Business

Apple's Wall Street Rally -- Will It Last?

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Strong earnings from Apple lifted Wall Street on Friday. As a result, all major equity averages ended the trading session sharply higher, with the tech-heavy NASDAQ registering most of the gains.

That's a big turnaround from the previous sessions when major equity averages were selling off, following the Federal Open Market Commitee's hawkish statement released on Wednesday afternoon. The Fed is planning to put an end to its quantitative easing (QE) program by the end of March and begin raising short-term interest rates to fight inflation, which is running at a 40-year high.

The Fed’s major policy shift creates a great deal of uncertainty among traders and investors, as they try to factor this policy shift into equity valuations.

"Investors are uncertain about the implications of Fed tightening for the economy and asset markets and are re-evaluating opportunities and risks," said Austin Litvak, director of investment research at O'Brien Wealth Partners in Boston.

But he doesn't think that the Fed's tightening is necessarily a bad thing for equities.

"Many blame the Fed's actions as the primary catalyst for the sell-off, but the Fed beginning to normalize policy is a positive sign, as it means policymakers feel confident that the economy can withstand higher borrowing costs and no longer needs excessive liquidity to support growth," said Litvak.

Still, rising interest rates are usually negative for valuing risk assets like high-technology companies with little or no earnings. This is because they make these earnings less valuable when discounted to the present. But not to tech leaders with superior business strategy and solid earnings, like Apple, which can move the market.

"The huge advance in the market indices was largely driven by the blowout earnings report by Apple after the market closed on Thursday," said Robert R. Johnson, a professor of finance at Creighton University. "Not only is Apple heavily weighted in the index, but the bullish earnings report, by arguably the most important stock, provided a positive narrative for traders. Positive earnings reports are providing a counterbalance to inflation concerns and what that means for Fed policy tightening."

Apple's strong earnings report bodes well for the reports of other tech giants to be released next week, like Google, Facebook and Amazon. They are part of major market indexes, too.

"Friday's modest recovery was set up by Apple initially with superb earnings and then the more or less in line PCE inflation data," said Ivan Brian, chief equity analyst at FXStreet. "This allowed some form of relief to permeate and for investors to position themselves accordingly ahead of key tech earnings from Facebook, Google and Amazon next week."

Will the rally last?

It depends on how earnings from these tech giants will come out. Any big surprise could take the market for a wild ride.

Meanwhile, Wall Street will watch closely for new data on the economy, which sets the pace for the Fed's monetary policy, like the January jobs report to be released on Friday. A strong jobs report could renew speculation that the Fed will quicken the pace of monetary tightening, while a weak jobs report could renew fears of stagflation.

Wall Street has plenty of news to digest in the days, weeks and months ahead that could fuel wild intraday swings.

"Watching the markets has become like watching an NBA basketball game," said Johnson. "You only need to tune in for the last few minutes. Intraday thousand-point swings in the Dow are much more commonplace as market participants try to decide whether stocks are under or overvalued."

Disclosure: Panos Mourdoukoutas owns shares of Apple, Google and Facebook.