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U.S. MARKETS

U.S. Stocks Rise but Notch Modest Weekly Loss

Despite a two-day rally, the Dow industrials are off about 1.5% for the week

By Corrie Driebusch

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The Dow Jones Industrial Average bounced back from Wednesday's 800-point selloff with two consecutive sessions of gains and a modest weekly loss. But investors' lingering fears about a potential recession remain unresolved.

Positive developments around trade and reassurances of extra stimulus from central bankers buoyed markets Friday. The blue-chip index ended the week down 1.5%, belying the dramatic swings and rush to government bonds that dominated earlier trading sessions.

Even as markets calmed, many analysts and traders said they were still on edge. The U.S. and China remain at loggerheads over a potential trade deal, economies throughout Europe are weakening and corporate earnings are slowing.

The next big catalyst for the stock and bond markets will likely come next week when Federal Reserve Chairman Jerome Powell is scheduled to speak at the central bank's annual retreat in Jackson Hole, Wyo. Investors are eagerly awaiting any signals on how the recent escalation in trade tensions between the U.S. and China could play into the Fed's policy and whether it could lead to more rate cuts in the coming months.

The ever-shifting signals have left traders scrambling to keep up.

"The volatility makes a difficult investing environment," said Justin Wiggs, managing director of equity trading at Stifel Nicolaus. "It seems to be equal parts people feeling they need to be in motion and people feeling paralyzed."

Government-bond yields have continued to tumble since the Fed cut rates last month for the first time in a decade. Weak data out of Germany and China have exacerbated fears of a potential recession and sent many investors rushing to cut their exposure to riskier stocks and seek the relative safety of U.S. government bonds.

The amalgamation of fears drove the yield on the 30-year Treasury bond to a record low Wednesday, the same day the Dow industrials suffered their biggest loss of 2019. That latest batch of volatility has many traders and analysts calling for additional intervention by the Fed.

Sentiment, at least temporarily, appeared to shift Thursday after retail sales data indicated American consumer spending had remained strong in the face of global headwinds, countering weakness in other parts of the economy.

The Dow industrials rose 306.62 points, or 1.2%, to 25886.01 Friday. The S&P 500 climbed 41.08 points, or 1.4%, ending the week down 1%. Both indexes have slumped for three consecutive weeks and are off about 5% from last month's all-time highs.

The yield on 10-year Treasuries also flipped higher, rising to 1.540% Friday, from 1.534% a day earlier. The 30-year bond slipped below 2% again and was briefly as low as 1.979%, according to Tradeweb.

Earlier this week, so many investors piled into long-term U.S. government debt that the yield on the 10-year Treasury note briefly fell below two-year yields for the first time since 2007, an inversion that is viewed by many as a signal that a recession could be on the horizon.

Jose Marques, chief executive of quantitative hedge fund Inferent Capital LLC, said he believes the recent volatility is part of a larger shift in how markets trade, leaving it more difficult for investors to make money. His fund invests in about 3,000 stocks at a time—algorithms, rather than humans, drive the bets.

“What’s changing every day is the relationships deep inside that are generally getting faster and less predictable,” he said. “You can call that market efficiency, but it does make it harder to extract trading profits from markets.”

Investors will be watching next week for any signs of progress in the U.S.-China trade talks. President Trump said Thursday that he plans to have a call with Chinese President Xi Jinping soon and face-to-face negotiations on a possible trade deal will resume next month.

Capping the volatile week, major indexes in Europe and Asia finished Friday higher. The Stoxx Europe 600 rose 1.2% after a top official at the European Central Bank said that it would announce a package of stimulus measures at its next policy meeting in September that should exceed investors' expectations.

In Asia, Hong Kong's Hang Seng gained 0.9%, while stocks in Shanghai rose 0.3%. China's State Council pledged to cut financing costs for businesses and vowed better credit support for companies with high creditworthiness.

In commodities markets, U.S. crude rose 0.7%. Oil prices have been volatile as tensions in the Strait of Hormuz ratcheted up. Gibraltar released an Iranian tanker this week that was impounded in July, opening the door for Tehran to free a British-flagged vessel it seized.



Traders work after the opening bell at the New York Stock Exchange on Thursday. PHOTO: JOHANNES EISELE/AGENCE FRANCE-PRESSE/GETTY IMAGES

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