Mid-Week Market Recap: The Winning Streak Ends

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Editor's Note:

As a subscriber to Benzinga Research, you're entitled to weekly briefings from our research team, in which we make sense of the market's latest moves and break down any potential catalysts or risks ahead. In this week's market recap, we cover the market's recent eight-day winning streak, and the outlook for markets in the 26-day window before the Fed's next scheduled announcement on interest rates.

Dear Benzinga Member,

Yesterday, the S&P 500's eight-day winning streak came to an end, as the index that had powered higher each day since August 10 fell by 0.2%.

An eight-day streak of gains may not sound historic… but it's actually a feat not seen in 20 years.

And on Wednesday's trading session, the S&P tacked on another 0.42%, more than erasing Tuesday's slight loss. August 10's brutal selloff already feels like a distant memory—just as the *Benzinga Research* team predicted last week.

That Said, We're Watching a Few Potential Pitfalls Carefully…

Job creation has been one of the economy's bright spots in the post-pandemic years, with the Labor Department reporting an average of 242,000 new jobs created each month for the 12 months ending in March.

But on Wednesday, the Labor Department walked back much of those reported gains, revising the monthly average down to 174,000.

That's a drop of 68,000 per month, or a total downward revision of 818,000 fewer jobs.

Yet the S&P 500 and Nasdaq both ticked up on the news. The Russell 2000—an index composed of small-cap companies—surged higher, closing up 1.32% for the day.

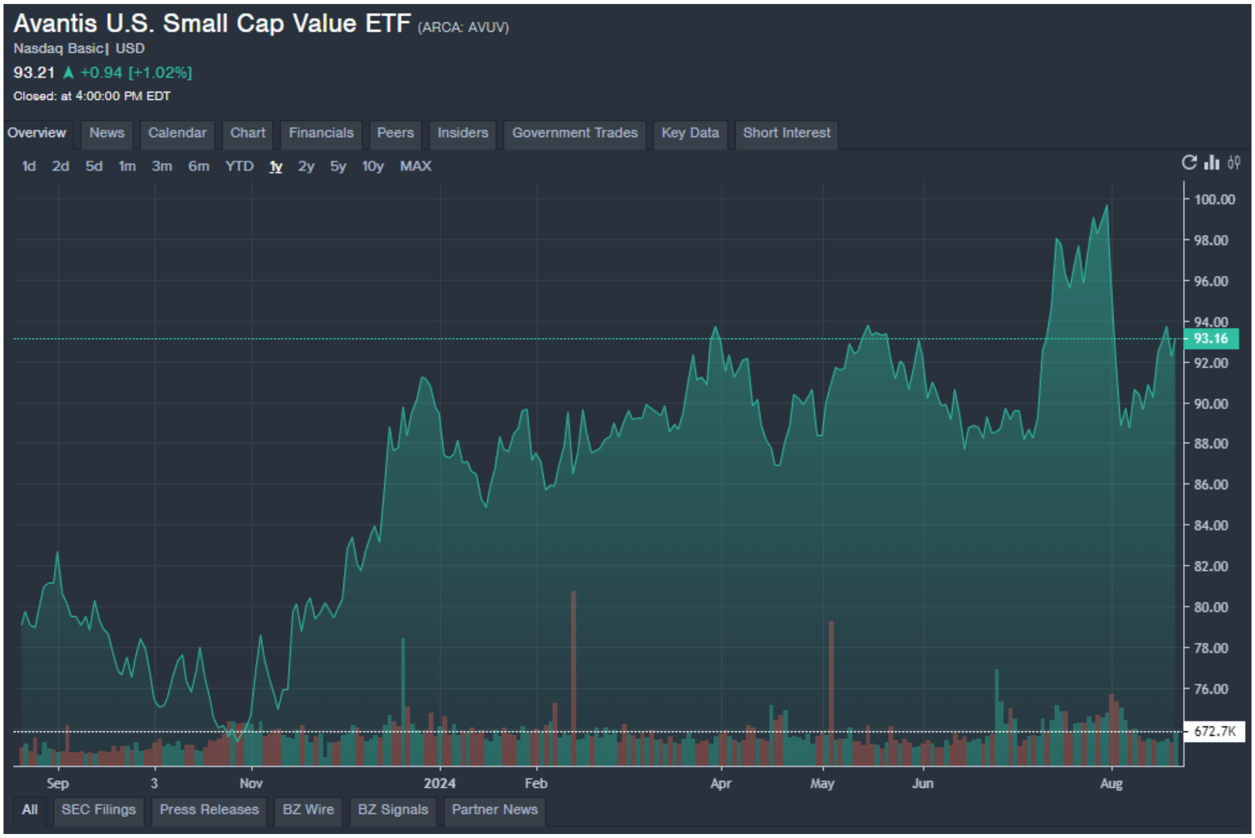
Why was the Russell 2000 celebrating the darkened jobs outlook? It's part of the "bad news is good news" dynamic of markets cheering any news, no matter how grim, that makes it likelier that the Federal Reserve will cut interest rates at its next meeting.

The bond market already overwhelmingly expected the Fed to cut rates by 0.5% in its next FOMC meeting on Tuesday, September 17.

But it looks like markets have now fully priced in an interest rate cut—especially since the minutes of the Fed's July meeting, released on Wednesday, showed "the vast majority" of Fed officials backing an interest rate cut in today's macro environment.

Small-cap companies, which tend to be heavily indebted and more reliant on outside capital to grow, have the most to gain from imminent rate cuts—hence the Russell 2000's outperformance on Wednesday.

You can see this is the 12-month performance of Avantis U.S. Small Cap ETF, a fund composed of companies valued at under $10 billion across various sectors. It's up 30% over the last 12 months, edging out the S&P 500's 28%--albeit in a photo finish.



Source: ***Benzinga Pro***

2% Away from New All-Time Highs

To put the market's whipsaw action since August 10 in context: the S&P 500 is above its 50-day moving average, but still about 2% off of its all-time high.

Looking ahead to the rest of the week, the reports scheduled for Thursday and Friday aren't likely to dampen the market's momentum.

Thursday will bring the weekly initial jobless claims. A figure higher than the expected 230,000 might stoke fears of a recession—but it's equally likely to signal to traders that a rate cut is set in stone.

There's also Fed Chair Powell's speech at his Jackson Hole retreat on Friday. Traders will naturally be hanging onto his every word—but remember, the Fed doesn't like to surprise markets.

So don't expect the Federal Reserve to flip the script on investors this week… and not next week, either, since August's jobs report won't be released until September 4.

That means that the path of least resistance for markets is up for now, as traders look forward to an end of the years-long high-rate regime. Best Regards, The *Benzinga Research* Team

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