

Stocks Waver Amid Rising Rates

The stock market closed with losses at the index level.



Rising market rates were a big driving factor in this week's action, reflecting worries about stick inflation and that the Federal Reserve may maintain higher interest rates for an extended period.

The 10-yr yield surged 18 basis points this week to 4.78% and the 2-yr yield settled 12 basis points higher than last Friday to 4.40%. This price action was in response to this week's economic releases.

The reports includes a stronger-than-expected ISM Services PMI reading for December and a November JOLTS - Job Openings Report that showed a noticeable increase in job openings. The added wrinkle in the ISM Services PMI is that it also featured a notable pickup in the Prices Index (to 64.4% from 58.2%), which topped the 60.0% level

for the first time since January 2024.

The data also included a below-consensus ADP Employment Change report for December (122,000; Briefing.com consensus 131,000), and an unexpected drop in weekly Initial Claims (201,000; Briefing.com consensus 218,000; prior 211,000).

The December employment report featured a 256,000 increase in nonfarm payrolls and a dip in the unemployment rate to 4.1% from 4.2%. There was also a notable jump in year-ahead and long-run inflation expectations in the preliminary January University of Michigan index of Consumer Sentiment.

Market participants also received the FOMC Minutes for the December 17-18 meeting, which echoed Fed Chair Powell's remarks in his press conference after the meeting. The minutes conveyed a belief that the Fed should hold off on another rate cut until it has more confidence in inflation returning to its 2% target and/or more concern about the labor market deteriorating in a more pronounced manner.

Many stocks participated in a broad retreat this week. The market-cap weighted S&P 500 dropped 1.9% and the equal-weighted S&P 500 dropped 1.7%. The Nasdaq Composite fell 2.3% and the Dow Jones Industrial Average closed 1.9% lower than last Friday. The S&P 500 briefly traded above its 50-day moving average this week before dropping back below that key level.

Only three S&P 500 sectors closed higher and eight closed lower than last Friday. The health care (+0.5%), energy (+0.9%), and materials (+0.1%) sectors closed higher while the rate-sensitive real estate sector logged the largest decline, dropping 4.1% from last week.

S&P Midcap 400: -1.7% for the week / -0.7% YTD

Nasdaq Composite: -2.3% for the week / -0.8% YTD

S&P 500: -1.9% for the week / -0.9% YTD

Dow Jones Industrial Average: -1.9% for the week / -1.4% YTD

Russell 2000: -3.5% for the week / -1.8% YTD

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