maturity and duration securities.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

The Standard & Poor's 500 Index (S&P 500® Index), an unmanaged index of common stocks, is frequently used as a general measure of market performance. The index reflects reinvestment of all distributions and changes in market prices but excludes brokerage commissions or other fees. It is not possible to invest directly in an index.

The NASDAQ composite index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The Dow Jones Industrial Average (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

Definitions of individual indices and sectors mentioned in this article are available on our website at ameriprise.com/legal/disclosures in the Additional Ameriprise research disclosures section.

Third party companies mentioned are not affiliated with Ameriprise Financial, Inc.

Investment products are not insured by the FDIC, NCUA or any federal agency, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

Ameriprise Financial Services, LLC. Member FINRA and SIPC.