WEEK IN PERSPECTIVE

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Busy week fuels sharp declines

The stock market closed with solid losses this week. Market participants had a lot to digest on this busy week in terms of market-moving events.

The downside bias was driven by a jump in market rates, a recalibration of rate cut expectations, and increased geopolitical tensions.

The added sticking point for the geopolitical angst, which was related to reports that Iran could soon attack Israel, was uncertainty related to the weekend and the potential that investors would not be able to react in real-time to any potential developments.

The negative bias in the stock market began before the aforementioned reports, however. The market did not react favorably to a hotter than expected March Consumer Price Index (CPI). Total CPI increased 0.4% month-over-month versus an expected 0.3% increase and core-CPI, which excludes food and energy, increased 0.4% month-over-month versus an expected 0.3% increase.

The Producer Price Index (PPI) was cooler-than-expected on a month-over-month basis (actual 0.2%; expected 0.3%), but total PPI still accelerated to 2.1% in March from 1.6% in February.

These reports fueled worries about ongoing hawkishness from the FOMC and drove participants to rethink rate cut expectations. The probability of a rate cut at the June FOMC meeting collapsed to just 27.7% versus 69.3% one month ago.

The market's expectations at the start of the year were for six rate cuts by the end of 2024, but the sudden change this week leaves the market with only two expected rate cuts now.

Treasury yields turned sharply higher in response to the data, and in response to a slate of weak Treasury auctions.

There was a $58 billion 3-yr note auction on Tuesday, a $39 billion 10-yr note auction on Wednesday, and a $22 billion 30-yr bond auction on Thursday.

The 10-yr note yield jumped 12 basis points to 4.50% and the 2-yr note yield, which is most sensitive to changes in the fed funds futures rate, jumped 15 basis points to 4.88%.

This week's losses follows a soft start to the Q1 earnings reporting period. JPMorgan Chase CEO Jamie Dimon made some cautious-sounding macro comments and the bank left its net interest income guidance for 2024 unchanged from its prior view. Citigroup and Wells Fargo also logged declines after their earnings results.

The weakness in bank stocks led the S&P 500 financials sector to decline 3.6% this week. It was the worst performer, but all 11 S&P 500 sectors logged declines. The real estate (-3.1%) sector was another top laggard, clipped by the jump in market rates. The materials (-3.6%) and health care (-3.1%) sectors also fell more than 3.0%.

- Nasdaq Composite: -0.5% for the week / +7.8% YTD
- S&P 500: -1.6% for the week / +7.4% YTD
- S&P Midcap 400: -2.9% for the week / +4.3% YTD
- Dow Jones Industrial Average: -2.4% for the week / +0.8% YTD
- Russell 2000: -3.0% for the week / -1.2 YTD

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