This Week Could Be a Turning Point for Markets

The start to earnings season wasn’t strong enough to keep stocks in record territory. The major banks, by and large, exceeded tempered expectations, but results for the group overall were mixed. Strength in consumer activity was offset, in some cases, by softness in business activity and trading. And the prospect of one or more cuts by the Federal Reserve pressured the outlook for net interest margins. For the week, the BKX bank index slipped 0.3 percent, contributing to the decline of 1.3 percent in the financial sector. But the S&P 500 overall shed 1.2 percent, as financials had plenty of company on the downside. Only materials and consumer staples managed fractional gains, while every other sector finished lower. That included energy stocks, which fell 2.6 percent despite rising tensions in the Persian Gulf.

The price of crude oil fell sharply throughout most of the week on worries over slumping demand amid plentiful supply, although that trend reversed somewhat on Friday and into early trading this week after Iran’s seizure of a British tanker. The weakest sector last week was communications services, as Facebook at 20 percent of the sector, fell 3.2 percent and Netflix, at four percent of the sector plunged 16 percent after it reported disappointing subscriber growth.

The Street Continues its Laser Focus on Rate Cuts

Despite the singular focus on potential rate cuts, last week’s economic news was relatively firm. Manufacturing production was better than the flat overall industrial production report, and retail sales were better than expected. Nevertheless, bond yields slipped on the week. The ten-year Treasury yield fell six basis points to 2.06 percent, flattening the 2-10-year curve by four basis points to 23 (a basis point is 1/100th of a percent). The three-month to ten-year curve was unchanged at -2 basis points.

Contributing to the weaker tone last week was some confusion over the Fed’s intentions. A speech by New York Fed president Williams was interpreted as raising the odds of a half-point rate cut at next week’s FOMC meeting. Those comments were later clarified as referring to policy in the abstract, not the present, disappointing those hoping for a more aggressive action than the widely expected quarter-point cut.

This Week: Investors Paying Attention to Economic Data, Earnings, Trade and Britain’s New Prime Minister

This week’s economic calendar includes the first look at second quarter GDP. The Bloomberg consensus anticipates growth of 1.8 percent, well down from the 3.1 percent pace of the first quarter. Also scheduled are reports on existing and new home sales, durable goods orders and flash manufacturing. And among the
names scheduled to report in a busy week for earnings are Coca-Cola, McDonald’s, United Technologies, Boeing, Ford, Amazon, Facebook and Intel.

In Europe this week Britain will get a new Prime Minister, and, in the Eurozone, the European Central Bank meets amid growing anticipation of additional policy accommodation.

Progress on the trade talks with China have proceeded slowly. No face-to-face meetings have occurred since the G-20 meeting three weeks ago, but reports suggest they could happen soon. U.S. tech company representatives are set to visit Washington on Monday to discuss component sales to Huawei amid national security concerns. At the same time, Chinese companies have been making inquiries about increasing U.S. grain purchases. However, over the weekend, China reiterated its insistence that all tariffs on Chinese exports to the U.S. be removed.

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