

Busy Abbreviated Week Produces Solid Gains

The stock market had a busy holiday-shortened week, which produced solid gains for the major averages. The S&P 500 climbed 1.7% for the week while the Nasdaq outperformed, rising 1.9%.



Monday's session featured the response to Saturday's meeting between President Trump and China's President Xi Jinping. While the meeting did not yield concrete steps toward reaching a trade deal, it also did not lead to an escalation of the dispute. Instead, President Trump agreed to relax restrictions on sales of components to Huawei and agreed to not impose additional tariffs on imports from China at this time.

Stocks surged to begin the week, but the opening spike gave way to a daylong retreat from opening highs. Chipmakers served as a good example of this dynamic, as the PHLX Semiconductor Index was up 5.0% at the start of the session but narrowed its gain to 2.7% by the close. The Index continued retreating over the next three sessions to end the

week with a gain of just 0.2%.

The initial euphoria about the lack of negative developments on the trade front faded once the market received more weak economic data from Asia and Europe. China's Manufacturing PMI (actual 49.4) remained in contractionary territory in the final June reading, Japan's Manufacturing PMI decreased to 49.3 from 49.5, the Manufacturing PMI for the eurozone slipped to 47.6 from 47.8, South Korea reported that its exports decreased 13.5% yr/yr in June, and Germany's Factory Orders fell 2.2% m/m in May.

Weak economic data from around the globe boosted expectations for more easing from global central banks, and those expectations were supercharged after IMF Managing Director Christine Lagarde was nominated to take over for Mario Draghi at the European Central Bank. Ms. Lagarde is not an economist, but she is expected to be very dovish, considering the IMF has been a vocal supporter of negative interest rates during her tenure at the fund.

Manufacturing data from the U.S. also pointed to a slowdown in activity, but the sector remains in expansion, according to the latest Manufacturing Survey from the ISM (actual 51.7; prior 52.1). In addition, Friday's release of the Employment Situation report showed a healthy increase in June nonfarm payrolls (224,000; Briefing.com consensus 160,000).

Friday's reminder about continued growth in nonfarm payrolls reduced expectations for an aggressive rate cut, which in turn pressured stocks and Treasuries from their best levels of the year. At the end of the week, the fed funds futures market saw just a 4.9% implied likelihood of a 50-basis point cut in July, down from 32.3% one week ago. The implied probability of a 25-basis point cut remained at 100.0%.

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