Stocks Played With A Record High Last Week. Can Markets Go Higher This Week?

The S&P 500 briefly surged into record territory on Friday, reaching an intraday high of 3,027 around midday, before closing at 3,022, just below the record high close of 3,025 from last July. Some tentative progress on the U.S.-China trade front contributed to the better tone, as the broad outline of the so-called phase one agreement takes shape. The intention is to have this first part of a potentially larger, more comprehensive deal ready to be signed ceremoniously by Trump and Xi in Santiago, Chile at the Asia-Pacific Economic Cooperation (APEC) Summit in November. Meanwhile, the European Union has agreed to give the United Kingdom another Brexit extension, this time to January 31, to give the prime minister additional time to overcome objections in Parliament to the deal on offer, and prevent a crash-out on Thursday, October 31, the current deadline.

For the week, the S&P added 1.2 percent. It was the index’s third straight week of gains and its best showing since early September. Energy stocks led the way higher with a gain of 4.4 percent. It was enough to pull the laggard sector to a modest gain on the year of 3.8 percent, easily the worst showing within the index, which itself is now higher on the year by 20.6 percent. Those gains were followed by a 2.5 percent rise in technology shares, easily the best performer on the year with a gain of 34 percent. The cyclical flavor to last week’s strength was reinforced by solid gains in industrials, materials, and financials as well. Bond yields followed suit, as the ten-year rose four basis points to 1.79 percent, and is trading at 1.83 percent early on Monday. In addition, credit spreads narrowed for the third straight week.

Third Quarter Earnings on Course for A Decline; The Fed is Expected to Lower Rates

Third quarter earnings season is approaching the halfway point, and according to FactSet, is on track to deliver a year-over-year decline of 3.7 percent. Companies expected to report this week include Apple, Alphabet, and Facebook.

Much of this week’s focus will be on the Federal Reserve (the Fed), which meets amidst widespread speculation that it will lower the overnight rate for a third time since July. The CME FedWatch tool currently ascribes a 94 percent probability to a rate cut this week. However, beyond this week the general expectation is that the Fed will pause. If so, a three and done rate cutting cycle will look very much like the mid-cycle adjustment that Chairman Powell described in July as the Fed initiated its series of rate cuts, which at the time triggered a 6 percent pullback in stocks from their all-time high. And yet today, equity futures are indicating a record high at the opening.
Economic Data Released This Week

This week will also see the advance estimate of third quarter gross domestic product (GDP) on Wednesday. The Bloomberg consensus anticipates growth at an annualized rate of 1.6 percent. If so, it would be the slowest quarter of the year, following the 3.1 percent pace of the first quarter, and the 2.0 percent pace of the second. It would be the weakest quarter since the 1.1 percent pace of last year’s fourth quarter. And on Friday, the October jobs report is scheduled for release. The Bloomberg consensus anticipates non-farm job creation of just 85,000 and a small rise in the unemployment rate to 3.6 percent, with both numbers clouded by the General Motors strike, however. The jobs report will be followed by the October Institute for Supply Management (ISM) report on manufacturing, which is expected to show a third straight month of contraction, as the trade war continues to take its toll on the sector.

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S&P 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The CME FedWatch Tool analyzes the probability of FOMC rate moves for upcoming meetings. Using 30-Day Fed Fund futures pricing data, which have long been relied upon to express the market’s views on the likelihood of changes in U.S. monetary policy, the tool visualizes both current and historical probabilities of various FOMC rate change outcomes for a given meeting date. The tool also shows the Fed’s “Dot Plot,” which reflects FOMC members’ expectations for the Fed target rate over time.

The ISM manufacturing index is a national manufacturing index based on a survey of purchasing executives at roughly 300 industrial companies.

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