

Market Outlook Oct 11th

Weekly Market Outlook

Stocks Continue to Climb to Fresh Highs as Q3 Earnings Season Gets Underway

The bulls remain in control, driven by confidence in a strong U.S. economy and an accommodative Fed. Will Q3 earnings help justify a continued "melt-up" in stocks?

The Week That Was

If you read last week's outlook you might recall that my outlook for this week was "slightly bullish" and at the time of this writing the S&P 500 is up nearly 1% on the week, and at fresh record highs, so the forecast turned out to be accurate. Rising oil prices, yields and Middle East tension hit stocks on Monday, but the bulls were able to subsequently regain their footing. Markets also had to digest a warmer-than-expected CPI report and a one-year high print in Initial Claims yesterday (more on this in the "Economic, Data & the Fed" section below). While the trend in stocks remains bullish, the environment is not without its risks and valuation is full. The forward P/E on the S&P 500 currently stands at roughly 22 versus the 10-year average of 17.7, per FactSet. Elevated valuation is largely driven by expectations for strong earnings growth and easing monetary policy from the Federal Reserve. Therefore, Q3 earnings season, which unofficially kicked off today, will likely need to deliver strong results to keep this bull market going. For reference, FactSet is currently projecting 4.2% earnings growth in Q3, 16.1% in Q4 and 14.9% for the full-year 2025.

Outlook for Next Week

At the time of this writing (1:10 PM ET), all the major indices are trading above the midpoint of their intraday ranges (DJI + 273, SPX + 25, COMP + 41), with the Russell 2000 (RUT +1.58%) exhibiting some relative strength today. Despite rising geopolitical risks, along with higher oil prices and yields, stocks have been able to take it in stride. The bullish price action reminds investors why "the trend is your friend." Can stocks continue to melt up heading into Election Day? It's certainly a possibility but some occasional pullbacks wouldn't be a surprise. Next week it's all about Q3 earnings reports and Thursday's Retail Sales report. The last couple of Retail Sales reports have been stronger than expected, so this data point will provide a good read on the state of the U.S. consumer. Earlier today we learned that CNBC/NRF Retail Monitor showed a 0.3% month/month drop in consumer spending, which could suggest a soft Retail Sales report. If so, this could be enough to trigger a profit taking pullback in stocks. However, the technicals remain bullish (more on this in the "Technical Take" section below) and if NVDA can notch a fresh all-time high, or the RUT can

break out to fresh two-year highs next week, these would likely be near-term bullish catalysts. Therefore, my overall forecast for next week is "slightly bullish," with the caveat that a weak Retail Sales report next Thursday could result in a pullback in stocks. What could challenge my outlook? Outside of the Retail Sales report, disappointing Q3 earnings results could certainly lead to a bearish week for stock. This is a fully valued stock market that has priced in a pretty aggressive earnings growth story, so any challenge to that thesis in the coming weeks could generate a valuation re-set.

Other Potential Market-moving Catalysts:

Economic:

- Monday (10/14): no reports
- Tuesday (10/15): no reports
- Wednesday (10/16): EIA Crude Oil Inventories, Export Prices, Import Prices, MBA Mortgage Applications Index
- Thursday (10/17): Business Inventories, Capacity Utilization, Continuing Claims, EIA Natural Gas Inventories, Initial Claims, NAHB Housing Market Index, Net Long-Term TIC Flows, Retail Sales
- Friday (10/18): Building Permits, Housing Starts

Earnings:

- Monday (10/14): no reports
- Tuesday (10/15): Unitedhealth Group Inc. (UNH), Johnson & Johnson (JNJ), Bank of America Corp. (BAC), Goldman Sachs Group Inc. (GS), Citigroup Inc., Charles Schwab Corp. (SCHW), Interactive Brokers Group Inc. (IBKR), Omnicom Group Inc. (OMC), United Airlines Holding Inc. (UAL), J.B. Hunt Transport Services (JBHT)
- Wednesday (10/16): ASML Holding NV (ASML), Abbott Laboratories (ABT), Morgan Stanley (MS), Prologis Inc. (PLD), CSX Corp. (CSX), Crown Castle Inc. (CCI), Discover Financial Services (DFS), Equifax Inc. (EFX)
- Thursday (10/17): Blackstone Inc. (BX), Elevance Health Inc. (ELV), Truist Financial Corp. (TFC), Travelers Companies Inc. (TRV), Netflix Inc. (NFLX), Intuitive Surgical Inc. (ISRG), Crown Holdings Inc. (CCK), Bank OZK (OZK)
- Friday (10/18): Procter & Gamble Co. (PG), Schlumberger (SLB), Fifth Third Bancorp (FITB), Regions Financial Corp. (RF), Ally Financial Inc. (ALLY), Comerica Inc. (CMA), American Express Co. (AXP)

Economic Data, Rates & the Fed:

This week's economic data was highlighted by warmer-than-expected inflation data and a surprise jump in weekly Jobless Claims. Inflation is still moving towards the Fed's longer-term target, but it remains relatively sticky, and markets are tempering rate cut expectations as a result. I feel that as long as bond yields are rising because of a strong economy, and not a resurgence in inflation, the bullish thesis remains intact. Regarding the one-year high print on Initial Claims, it's possible that the figure is being temporarily inflated

by Hurricane Helene and furloughs related to the Boeing strike. Here's the breakdown from this week's reports:

- Consumer Price Index (CPI): Headline month-over-month (MoM) came in at +0.2% (above the +0.1% est) and MoM core CPI was +0.3% (above the +0.2% est). Headline year-over-year (YoY) was +2.4% (above the +2.3% est) and YoY core CPI came in at +3.3% (above the +3.2% est). The headline YoY increase was the lowest since February 2021.
- Producer Price Index (PPI): Headline MoM was flat (below the +0.1% est) and MoM core PPI was +0.2% (in line with estimates). Headline YoY was +1.8% (in line with estimates) and YoY core PPI was +2.4% (in line with estimates).
- Initial Jobless Claims: 258K, up 33K from the prior week and above the 229K expected. Continuing Claims came rose 42K to 1.86M, the highest level since late July. The 258K Initial Claims figure is the highest since August of 2023.
- The Atlanta Fed's GDPNow forecast for Q3 was revised up to 3.2% on October 9th from 2.5% on October 1st. The reduction was primarily driven by Tuesday's weak construction spending and manufacturing figures.

Bond yields rose this week, primarily driven by the warmer-than-expected inflation data. Two-year Treasury yields increased to 3.955% from 3.923% while 10-year yields tacked on roughly 10 basis points to 4.085% from 3.981% (both week-over-week).

Market expectations around Fed rate cuts continue to deflate, largely driven by stronger-than-expected economic data. The Bloomberg probabilities currently put an 88% chance of a 25-basis-point cut at the November FOMC meeting. Recall that markets were expecting 75 basis points of cuts two weeks ago and now the expectation is that there will probably be 50.

Technical Take

S&P 500 Index (SPX + 4 to 5,704)

The Nasdaq 100 continued to trend higher this week and is on pace to close less than 2% below the all-time closing high of 20,675, hit back on July 10th. One of the drivers of the recent relative strength has been a renewed interest in AI-related leaders. NVDA has broken out of pennant pattern this month and is trading just below its all-time closing high at the time of this writing (last trade \$135.24 vs. June 18th all-time closing high of \$135.58). But its not just Nvidia. AI-related players, such as AVGO, PLTR and ORCL all set fresh 52-week/all-time highs this week. If AI-poster child Nvidia sets fresh all-time highs this could signal to markets that the AI trade is alive and well. *Near-term technical translation: bullish*



Source: ThinkorSwim trading platform

Past performance is no guarantee of future results.

Russell 2000 Index (RUT + 35 to 2,224)

The Russell 2000 is the relative outperformer today (+1.64%), which is likely being assisted by several strong earnings reports out of the financial sector today (~15% of the RUT fall into the financial sector). However, the index remains confined within its recent trading range of roughly 2,050-2,260. If the RUT can notch a fresh two-year closing high this could send a bullish technical signal to the markets that small caps are finally ready to join the party. *Near-term technical translation: neutral to slightly bullish, fully bullish if July highs are cleared.*

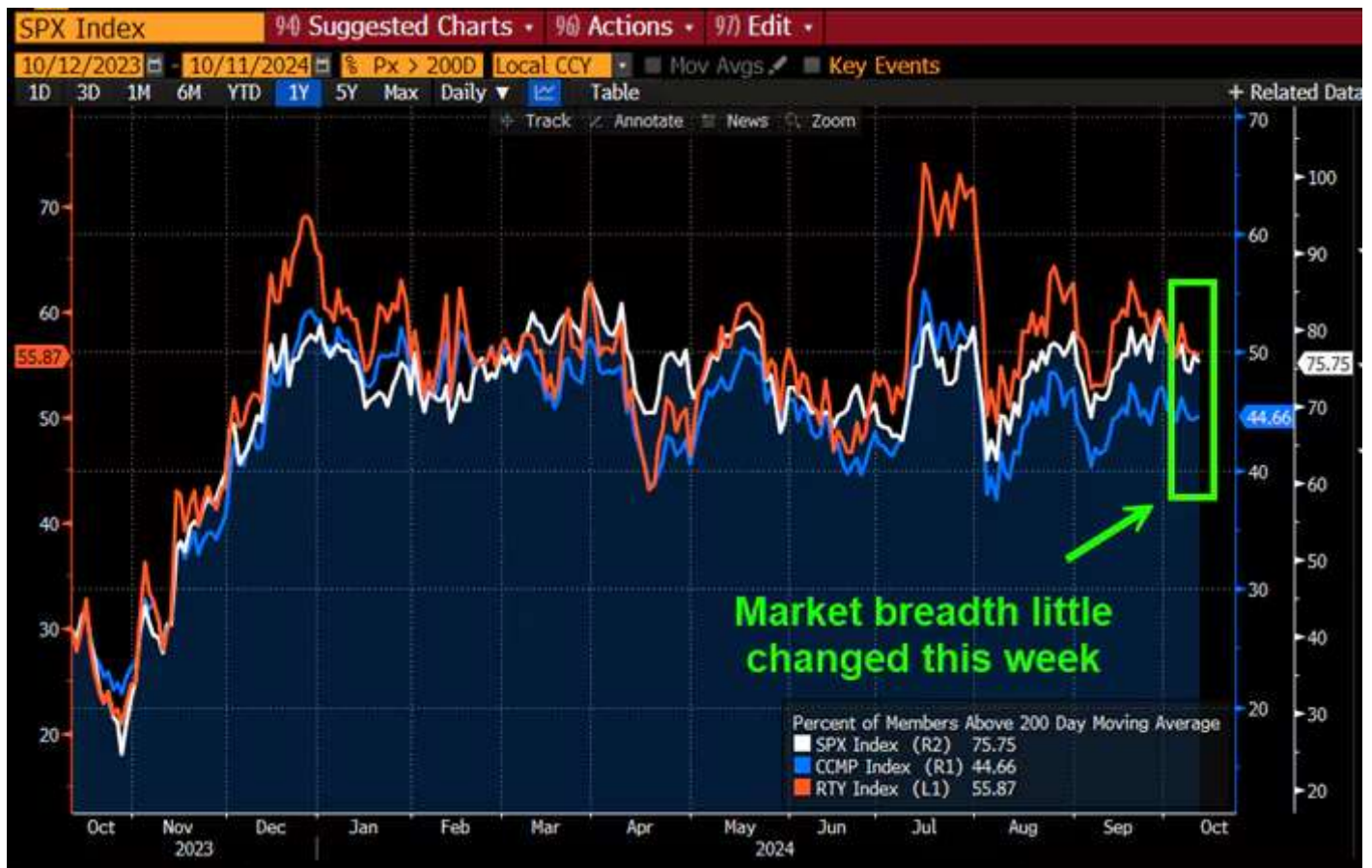


Source: ThinkorSwim trading platform

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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 on track for weekly gains but essentially no change in market breadth. On a week-over-week basis, the SPX (white line) breadth ticked down to 75.75% from 76.35%, the CCMP (blue line) ticked up to 44.66% from 44.09%, and the RTY (red line) is flat at 55.87% from 55.76%.



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 (141 today): Arista Networks Inc. (ANET + \$5.96 to \$415.72), Air Products and Chemicals Inc. (APD + \$2.48 to \$317.09), Broadcom Ltd. (AVGO - \$5.89 to \$179.80), Carnival Corp. (CCL + \$0.21 to \$20.60), Home Depot Inc. (HD - \$0.07 to \$409.89), Oracle Corp. (ORCL + \$0.97 to \$176.38)

This Week's Notable 52-week Lows (41 today): Acadia Pharmaceuticals Inc. (ACAD + \$0.01 to \$14.56), Albany International Corp. (AIN + \$2.45 to \$72.67), Boeing Company (BA + \$2.73 to \$149.34), Techtargt Inc. (TTGT + \$0.50 to \$23.65), Utah Medical Products Inc. (UTMD + \$0.13 to \$65.97), Zimmer Biomet Holdings (ZBH + \$1.60 to \$104.42)



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