WEEK IN PERSPECTIVE

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One big, beautiful week for the stock market

With Independence Day right around the corner, the "One Big, Beautiful Bill," having passed a key procedural vote in the House after the Senate approved its version of the bill earlier in the week, looks destined to be signed into law by President Trump on July 4.

That will put an end to the negotiating phase in Congress but not necessarily to the debate phase. Market participants (and the economy) will be digesting the implications of the bill for some time, but it is fair to say that neither the stock market nor the Treasury market are living in fear of deficit forecasts.

The fact of the matter today is that the S&P 500 and Nasdaq Composite are at record highs and the 10-yr note yield, at 4.35%, is 23 basis points lower from where it started the year. The CBO, for one, forecasts the bill will add $3.3 trillion to the deficit over the next decade.

Treasury yields did go up this week. The 2-yr note yield increased 14 basis points to 3.88%, and the 10-yr note yield added six basis points to 4.35%. The bulk of those moves followed a better-than-expected employment report for June. That report was released before Thursday's open, and it featured a drop in the unemployment rate to 4.1% from 4.2% and a relatively solid 147,000 increase in nonfarm payrolls. Granted nonfarm private payrolls were up just 74,000, which falls to the softer side of things, along with the dip in the average workweek and the year-over-year pace in average hourly earnings growth. In sum, the June employment report could have been better, but it was not rate-cut bad.

The fed funds futures market subtracted the bulk of its budding expectations for a July rate cut following the report. According to the CME FedWatch Tool, the probability of a 25-basis point cut at the July FOMC meeting sits at just 4.7% now versus 23.8% the day before the report.

The employment report was the headliner for a busy day of economic reporting on Thursday, which wrapped up a fairly busy, albeit shortened week of trading.

It also wrapped up an encouraging week of trading that included news of a trade deal with Vietnam and saw broad-based gains being led by the small-cap and mid-cap stocks, and value stocks outperform growth stocks.

To be fair, large-cap stocks and mega-cap stocks did well in their own right, too, just not as well as their smaller-sized brethren. Apple was an exception there, as it gained 6.2% this week, rallying on reports that it is considering using outside AI sources to help drive its new version of Siri.

The Russell 2000 surged 3.4% this week, while the S&P Midcap 400 Index advanced 2.9%, versus a 1.7% gain for the market cap-weighted S&P 500. The equal-weighted S&P 500, for its part, jumped 2.4% as the "other 493" stocks found some rotational wind at their back to begin the third quarter.

The S&P 500 materials sector (+3.7%) topped the list of sector winners this week but it had ample company. Other outperformers included the information technology (+2.4%), financials (+2.4%), and energy (+2.1%) sectors, while the industrials sector (+1.7%) performed in line with the S&P 500.

The only sector to lose ground was the communication services sector (-0.2%), which was pressured by a 2.0% decline in Meta Platforms after the stock rallied 53% off its April low coming into the week.

- Russell 2000: +3.4% for the week / +0.8% YTD
- S&P Midcap 400: +2.9% for the week / +2.3% YTD
- DJIA: +2.3% for the week / +5.4% YTD
- S&P 500: +1.7% for the week / +6.8% YTD
- Nasdaq: +1.6% for the week / +6.7% YTD

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