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U.S. MARKETS

U.S. Stocks Rally After Jobs Report

S&P 500 ends rocky week with a modest 0.3% loss after rebounding Thursday and Friday

By Gunjan Banerji

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U.S. stocks rallied to end a volatile week as the September jobs report helped ease fears about an economic slowdown.

Job growth in the U.S. remains a bright spot, even as signs of weakness mount in the manufacturing and services sectors. Earlier this week investors worried about a potential downturn pushed the S&P 500 down more than 1% in back-to-back sessions for the first time this year.

But the index ended the rocky week with a modest 0.3% loss after rebounding Thursday and Friday. Stocks were buoyed by expectations that the Federal Reserve will continue to cut rates to shore up the economy and sustain the current expansion.

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Investors are betting the Fed will slash rates as soon as October, and Friday's jobs report did little to alter views. Even though the U.S. economy has been more resilient than others around the world, surveys of manufacturing and service-sector activity have hinted at future weakness that could eventually trickle into the labor market.

"The market has grabbed onto the narrative that bad news is good news," said Rusty Vanneman, chief investment officer of Orion Advisor Services.

The S&P climbed 41.38 points, or 1.4% Friday, to 2952.01 on broad-based gains, which accelerated later in the session. The Dow Jones Industrial Average added 372.68 points, 1.4%, to 26573.72. The Nasdaq Composite advanced 110.21 points, or 1.4%, to 7982.47.

The S&P 500 and Dow logged their third consecutive week of losses, while the Nasdaq turned positive for the week.

Among the concerns that rattled markets this week: U.S. factory activity contracted for a second straight month and hit a 10-year low.

Investors' reliance on the Fed as a backstop was on display Thursday, when data showed service sector activity expanded at the slowest pace in three years. Stocks initially dropped sharply, but then swung higher as investors ramped up bets that the Fed will slash rates again this year.

Traders are betting on a roughly 40% chance of the central bank lowering its benchmark short-term interest rate two more times by the end of the year, according to the CME Group data as of Friday, up from 20% last week.

Friday's jobs report showed the economy added 136,000 jobs in September, slightly missing estimates. But the jobless rate dropped to 3.5% from 3.7% in August, marking a 50-year low.

"It continues to show that the U.S. economy is a jobs machine," said JJ Kinahan, chief market strategist at TD Ameritrade. "But again it's strange compared to everything else going on. All the other numbers we've seen for the past week have not painted a very nice picture."

The central bank has helped ease investor fears about a slowdown, but some analysts are questioning how long that can continue. Cutting rates again gives the Fed less ammunition if a real downturn hits, analysts say.

A trader works on the floor of the New York Stock Exchange this week. PHOTO: LUCAS JACKSON/REUTERS

Treasurys jumped alongside stocks Friday, highlighting the unease that some investors have felt about the economy's trajectory. The yield on the 10-year U.S. note recorded its biggest one-week decline since August as bond prices rose.

"It's one step forward, two steps backwards," said Greg Boutle, U.S. head of equity and derivative strategy at BNP Paribas. "The ability of the Fed to offset an increase in volatility is much lower than it has been previously."

At a Wall Street Journal event in New York on Thursday, Fed Vice Chairman Richard Clarida said the central bank will do what it takes to keep the longest period of U.S. economic expansion going. He added that the central bank takes each policy meeting "one at a time." Investors will be parsing Fed speakers' words again next week.

Elsewhere, the Stoxx Europe 600 added 0.7%, after suffering heavy losses earlier in the week. Japan's Nikkei gained 0.3%. And Hong Kong's Hang Seng dropped 1.1% after the city's chief executive said a ban would be implemented on wearing masks at public gatherings, with penalties of up to a year in jail and a fine. Stock markets in mainland China were closed.

—Avantika Chilkoti and Joanne Chiu contributed to this article.

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