INCISIVE INVESTOR

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WEEK IN REVIEW

STOCKS END MIXED AFTER STRONGER JOBS REPORT

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U.S. stocks closed mixed Friday, with the technology-heavy Nasdaq Composite ending higher as the Dow Jones Industrial Average and S&P 500 index slipped, after a stronger-than-expected June jobs report. All three major benchmarks booked weekly gains, with the Nasdaq leading the way up.

Dow Jones Industrial Average DJIA fell 46.40 points, or 0.1%, to close at 31,338.15. S&P 500 SPX dipped 3.24 points, or 0.1%, to finish at 3,899.38, snapping four straight days of gains. Nasdaq Composite COMP rose 13.96 points, or 0.1%, to end at 11,635.31, a fifth straight day of gains that marks its longest winning streak since November.

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Payrolls continue strong

With 372,000 jobs added to payrolls in June, the US labor market remained surprisingly tight despite ample evidence that the US and global economies are slowing. This was over 100,000 more than expected, although the prior two months' readings were revised downward by a combined 74,000. The nation's unemployment rate was unchanged at a historically low 3.6%. Nonetheless, the labor force participation rate fell to 62.2% from 64.4%. Average hourly earnings held steady at 0.3% month over month. The data pressures the US Federal Reserve to continue raising rates in larger-than-normal increments. Shortly after the release of the report, futures markets were pricing in a 98% probability of a 0.75% increase in the federal funds rate later this month and a doubling of the rate to 3.5% by March. Thereafter, markets expect the Fed to pause.

Equities helped by easing inflation pressures

A few of the signs that inflation pressures may have begun to ease are sharp declines in commodities prices, news that US apartment rents have begun to level off (and in some cases, decline), and a surge in the US dollar. In recent sessions, there has been a greater focus on the rising risk of a recession than on inflation contributing to an erratic ascent. While equity volatility has declined as of late, interest rate volatility has soared to levels only exceeded by the Treasury market freeze in the early days of the pandemic and the global financial crisis. Recession fears helped prompt an inversion of the US 2-year/10-year yield curve.

FOMC minutes highlight risk of entrenched inflation

The minutes of the June meeting of the US Federal Reserve Federal Open Market Committee show that policymakers are increasingly concerned that inflation expectations will become ingrained and that the outlook calls for a restrictive policy stance to rein in price pressures. Participants judged that a hike between 0.5% and 0.75% will likely be appropriate at the upcoming July FOMC meeting. Futures markets have nearly become fully priced in a three-quarter-point move.

HEADLINERS

The Wall Street Journal reports that Russia is appropriating grain from newly occupied areas of Ukraine and exporting it to allied countries in the Middle East.

In May, the US trade deficit narrowed for the second month in a row just as declining demand reduced imports and exports of oil and gas rose. The deficit fell to $85.5 billion in May from $86.7 billion in April.

After peaking at 6.04% in late June, the average 30-year US fixed-rate mortgage fell to 5.67% on Thursday.

The heads of the US Federal Bureau of Investigation and the United Kingdom's MI-5 this week issued a joint warning to business leaders to beware of industrial spying by China.

US weekly jobless claims for the week ending July 1st rose to 235,000, their highest level since bottoming out at 166,000 in mid-March. A sharp rise in claims has historically been a leading indicator of recession.

Goldman Sachs lowered its Q2 US GDP forecast to 0.7% from its prior 1.9% estimate.

Twitter Inc. TWTR shares fell 5.1% following a Washington Post report that led investors to suspect that Elon Musk might be trying to back out of his deal to take the company private.

PayPal Holdings PYPL shares fell more than 2% after a broker downgrade.

Enphase Energy Inc. ENPH was the best performer on the S&P 500, with shares climbing around 4.7%.

Tesla Inc. TSLA rose 2.5%, despite shipping a record 78,906 vehicles in China last month.

GameStop GME fell 4.9% after layoffs and a CFO change.

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Park 10 Financial has the knowledge and expertise to answer all of your concerns.

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