

Tariff talk and profit taking keeps market in check

The equity market posted modest gains this week despite volatility stemming from earnings, economic data, Fed policy speculation, and tariff developments.



The Nasdaq Composite and S&P 500 closed at or near record highs, while small caps outperformed on renewed economic optimism.

Earnings Season in Full Swing: A busy earnings slate drove much of the market's tone. Financials got the ball rolling with generally strong results from JPMorgan, Citigroup, and Goldman Sachs. Citigroup stood out, while others saw "sell-the-news" pullbacks. Taiwan Semiconductor lifted chip stocks after strong earnings and a positive outlook.

Snap-On, PepsiCo, and Travelers also beat expectations. However, Netflix, 3M, and American Express faced post-earnings selling on Friday, tempering overall sentiment, while regional banks Comerica and Regions outperformed.

Economic Data in Focus: markets digested a variety of high-impact economic releases:

- CPI showed core inflation at +0.2%, slightly better than expected, but price increases in apparel and furnishings raised concerns over tariff-driven inflation.
- PPI was unchanged month-over-month, adding to a disinflationary narrative favorable to the Fed.
- Retail sales rose 0.6% in June after two months of decline, signaling renewed consumer strength.
- Initial jobless claims fell to 221,000, consistent with a solid labor market.
- Housing starts and permits beat expectations on the surface, but weakness in single-unit construction and permits remains a headwind for housing supply.
- Consumer sentiment rose to a 5-month high, reflecting improving inflation expectations.

The data suggests a resilient economy with sticky, though moderating, inflation—just enough to keep the Fed on hold for now.

Federal Reserve Developments: Fed policy remained central to the market narrative. The CPI and PPI reports, while not alarming, weren't dovish enough to prompt immediate rate cuts.

Several Fed officials, including Collins, Williams, and Kugler, reiterated that current policy remains appropriate, given ongoing inflation risks. Expectations for a July rate cut sit just below 5%, according to the CME FedWatch Tool.

A midweek report that President Trump might fire Fed Chair Powell caused momentary turbulence. Though later called “highly unlikely” by the president, the speculation unsettled markets and reignited debate about Fed independence.

Tariffs and Trade Tensions: Early-week jitters followed President Trump’s proposed 30% tariff on EU and Mexican goods effective August 1. Reassurances from EU and Mexican leaders helped stabilize markets.

Separately, the administration announced secondary tariffs on Russian goods unless a Ukraine ceasefire occurs by September 1. Markets largely shrugged this off but remained alert to inflation risks from rising import costs. Tariffs remain a wildcard for both inflation and monetary policy going forward.

Market Performance and Flows

- **Nasdaq Composite:** Led the week, notching multiple record highs behind strength in semiconductors and AI-related names like NVIDIA and Advanced Micro Devices.
- **S&P 500:** Also set new records, lifted by good earnings news.
- **Russell 2000:** Gained 0.2% for the week, leaving it up 3.0% for the month.
- **Treasuries:** Saw a tug-of-war between inflation optimism and Fed policy skepticism. The 2-year yield settled at 3.88%, down three basis points for the week, while the 10-year note yield settled at 4.43%, up one basis point for the week.
- **U.S. Dollar Index:** Finished the week higher, boosted by firmer inflation expectations and tariff-related concerns.

Investor Takeaway: Resilient economic data and strong earnings kept equity markets buoyant, though risks around Fed policy and tariffs remain unresolved. With the July FOMC meeting ahead, investors should expect continued headline-driven volatility.

- **Nasdaq Composite:** +1.5% for the week / +8.2% YTD
- **S&P 500:** +0.6% for the week / +7.1% YTD
- **Russell 2000:** +0.2% for the week / +3.0% YTD
- **S&P 400:** flat for the week / +1.6% YTD
- **DJIA:** -0.1% for the week / +4.2% YTD

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