WEEK IN PERSPECTIVE

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Consolidation interest takes root

It was a losing week for the stock market, but it wasn't necessarily a losing week for the broader market.

The connection is that the losses were not broad based. Rather, they were concentrated among the mega-cap stocks and many of the growth stocks, namely the semiconductor stocks, that had been previously favored by the momentum crowd.

The CRSP Mega-Cap Growth Index declined this week while the Philadelphia Semiconductor Index dropped 8.8%. The former was a byproduct of consolidation activity following an extended period of outperformance. The latter was also a byproduct of consolidation interest; however, selling activity was catalyzed by a report that the Biden Administration is considering tightening export restrictions to China, and former President Trump saying Taiwan should be paying the U.S. to defend it while bemoaning how much semiconductor production occurs in Taiwan versus the U.S.

Mr. Trump's remarks touched a nerve since the market entered the week on speculation that he is likely to win the presidential election in November with his popularity boosted after a failed assassination attempt over the weekend at a Pennsylvania rally.

That speculation also fostered a contention that a Trump Administration would be more market friendly given former President Trump's push for deregulation and lower corporate tax rates. Those aims were spelled out at the Republican National Convention this week, which also featured the nomination of Ohio Senator J.D. Vance for Vice President.

That upbeat view contributed to an ongoing rotation trade that boosted the small-cap stocks, the cyclical stocks, and the value stocks at the start of the week, mostly at the expense of the mega-cap stocks and growth stocks.

At its high for the week, the Russell 2000 was up 6.0%, but it would retreat in the latter half of the week along with most stocks in a consolidation trade. The Russell 2000 finished the week, which also featured the outperformance of the regional bank stocks, with a 1.9% gain.

An expectation that the Fed will be lowering rates soon spurred the continued buying interest in the bank stocks, as well as the homebuilders which are seen as beneficiaries of lower rates through the channel of lower mortgage rates.

This week's earnings news stayed true to form and was mostly better than expected, highlighted by pleasing news from Bank of America (BAC), UnitedHealth (UNH), Goldman Sachs (GS), Taiwan Semiconductor Manufacturing Company (TSM), Johnson & Johnson (JNJ), and SLB (SLB).

The market didn't get much mileage out of the reports, though, since many stocks had run up sharply in the weeks and months leading up to their results, including Netflix (NFLX) whose report was overshadowed somewhat in Friday's trade by a global IT outage that was triggered by a flaw in a technical update CrowdStrike was trying to implement and which infiltrated Microsoft's (MSFT) operating system.

The worst-performing sectors this week were information technology (-5.1%), communication services (-2.9%), and consumer discretionary (-2.7%), all of which house mega-cap components.

The earnings reporting activity will gather steam in the coming week as the Q2 reporting period kicks into a higher gear. Those reports will run side-by-side with an economic calendar that features the Existing Home Sales and New Home Sales reports for June, and the Personal Income and Spending report for June, which will include the Fed's preferred inflation gauge in the core-PCE Price Index.

- Nasdaq Composite: +18.1% YTD
- S&P 500: +15.4% YTD
- S&P Midcap 400: +8.4% YTD
- Russell 2000: +7.8% YTD
- Dow Jones Industrial Average: +7.0% YTD