WEEK IN PERSPECTIVE

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Tariff Talk, Earnings News, and Economic Data Fuels Declines

It was a busy week for stock market participants. The major indices ebbed and flowed, ultimately settling lower than last Friday.

The S&P 500 slid 0.4% and the Nasdaq Composite logged a 0.5% decline.

The news cycle in the first half of the week was dominated by talk of tariffs. Participants learned last weekend that President Trump announced that the U.S. will be implementing a 25% tariff on imported goods from Canada and Mexico (but only a 10% tariff on imported Canadian energy) and a 10% tariff on imported goods from China. He also indicated to the press that tariffs for the EU will likely be implemented fairly soon.

Leaders from Canada and Mexico were able to strike a deal with the US to avoid tariffs for one month. Meanwhile, China said it will be imposing a 15% tariff on imports of coal and LNG from the U.S., and 10% tariffs on crude oil, agricultural machinery, and certain cars starting February 10. China also imposed further export restrictions on key minerals, such as tungsten, and said it will be starting an anti-monopoly investigation of Alphabet's Google.

The market interpreted China's retaliation as more postural than penal. Furthermore, the tariff talk has been viewed as more of a temporary negotiating tactic than a permanent feature.

There was also a slate of market-moving economic data to get through this week. The December JOLTS - Jobs Openings Report showed a stark drop in openings to 7.600 million versus an upwardly revised 8.156 million (from 8.098 million) in November; Services PMI readings for January out of China, Europe, and the U.S. were weaker-than-expected, fostering some growth concerns; the January Employment Situation Report featured a 0.5% increase in average hourly earnings, which may not bode well for inflation; and the preliminary February University of Michigan Consumer Sentiment survey showed an increase in year-ahead inflation expectations to 4.3% (from 3.3%).

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Rate cut expectations adjusted in response to the economic data and tariff news. The fed funds futures market now sees a 52.8% probability of a rate cut by the June FOMC meeting, down from 64.6% yesterday, according to the CME FedWatch Tool.

Treasury yields also adjusted in response to the tariff news and data. The 2-yr yield settled four basis points higher at 4.28% and the 10-yr yield settled eight basis points lower at 4.49%.

The front of the curve was under pressure as the specter of higher inflation following the tariff talk and economic data will likely forestall future rate cuts by the Fed; the long end, which is more sensitive to inflation pressures, was actually a bit stronger (ironically) as participants mull the notion that demand will wane in the face of higher prices, hurting growth.

It was another big week for earnings news with results from Alphabet, which dropped 9.0%, and Amazon.com, which dropped 3.6%, headlining the calendar. Other notable names included Palantir Technologies, Qualcomm, Spotify, Dow component Merck, Estee Lauder, and PepsiCo.

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