Friday Stock Rebound Mitigates a Tough Week

by Vito J. Racanelli

STOCKS SLIPPED SOME 1% LAST WEEK, BUT managed to rally from lows, thanks to a late-week rebound in oil prices and Friday's comments from a Federal Reserve official that bolstered poorly performing bank stocks.

Financials were the second-worst-performing sector for the week, down 2.4%, but did the best Friday, up 4%. Wednesday Fed Chair Janet Yellen played down talk of negative interest rates as only a remote possibility. But investor chatter about it roiled markets, and New York Fed President William Dudley Friday said the debate about negative rates is "extremely premature…The U.S. economy is in quite good shape."

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Investors are antsy over the possibility of a negative-interest-rate policy, something employed in Europe and Japan to encourage growth. But such a program could hurt profits at banks, which would have to pay for reserves they keep at the Fed. A minor recovery in oil prices Friday helped improve investor sentiment, if only for a day. Crude rose 12% Friday to $29.44 per barrel, but was down 5% on the week.

The Dow Jones Industrial Average lost 231 points, or 1.4%, to 15973.84 last week, while the Standard & Poor's 500 index dropped 0.8%, or 15, to 1864.78. On Thursday, both indexes closed at levels not seen since 2014. The Nasdaq fell 0.6%, to 4337.51, for the week.

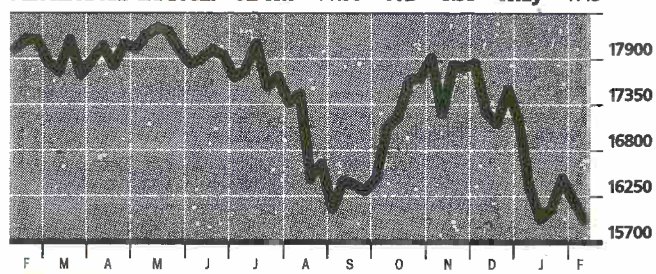
Thursday, crude received a boost after the United Arab Emirates energy minister said OPEC was ready to cooperate on production cuts, says Jason Ware, chief investment officer at Albion Financial Group. Though low oil prices are good for the global economy, the stock market continues to follow the oil market slavishly, he says.

What's happening in the real economy isn't as bad as traders' screens would have it, he adds, pointing to U.S. January retail sales and weekly jobless claims data out last week that were above consensus.

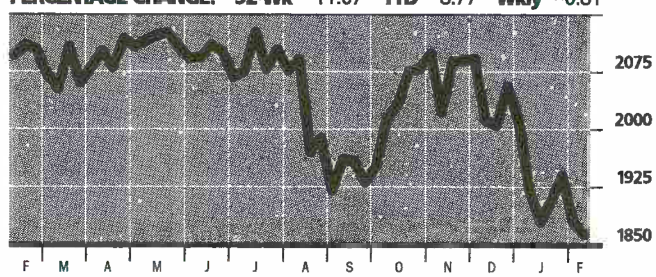
Brad McMillan, chief investment officer at Commonwealth Financial Network, concurs. The market is slowly coming to terms with the removal of the Fed security blanket—its extraordinary easing policy. "The negative first-quarter earnings seasons is mostly behind us, and it's gradually sinking in that this isn't as bad as 2008," he adds.

Still, the heretofore nonstop fretting in 2016 about Chinese economic growth magically disappeared last week. It might be because Chinese markets were closed last week for the Asian New Year, notes Louie Nguyen, chief investment officer at Soledad Investment Management. "It's as if the play was missing its main actor," he says.

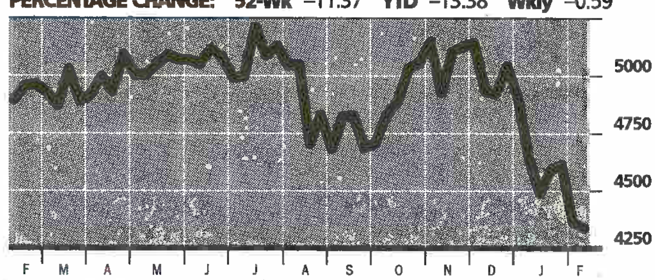
Dow Jones Industrials CLOSE 15973.84
PERCENTAGE CHANGE: 52-Wk –11.35 YTD –8.33 Wkly –1.43



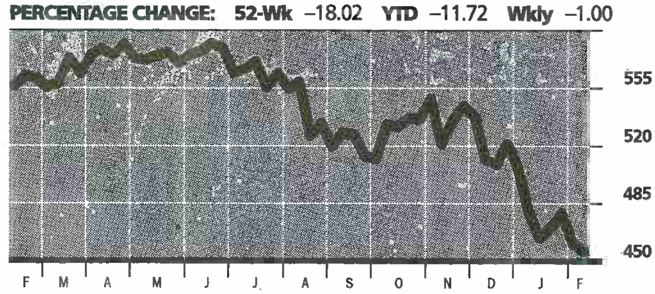
S&P 500 CLOSE 1864.78
PERCENTAGE CHANGE: 52-Wk –11.07 YTD –8.77 Wkly –0.81



Nasdaq Composite CLOSE 4337.51
PERCENTAGE CHANGE: 52-Wk –11.37 YTD –13.38 Wkly –0.59



Barron's 400 CLOSE 455.95
PERCENTAGE CHANGE: 52-Wk –18.02 YTD –11.72 Wkly –1.00



Source: Barron's Statistics