

Market Gives Up Weekly Gains After Trade Tensions Escalate

The stock market was on pace to snap a three-week losing streak. That effort proved futile after China announced retaliatory tariffs, to which President Trump demanded companies start finding alternatives to China.



The Nasdaq Composite (-1.8%) and Russell 2000 (-2.3%) fell around 2%, while the S&P 500 (-1.4%) and Dow Jones Industrial Average (-1.0%) declined closer to 1%.

China announced on Friday it plans to impose 5-10% tariff rates on \$75 billion of goods imported from the U.S. on Sept. 1 and Dec. 15. Those are also the dates the U.S. is planning on enforcing additional tariffs on Chinese imports. In addition, China said it plans to impose 5-25% tariffs on imported autos and auto parts starting Dec. 15.

President Trump subsequently ordered U.S. companies to find alternatives to China and said he would make sure to respond to Beijing's actions later. The news overshadowed what was supposed to be the week's main event in Fed Chair Powell's speech from Jackson Hole, Wyoming. Mr. Powell reiterated the Fed will act as appropriate to sustain

the economic expansion.

Most S&P 500 sectors reversed course and finished the week in negative territory. The materials (-3.1%), energy (-2.0%), and health care (-2.0%) led the decline. The utilities (+0.2%) and consumer discretionary (+0.1%) sectors finished higher, with the latter finding support in some of the big retail stocks like Home Depot (HD), Lowe's (LOW), Target (TGT) following their earnings reports.

Separately, there was a lot of stimulus talk throughout the week. China and Germany specified plans to stimulate growth, although Germany's plan would transpire in an economic crisis. On the home front, the Trump administration was considering various tax cuts to aid the economy despite repeated claims on how great the economy is doing.

Preliminary economic data showed the U.S. manufacturing sector decline into contraction territory. The Markit flash manufacturing PMI for August ticked down to 49.9 from 50.4. A reading below 50.0 denotes a contraction, which was its first one since 2009.

Several Fed officials, meanwhile, held reservations about further cuts to the fed funds rate. Kansas City Fed President George (an FOMC voter in 2019), Philadelphia Fed President Harker (an FOMC voter in 2020), and Dallas Fed President Kaplan (an FOMC voter in 2020) leaned less dovish in interviews this week.

In the U.S. Treasury market, the 2-yr yield briefly rose above the 10-yr yield multiple times during the week. The stock market, however, didn't appear too shaken up about the brief inversions this time around. At week's end, the 2-yr yield finished six basis points higher to 1.53%, and the 10-yr yield finished one basis point higher to 1.53%. The U.S. Dollar Index fell 0.5% to 97.65. WTI crude declined 1.3%, or \$0.73, to \$54.16/bbl.

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