

Tough Week for Stocks as Treasury Market Throws Off Investors

The week started with the S&P 500 (-1.0%), Nasdaq Composite (-1.9%), and Dow Jones Industrial Average (-0.5%) closing at record highs, but that's about as good as it got. They each finished lower as the market turned defensive while the real loser was the Russell 2000 (-5.1%) with a 5% decline.



There wasn't one specific event to blame for the losses, but the Treasury market continued to behave as if inflation rates and growth rates could be peaking. That's because the 10-yr yield decreased six basis points to 1.30%, even as consumer and producer prices ran hotter than expected in June and retail sales data for June beat expectations.

On a year-over-year basis, total CPI was up 5.4% and producer prices for final demand were up 7.3%. Total retail sales increased 0.6% m/m in June (Briefing.com consensus: -0.6%).

The defensive bias was further underscored by the solid gains from the S&P 500 utilities (+2.6%), consumer staples (+1.3%), and real estate (+0.7%) sectors. Apple

(AAPL) did well, too, rising 0.9% for the week after Bloomberg reported the company plans to increase production for its next-gen iPhone by 20% this year.

Conversely, energy sector was beat up with a 7.7% decline, outpacing the decline in oil prices (\$71.76/bbl, -2.80, -3.8%). The consumer discretionary (-2.6%), materials (-2.4%), and financials (-1.6%) sectors also underperformed with losses over 1.5%.

There were a lot of EPS beats this week, most predominately out of the financials sector, but that didn't matter so much for the broader market, let alone the banks given the lower Treasury yields. Taiwan Semi (TSM), however, missed EPS estimates, which really weighed on the Philadelphia Semiconductor Index (-4.1%)

Separately, Fed Chair Powell testified before Congress for his semiannual report on monetary policy. The key takeaway from that hearing was that the Fed isn't ready to dial back its accommodative policy since Mr. Powell said, "reaching the standard of 'substantial further progress' is still a ways off."

All in all, it seemed like the stock market cooled off in part because of the confounding price action in the Treasury market. We'll see what happens next week when a host of non-financial companies report earnings.

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