When the Data Rule

Beyondbond

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Two tame inflation reports from the U.S. government lifted all three major indices to the highest levels investors have seen from the stock market in a very long time. With a five-straight-day rally, the Dow was up 2.6%, the S&P rose 2.8%, and the Nasdaq with its best performance in two years surged up 5.2%. Another boost came from a steep decline in oil price, which ended at $71.14 per barrel. As for the bond market, it was also a grander picture this week as the 10-year Treasury note yielded 4.84%, down from 4.97% last week.

When the markets are missing a clear leading character, any economic data can play a major role at this particular stage. Investors' sentiments shift dramatically as the result of different interpretations on the different economic data. On Tuesday, the Labor Department reported July's Producer Price Index (PPI) had a 0.1% increase, a lot smaller than economists' forecasts of 0.4%. The more important number was the core PPI, the number that excluded volatile food and energy prices; it fell 0.3% as opposed to the estimation of a 0.3% increase. This benign result was mainly due to the decline in output from U.S. auto manufacturing. While investors are holding their breath for another inflation indicator, the Consumer Price Index (CPI) to be published on the next day, the number came in line with expectations of a 0.4% headline increase and a 0.2% core increase. Wall Street greeted both data as the reflection of the Fed's monetary tightening policy and also as a signal of the end of the interest-rate hike.

However, investors should remain skeptical and cautious about these temporary rallies. As the end of summer approaches most money managers coming back from their vacations will start dumping all stocks (pumped by their assistants while they were away) to secure profits. Therefore, historically, the markets are likely to go down in September. Looking at a bigger picture, inflationary concern is not really gone yet. Countries such as the UK, Turkey, Japan, Korea, and China have all recently raised their interest rates. Despite the excitement from stock benchmarks this week, light trading volume (averaged around 1.5 billion) showed that investors still lack confidence in the markets. On top of these, housing markets are continuing to reveal signs of slowdown such as housing starts dropped 2.5% in July, the fifth decline in the past six months.

Disappointing performances have also been observed from small cap (drop of 7% since May). Although small cap has outperformed large cap for the past five years, large cap may finally start to see some sunlight after all these years.

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As for the big winner of the week, the technology sector has everyone talking again after it was buoyed Thursday by Hewlett-Packard's (HPQ) strong earning report. Moreover, technology stocks should remain as trading tools only since they are the cheapest of all.

Besides two tame inflation data, low oil price was also an important attribute to the markets' rallies this week. When the price drops to $70 or below, investors can weight in more from this sector to their portfolio.

In a middling market (neither bullish nor bearish), investors show extreme dependence on the economic data. People are looking for a reason to buy or not to buy. One or two data may not make the trend of markets, but it definitely can cause big swings.

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