

**Markets**

# Shock July Stock Rally Was a Monster the Fed May Regret Seeing

- Financial conditions have eased despite supersized Fed hikes
- Fed may have to 'bring the party to a halt' very soon: Nuveen

By [Katherine Greifeld](#) and [Vildana Hajric](#)

July 29, 2022, 1:16 PM PDT

**In this article**

SPX  
**S&P 500**  
**4,130.29** USD  
 ▲ +57.86 +1.42%

2057703D  
**TREASURY**  
 Private Company

times of tightening. While the Fed may be ambivalent about equities in general, the role of markets in mediating a real-world economic lever -- financial conditions -- means they are never completely out of mind. Right now, those conditions are loosening in proportion to the S&P 500's gains. Could that be a concern for Powell?

The S&P 500 soared 4.3% for the week and 9.1% in July, the best monthly advance since November 2020. Its gains snowballed after Powell raised rates three-quarters of a percentage point and suggested the pace of hikes might slow later this year. The nearly 4% jump on Wednesday and Thursday alone was the biggest two-day gain on record following Fed tightening.

The risk-on impulse spread to corporate bonds, with both investment-grade and high-yield spreads narrowing from peaks earlier in the month as traders trimmed wagers on an ultra-aggressive Fed. Treasury yields dropped across the curve as well, with 10-year Treasury yields dropping to 2.65% after reaching 3.5% in June.

Taken together, the equity and bond rallies helped loosen US financial conditions, which clocked in at -0.46 compared to a -0.79 reading in March, according to a Bloomberg measure. The easing of that key metric could