Stocks Flat Early with Oil, Yields Slightly Lower

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(Wednesday market open) Mulling strong results from Dell (DELL) and Palo Alto Networks (PANW), investors also nervously monitor yields and oil. Major indexes flattened early, still rattled by a jump to almost $90 per barrel for crude and a two-year high close for the 10-year yield after additional Middle East skirmishes.

New York Fed President John Williams told CNBC today that higher yields reflect economic strength, and he sees the trend of inflation slowly moving lower. Friday's August nonfarm payrolls report might blunt rate worries if it's soft. Analysts expect 45,000 new jobs. ADP August private sector employment of 38,000 missed the 47,000 consensus, but ADP doesn't typically correlate with the official government result.

Major indexes dipped Tuesday on war news that sent crude to five-week highs. Looking ahead, Broadcom (AVGO) earnings this afternoon could be a barometer for the chip industry and a possible gut check on Nvidia's (NVDA) recent solid results. A follow-up that mirrors Nvidia's progress might reinforce enthusiasm about AI demand growth.

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Three things to watch

• What's behind the yield rally: The relentless yield rise, with the 10-year posting its highest close since late 2023 Tuesday mainly reflects the Fed's recent hawkish pivot. Inflation expectations have contributed very little, and yields kept rising despite Treasury's recent decision to double the size of its liquidity buyback operations. Though raw numbers look spooky, taken in context they're not scary. "Today's Treasury yields might not be a problem that needs to be fixed," said Collin Martin, head of fixed income research and strategy at the Schwab Center for Financial Research (SCFR). "They are indicative of the economic environment we're in. Yields don't appear too high given economic fundamentals." Under the hood, the yield curve is positively sloped, and the 10-year yield doesn't appear too high considering nominal 6.6% year-over-year second-quarter gross domestic product growth. The 10-year yield's premium to the upper bound of the Fed funds rate is near the 30-year average%. Martin thinks the Treasury's move could be a short-term fix limiting long-term yield gains, but not necessarily a solution. Fiscal concerns aren't necessarily a key driver, or the term premium—generally flat this year—would be higher.

• Equity repricing underway thanks to yields: The relentless Treasury yield rally makes "repricing" the main story for stocks. This is less about one stock or sector and more about oil and yields moving higher together, tightening financial conditions and pressuring valuations after a strong August. The market is essentially rethinking how much investors should pay for earnings when inflation and rates are both moving the wrong way. The near-term bias is likely to stay defensive unless crude or yields stabilize. In some ways, the 10-year yield's rise is doing the Fed's work for it by raising discount rates and weighing most on long-duration growth and mega cap areas like technology. If yields keep rising, investors might demand lower multiples even if earnings expectations remain intact. Meanwhile, higher oil and sticky inflation make it harder for the Fed to sound dovish, so the next inflation and labor reports are key to yields. The risk is that the Fed doesn't need to hike immediately for financial conditions to tighten if bond yields keep doing the work, but the question is whether fundamentals are strong enough to offset the drag from higher rates.

• Weak yen lifts yields: A Bank of Japan (BoJ) hike is expected the week after next as central bankers globally respond to relentless inflation driven partly by the war. For the BoJ, it's also about protecting the yen, which lost about half the gains it made versus the dollar since last month's joint action by the U.S. and Japan to stabilize the currency. "Joint intervention in the yen has slowed, not stopped, yen weakness," and fundamentals suggest the weakness could continue, said Michelle Gibley, director of international equity research at SCFR. Speculators covered some short positions on the joint intervention but remain net short, according to the Commodity Futures Trading Commission (CFTC). The joint move was partly an effort by the U.S. to prevent money from fleeing Treasuries. The continued combination of a weak yen and rising Japanese yields could slice the premium U.S. yields hold to Japan's. That might lure Japanese market participants into domestic assets and out of U.S. ones.

On the move

• Dell climbed nearly 8% ahead of the open as earnings and guidance topped consensus expectations. The important category of server and networking storage rose 122% year over year, well above consensus of 95%. Several Wall Street firms raised their price targets for shares.

• Palo Alto Networks turned around early sharp gains to fall 2.6% despite earnings and guidance late Tuesday topping analysts' expectations. Shares had rallied sharply into earnings, possibly leading to "buy the rumor, sell the fact" trading.

• MongoDB (MDB) plunged 12% early despite results that beat consensus views. Several Wall Street firms raised their price targets on shares of the company, citing continued strength in the quarter. But others lowered their targets, as apparently the quarter's business mix disappointed some.

• Hewlett Packard Enterprise (HPE) edged up more than 3%, rising in conjunction with the strong quarter from its competitor Dell.

• Gitlab (GTLB) soared 20% early following a better-than-expected earnings report from the software firm that included guidance for 15% to 16% annual revenue growth in the current quarter.

• Uber (UBER) rose almost 2% as the company plans to cut about 10% of its workforce, according to Bloomberg. This affects about 3,300 jobs in what the news agency called "a massive restructuring," citing a company email.

• Broadcom (AVGO) dipped approaching its earnings after the close. In June, the last time the chip giant reported, revenue missed expectations and shares plunged. The company also didn't raise its full-year $100 billion target for AI chip sales. Those are metrics to consider watching later.

• Apple (AAPL) climbed 2.6% Tuesday, the first day as CEO for John Ternus, who replaced Tim Cook. Apple sometimes rises amid weakness in the markets, helped by perceptions that it has a strong financial position.

• Crude slipped almost 1% this morning, possibly on the Trump administration's claim that 17 million barrels of oil transited the Strait of Hormuz yesterday. The U.S. struck Iran yesterday and Iran hit U.S. regional allies Wednesday.

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