

Busy week brings solid gains

The stock market ultimately logged gains, but there wasn't a lot of conviction in the first half of the week in front of market-moving events.



The June Consumer Price Index and Producer Price Index were released Thursday and Friday, respectively.

Total CPI deflated 0.1% month-over-month, slowing the pace of growth to 3.0% on a year-over-year basis from 3.3% in May. Core-CPI, which excludes food and energy, decelerated to 3.3% on a year-over-year basis from 3.4%. Total PPI was up 0.2% versus an expected 0.1% increase and Core PPI was up 0.4% versus an expected 0.1% increase.

The CPI report overshadowed the PPI report and fueled optimism about the path of inflation and Fed policy. The fed funds futures market is pricing in a 94.4% probability of a rate cut at the

September FOMC meeting, up from 77.7% one week ago.

Treasury yields sank in response to the data, acting as support for equities. The 10-yr note yield fell eight basis points to 4.19% and the 2-yr note yield declined 14 basis points to 4.46%.

This week's calendar also featured the start of earnings season when JPMorgan Chase (JPM), Wells Fargo (WFC), and Citigroup (C) reported results ahead of Friday's open. Their quarterly results garnered negative responses despite beating earnings estimates.

Fed Chair Powell's semiannual monetary policy testimony before the Senate Banking Committee and the House Financial Services Committee did not garner a big response from bond or equity markets. There were no surprises in his remarks, which featured an acknowledgement that the "likely next direction" of policy will be a loosening of policy, indicating a rate hike is not likely.

Losses in the mega cap space limited gains for the S&P 500 and Nasdaq Composite this week. Money was rotating away from mega caps due to profit taking activity and moving into areas of the market that have trailed so far this year.

The Russell 2000 jumped 6.0% this week and the S&P Mid Cap 400 gained 4.3%. The top performing S&P 500 sectors included the rate-sensitive real estate (+4.4%) and utilities (+3.9%) sectors, along with the materials (+3.0%) and industrial (+2.4%) sector.

- Nasdaq Composite: +22.6% YTD
- S&P 500: +17.7% YTD
- S&P Midcap 400: +8.6% YTD
- Dow Jones Industrial Average: +6.1% YTD
- Russell 2000: +6.0% YTD

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