

Weekly Wrap

Week in Review: Stock market posts its best week this year on expectations for the Fed to cut rates

The stock market had its best week in 2019, with the S&P 500 (+4.4%) and the Dow Jones Industrial Average (+4.7%) each rising over 4.0%, on expectations the Fed will cut rates to mitigate slowing growth. The Nasdaq Composite advanced 3.9%, and the Russell 2000 advanced 3.3%.

All 11 S&P 500 sectors finished higher with gains ranging from 0.9% (communication services) to 9.1% (materials).

Coming into the week, the S&P 500 was down 6.7% from its record close, and market participants had sensed that the market was due for a bounce from a short-term oversold condition. The rebound effort was put on hold, though, as regulatory concerns surrounding **Facebook (FB)**, **Apple (AAPL)**, **Amazon (AMZN)** and **Alphabet (GOOG)** sent these widely-held stocks reeling on Monday.

Heavy losses from these FAANG stocks barely put a dent in the broader market, though, and the market quickly latched onto the idea that the Fed will be forced to cut rates at least once this year. These stocks recouped most, if not all, of their losses from Monday.

Several Federal Reserve officials, including Fed Chair Powell, acknowledged concerns about trade tensions and persistently low inflation levels. Mr. Powell even said that the Fed will act as appropriate to sustain the economic expansion, which the market interpreted as a signal for looser monetary policy.

Deceleration in jobs growth and soft wage-based inflation in the Labor Department's Employment Situation Report for May bolstered these rate-cut expectations. The fed funds futures market sees a 85.6% implied likelihood of a rate cut at the July 30-31 FOMC meeting.

Nonfarm payrolls increased by just 75,000 (Briefing.com consensus 180,000), and average hourly earnings increased 0.2% (Briefing.com consensus 0.3%). Year-over-year, average hourly earnings were up 3.1% versus 3.2% in April.

Growing expectations for a rate cut sent the fed funds-sensitive 2-yr yield down ten basis points to 1.84%. The 10-yr yield declined six basis points to 2.08%. The U.S. Dollar Index fell 1.2% to 96.58. WTI crude increased 0.8% to \$53.92/bbl.

Separately, after President Trump surprised the market last week by announcing a 5% tariff rate on all imports from Mexico, the two sides reportedly made progress this week. Market participants hoped that the U.S. could delay the planned tariffs from going into effect on Monday.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	24815.04	25983.94	1168.90	4.7	11.4
Nasdaq	7453.15	7742.10	288.95	3.9	16.7
S&P 500	2752.06	2873.34	121.28	4.4	14.6
Russell 2000	1465.49	1514.39	48.90	3.3	12.3

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