

Stocks Decline in Week when Fed Chair Cautions About Recovery, U.S.-China Tensions Increase

The stock market closed lower this week, as concerns about an economic recovery, U.S.-China tensions, and valuations weighed on sentiment. The small-cap Russell 2000 underperformed with a steep 5.5% decline, followed by more modest losses in the Dow Jones Industrial Average (-2.7%), S&P 500 (-2.3%), and Nasdaq Composite (-1.2%).



The weakest areas this week were the S&P 500 energy (-7.6%), real estate (-7.3%), industrials (-5.9%), and financials (-5.7%) sectors. The weakness in the energy space came despite strong gains in oil prices, which rose 18.8%, or \$4.64, to \$29.38/bbl.

The health care sector (+0.9%) was spared this week, helped by its defensive-oriented nature and by the medical progress being made against COVID-19. Quidel (QDEL), for instance, received FDA approval for its COVID-19 antigen test.

The real action this week started with the Fed on Wednesday. Fed Chair Powell said the economic outlook remained highly uncertain and subject to significant downside risks, adding that a recovery may take some time to gather momentum. Mr. Powell dismissed the

notion of implementing negative interest rates but suggested additional fiscal stimulus might be needed to prevent long-term economic damage.

Accordingly, House Democrats unveiled a \$3 trillion relief bill to start the conversation among lawmakers. Reports later indicated (after the release of another dismal weekly jobless claims report) that the White House was interested in a fourth coronavirus relief bill, but just not the plan outlined by House Democrats.

While the market continued to look past another round of weak economic data, including retail sales for April, it became increasingly difficult to ignore the rising U.S.-China tensions that have contributed to the economic uncertainty referenced by Fed Chair Powell. Elevated equity valuations amid this uncertainty, thus, helped tame buying interest.

U.S.-China tensions were fueled by the Trump administration moving to block semiconductor shipments to Huawei Technologies, the FBI confirming that China-affiliated cyber actors targeted U.S. organizations conducting COVID-19-related research, China reportedly mulling retaliation, and President Trump

wanting U.S.-listed Chinese companies to abide by U.S. accounting rules.

U.S. Treasuries posted slim gains this week. The 2-yr yield declined one basis point to 0.15%, and the 10-yr yield declined four basis points to 0.64%. The U.S. Dollar Index increased 0.7% to 100.38.

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