

Tariff talk and profit taking keeps market in check

The stock market had a losing week this week, but not by much.



The difference was Friday's session, which culminated with modest, but broad-based losses linked ostensibly to inflation concerns driven by tariff actions.

This week featured a string of tariff letters to trading partners indicating that they will be facing higher tariffs starting August 1 if they cannot work out better trade terms for the U.S. That included Japan and South Korea, which face a 25% tariff rate.

The market managed to hold up fine amid the threat of higher tariff rates, largely because most of the countries receiving the letters were not consequential trading partners, other than Japan and South Korea.

That changed late in the week, with Brazil getting a tariff letter announcing a 50% tariff rate, and then

Canada getting one that sets a 35% tariff rate on imported goods not covered by the USMCA. For good measure, it was reported that the EU will be getting a letter; and President Trump declared that most trading partners will see a tariff rate of 15% to 20%, which is higher than the current 10% baseline tariff.

All things considered, the indices held up relatively well, as market participants embraced the notion that the tariff letters were being used as a negotiating leverage, cognizant that there is still time to work out less onerous terms.

Nonetheless, the tariff overhang, which also featured a 50% tariff on copper imports starting August 1 and the threat of a potential 200% tariff on pharmaceutical imports, dulled some of the market's bullish enthusiasm.

That enthusiasm was not entirely diminished, however. The S&P 500 and Nasdaq Composite climbed to new record highs this week, aided by a better-than-expected Q2 earnings report and reassuring outlook from Delta Air Lines and AI giant NVIDIA surpassing a \$4 trillion market capitalization.

The mega-cap stocks, as a class, showed resolve, which was an underpinning factor for the stock market.

The week, at times, featured some favoritism of small-cap and mid-cap stocks, but that favoritism unraveled on Friday, sending the Russell 2000 and S&P Midcap 400 Index to losses for the week.

In terms of the S&P 500, its best-performing sectors were energy (+2.5%), utilities (+0.8%), industrials (+0.6%), information technology (+0.2%), and consumer discretionary (+0.1%). The biggest laggards were the financials (-1.9%), consumer staples (-1.8%), and communication services (-1.2%) sectors.

The Treasury market, for its part, had a similar showing. It traded with a resilient tone through most of the week, which included \$119 billion in new supply, but came under selling pressure on Friday in a curve-steepening trade led by losses in the inflation-sensitive back end of the curve. The 2-yr note settled the week at 3.91%, while the 10-yr note yield settled at 4.41%.

Some of Friday's selling was linked to ruminations that the push for higher tariff rates starting August 1 could leave the Fed in a sticky wait-and-see mode that forestalls a rate cut.

The U.S. Dollar Index seemed to reflect that view, having increased 0.7% this week to 97.87.

- Nasdaq Composite: -0.1% for the week / +6.6% YTD
- S&P 500: -0.3% for the week / +6.4% YTD
- Russell 2000: -0.5% for the week / +0.2% YTD
- S&P Midcap 400: -0.6% for the week / +1.6% YTD
- DJIA: -1.0% for the week / +4.3% YTD

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