

Choppy start to second quarter amid rising rates

The stock market started the second quarter with volatile price action following a strong start to the year.



Ultimately, the major indices settled with decent losses. The Dow Jones Industrial Average (-2.3%) and Russell 2000 (-2.9%) each fell more than 2.0% and the S&P 500 and Nasdaq Composite declined 1.0% and 0.8%, respectively.

The downside bias was related to a sharp increase in market rates amid some solid economic data and sticky inflation figures. The 10-yr note yield jumped 12 basis points to 4.33% and the 2-yr note yield rose 10 basis points to 4.72%.

The February Personal Spending and Income report, released last Friday when markets were closed, showed some sticky inflation figures in

the form of the PCE Price Indexes. Some of this week's data, which included the March ISM Manufacturing Index and the March employment report, reflected ongoing strength in the economy. The March ISM Non-Manufacturing PMI and weekly jobless claims report showed some softening, though.

Market participants were recalibrating rate cut expectations following this week's data and some commentary from Fed officials. Minneapolis Fed President Kashkari (not an FOMC voter) was among the Fed officials to draw attention, saying it's possible the Fed might not cut rates this year if progress on inflation stalls. The implied likelihood of a rate cut in June is now essentially a toss up, having fallen to just 52.4% from 60.4% one week ago.

Increased geopolitical tensions in the Middle East related to a potential retaliation by Iran against Israel also contributed to the negative bias this week, in addition to some normal consolidation efforts after the strong start to the year.

Just about everything participated in this week's losses. Nine of the 11 S&P 500 sectors finished lower. The health care sector (-3.1%) saw the steepest decline after the CMS left its originally proposed payment rate increase for Medicare Advantage plans for 2024-2025 unchanged at 3.70% against expectations for an increase. The real estate (-3.0%) and consumer staples (-2.7%) sectors were also notable laggards.

Meanwhile, the energy (+3.9%) and communication services (+2.5%) sectors were alone with gains at the end of the week.

- S&P 500: -1.0% for the week / +9.1% YTD
- Nasdaq Composite: -0.8% for the week / +8.2% YTD
- S&P Midcap 400: -1.9% for the week / +7.5% YTD
- Dow Jones Industrial Average: -2.3% for the week / +3.2% YTD
- Russell 2000: -2.9% for the week / +1.8% YTD

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