

Higher Oil, Higher Yields, Lower Stocks

The stock market turned lower again this week as rising oil prices reshaped the inflation outlook, Federal Reserve expectations, and overall market sentiment.



The S&P 500 fell 1.9%, while the Nasdaq Composite and Dow Jones Industrial Average each declined 2.1%, with all three major averages breaking further below key technical levels by Friday.

The week began on a more constructive note, as a pullback in crude oil helped fuel a broad rebound and briefly pushed the Nasdaq Composite back above its 200-day moving average. However, that optimism faded quickly as oil resumed its climb and geopolitical risks surrounding the Strait of Hormuz intensified.

By midweek, the focus shifted squarely to inflation and monetary policy. A hotter-than-expected PPI report reinforced concerns that price pressures remain sticky—even before factoring in the recent surge in energy prices. Those concerns were further cemented following the

FOMC decision.

While the Fed left rates unchanged, the updated Summary of Economic Projections showed higher inflation expectations, with PCE rising to 2.7% from 2.4%. Importantly, Fed Chair Jerome Powell acknowledged that the possibility of future rate hikes was at least discussed, signaling a more cautious stance than markets had anticipated. As a result, expectations for rate cuts were pushed further out, with markets even assigning a small probability to a hike by year-end.

That repricing was clearly reflected in the Treasury market. Yields moved higher throughout the week, extending a multi-week selloff driven by inflation concerns tied to energy prices. By Friday, the 2-year note yield had risen 16 basis points on the week to 3.89%, while the 10-year note yield climbed 10 basis points to 4.39%.

Equities struggled under the weight of that shift. Growth and rate-sensitive sectors led the downside, with consumer discretionary (-2.7%), information technology (-1.9%), and communication services (-1.5%) all posting notable losses.

Real estate (-4.1%) and utilities (-5.0%) were among the worst performers as rising yields pressured valuation-sensitive areas of the market.

The energy sector stood out as the clear outperformer, gaining 2.8% for the week as crude oil climbed back toward the \$100 per barrel mark. In contrast, consumer staples (-4.5%) and materials (-4.5%) lagged amid broader risk-off sentiment and commodity-related volatility.

Friday's session captured the prevailing tone: oil prices moved higher again on escalating geopolitical developments, Treasury yields jumped, and equities sold off broadly. The S&P 500 narrowly held above the 6,500 level, but the continued break below its 200-day moving average reflects weakening technical momentum and deteriorating sentiment.

Ultimately, this week reinforced a critical shift in the market narrative. What began as an oil-driven inflation scare has evolved into a broader repricing of monetary policy expectations. As long as crude remains elevated and volatile, markets are likely to stay under pressure, with inflation fears and a "higher-for-longer"—or even "higher-again"—Fed outlook driving price action.

- S&P Mid Cap 400: -1.3% week-to-date
- Russell 2000: -1.7% week-to-date
- S&P 500: -1.9% week-to-date
- Nasdaq Composite: -2.1% week-to-date
- DJIA: -2.1% week-to-date

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