

Inflation Data, Earnings News, and Rising Rates Drive Selling Interest

The Nasdaq Composite closed above 20,000 for the first time this week, settling 0.3% higher than last week.



The S&P 500 and Dow Jones Industrial Average dropped 0.6% and 1.8%, respectively, this week. The Russell 2000 underperformed its peers, losing 2.6%.

There were festering valuation concerns in play that also mixed with chatter of the market being overbought on a short-term basis and due for some consolidation. Market participants used rising market rates as an excuse to engage in profit-taking activity.

The 10-year yield jumped 25 basis points to 4.40% and the 2-year yield jumped 14 basis points to 4.24%. This price action followed disappointing inflation readings and data indicating some softening in the labor market.

Wednesday's release of the November Consumer Price Index (CPI) report met expectations and reinforced the

market's anticipation of an upcoming rate cut. Total CPI moved higher on a year-over-year basis to 2.7% from 2.6% and core CPI was at 3.3%, which is still above the Fed's 2% inflation target.

Thursday's release of the November Producer Price Index (PPI) report showed rising inflation at the producer level, which doesn't mix with the market's view of ongoing rate cuts. The index for final demand was up 3.0% year-over-year versus 2.6% in October. Excluding food and energy, the index for final demand was up 3.4% year-over-year (3.45% unrounded versus 3.37% in October).

Market participants also received weekly initial jobless claims, which increased to 242,000 from 225,000 and continuing claims, which increased to 1.886 million from 1.871 million.

Expectations for a 25-basis points rate cut at the FOMC meeting next week increased in response to the data. The fed funds futures market now sees a 95.3% probability of a 25 basis points cut next week, up from 86.0% one week ago, according to the CME FedWatch tool.

In corporate news, Oracle (ORCL) declined 9.6% this week after a disappointing fiscal Q2 earnings report, missing the consensus EPS estimate compiled by FactSet, and issuing lower-than-expected guidance for fiscal Q3. Adobe's (ADBE) FY25 guidance disappointed investors while shares of Broadcom (AVGO) rallied 25.2% this week after solid results and pleasing guidance.

In other news, the ECB's cut its key policy rates by 25 basis points, as expected.

- Nasdaq Composite: +0.3% for the week / +32.7% YTD
- S&P 500: -0.6% for the week / +26.9% YTD
- S&P Midcap 400: -1.6% for the week / +17.8% YTD
- Russell 2000: -2.6% for the week / +15.8% YTD
- Dow Jones Industrial Average: -1.8% for the week / +16.3% YTD

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