

## Growth Worries, Tariff Uncertainty Fuel Retreat

It was a rough week for the stock market. The major indices logged solid declines ranging from 2.4% to 4.1%. Growth concerns and tariff worries were the main driving forces again, along with some technical deterioration.



There's a through-line connecting growth concerns and tariffs also. If tariffs drive up inflation, the market may respond (and has responded in recent weeks) to the notion that the higher prices will end up sapping consumer demand.

The trade war heated up after 25% tariffs for Canada and Mexico went into effect and tariffs on China increased by 10% to 20%, and the countries announced subsequent retaliatory measures.

The 25% tariff for Canada and Mexico were revised, though, such that all USMCA compliant goods from Canada (~38%) and Mexico (~50%) will be exempt from tariffs until April 2, according to CNBC. That means nearly two-thirds of imported goods from Canada and roughly half of imported goods from

Mexico will face a tariff now.

Growth concerns were further stoked by some soft earnings and guidance from the likes of Target (TGT) and others. Target warned that price increases are likely, which may impact consumer demand and lead to lower growth in earnings and in the economy. Target's CEO also highlighted that the consumer has been cautious already.

This week's economic releases also played into worries about the economy. The February ISM Manufacturing PMI showed a mix of decelerating activity, rising prices, and weakening employment for the manufacturing sector.

The ADP Employment Change Report for February was weaker than expected, yet the ISM Services PMI for February was stronger than expected.

Also, the February employment report was neither hot nor cold, but at the same time it wasn't just right for a market that needed to see stronger growth.

Nonfarm payrolls were up 151,000; the unemployment rate ticked up to 4.1% from 4.0%; average hourly earnings were up 0.3%; and the average workweek stuck at 34.1 hours.

Technicals were in play this week after the S&P 500 briefly dipped below its 200-day moving average. The Russell 2000 and Nasdaq Composite dropped further below their respective 200-day moving averages and further into correction territory.

Just about everything in the equity market participated in downside moves this week. Ten of the 11 S&P 500 sectors were lower with the financial (-5.9%), consumer discretionary (-5.4%), and energy (-3.8%) sectors logging the biggest declines.

The defensive-oriented health care sector (+0.2%) was the only sector to close with a gain this week. Treasuries closed with losses. The 10-yr yield rose nine basis points to 4.32% and the 2-yr yield settled unchanged at 4.00%.

- Dow Jones Industrial Average: -2.4% for the week / +0.6% YTD
- S&P 500: -3.1% for the week / -1.9% YTD
- S&P Midcap 400: -3.5% for the week / -4.3% YTD
- Nasdaq Composite: -3.5% for the week / -5.8% YTD
- Russell 2000: -4.1% for the week / -6.9% YTD

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