Markets Briefing Equities

US stocks jump as Treasury yields retreat from recent highs

S&P 500 ends three-week losing streak as investors prepare for all-important jobs report

Investors were taking an optimistic view of data releases that showed economies in Europe and the US were more robust than expected © Financial Times

Jaren Kerr in New York and **Martha Muir** in London MARCH 3 2023

US stocks notched up their biggest one-day gains in at least a month after Treasury yields retreated from recent highs, helping the S&P 500 end a three-week losing streak as investors turn their attention to critical jobs data in coming days.

The blue-chip S&P 500 closed 1.5 per cent higher on Friday, leaving it up 1.9 per cent for the week. The tech-heavy Nasdaq Composite jumped 2 per cent for an advance of 2.6 per cent across the past five sessions. Both indices rebounded from a steep fall last week.

Providing some relief for investors on Friday was a retreat in yields on US Treasuries after they had hit their highest level in years in the previous session. Yields, which move inversely to prices, have risen in recent weeks after a series of strong economic data showing the US economy in robust shape, which could force the Federal Reserve to be more aggressive in raising interest rates to cool inflation.

The yield on the two-year note, which is more sensitive to monetary policy, fell to 4.86 per cent after hitting 4.94 per cent — its highest since 2007 — on Thursday. The 10-year yield dropped to 3.96 per cent.

"Sometimes, the market can be irrational for a short period," said Matt Maley, chief market strategist at Miller Tabak + Co. "We have interest rates going higher, and earnings going down. That's not a great combination for a stock market that is still expensive."

Maley said some of Friday's rally could have been due to technical reasons, and that even bear markets have bright spots.

"The [S&P 500] is down three weeks in a row, so it was kind of ripe for a bounce anyway. The worst bear markets don't go down in a straight line, just like the best bull markets don't go up in a straight market."

US non-farm payrolls data due on March 10 will be closely watched by investors and policymakers after January's blockbuster report showed the economy added more than half a million jobs in the first month of 2023.

Data since then has painted the domestic economy in a resilient light. On Friday, a report on the vast US services sector showed stronger than expected growth for February. Data released on Thursday showed jobless claims fell to 190,000 in the week ending February 25, below expectations for the seventh week in a row, indicating a persistently tight labour market.

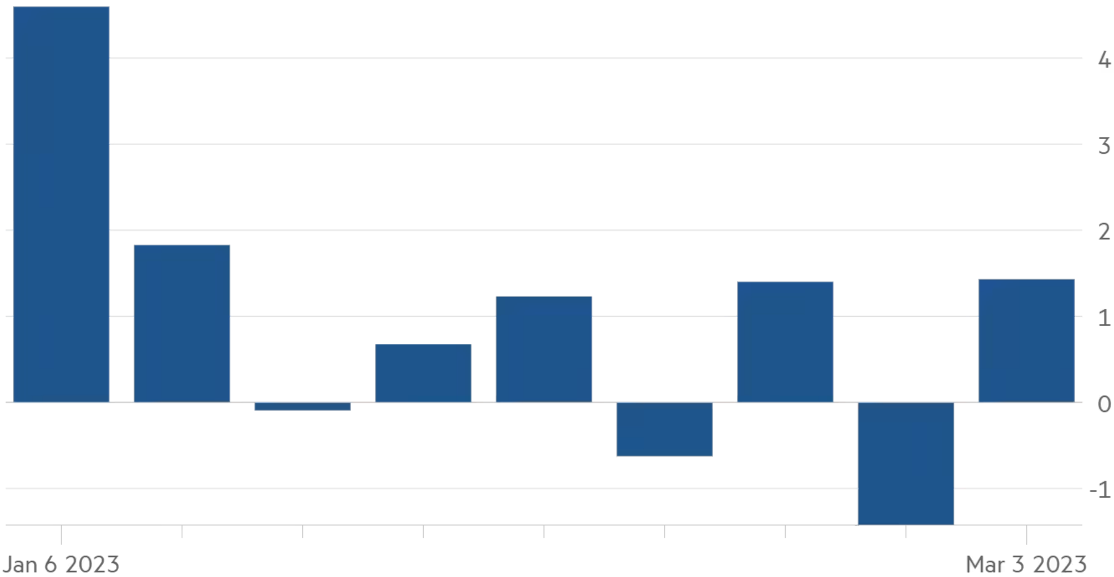
"Although we're expecting payrolls to not be as strong as last month — a more modest 200,000 — it will still be very strong and give us the best signal of supply and demand balances," said Seema Shah, chief global strategist at Principal Asset Management. "We need to reassess and understand how much wage pressure has faded, and given that inflation expectations have increased we could see a very sticky picture over the next three to six months."

Markets may have also taken some cheer from comments from Atlanta Federal Reserve president Raphael Bostic, who said on Thursday he favoured a "slow and steady" approach to raising rates, but was open to supporting higher increases if economic data continued to be strong.

In Europe, the region-wide Stoxx 600 and France's Cac 40 both closed 0.9 per cent higher, ending the week up 1.4 per cent and 2.2 per cent, respectively. The UK's FTSE 100 was flat. Germany's Dax gained 1.6 per cent after the S&P Global composite purchasing managers' index data for the eurozone's largest economy was revised lower from 51.1 to 50.7. The index finished the week up 1.5 per cent.

Rollercoaster 2023 for European equities

Stoxx Europe 600 weekly performance (% change)



Source: Bloomberg

Final European S&P composite purchasing managers' index data was revised down on Friday from 52.3 to 52. However, both readings still indicated an expansion in activity over the previous month.

"That adds to the sense that the data is improving and that the economic outlook in the eurozone has improved," said Neil Shearing, group chief economist at Capital Economics. "But since it's been revised down it will temper some optimism."

Figures on Tuesday showed stronger than expected inflation data from France and Spain, two of the eurozone's largest economies.

Yields on 10-year German government bonds fell 0.03 percentage points to 2.69 per cent.

The dollar index, which measures the greenback against six peer currencies, fell 0.5 per cent. The euro was up 0.3 per cent, while sterling was 0.9 per cent higher against the greenback.

Brent crude oil was up 1.3 per cent at $85.83 per barrel, and West Texas Intermediate, the US equivalent, gained 2 per cent to $79.79.