FINANCIAL MARKETS

Wall Street boosted by inflation data, tech

But S&P 500, Nasdaq indexes end week lower

David French
REUTERS

Wall Street's major indexes ended higher on Friday as investors flocked back to tech megacaps that had triggered broad selloffs earlier in the week, and inflation data boosted optimism that the Federal Reserve will soon commence cutting interest rates.

For the S&P 500 and Nasdaq Composite, the advances could not completely recoup the ground lost in the two previous sessions, with both indexes ending the week lower for the second consecutive week.

The Dow Jones Industrial Average ended in positive territory for the week. Its Friday gains were aided by industrial conglomerate 3M, which jumped 23% to its largest daily percentage gain in decades after it raised the lower end of its annual adjusted profit forecast.

Five members of the so-called Magnificent Seven rose on Friday, led by Meta Platforms which climbed 2.7%. The two exceptions were Tesla and Alphabet, whose lackluster earnings had triggered Wednesday's big market selloff. They both fell 0.2%, with Alphabet dropping to its lowest close since May 2.

With further Magnificent Seven earnings due next week, the immediate outlook for markets may hinge on what type of results these companies deliver.

"What we get next week from Apple, Microsoft, Amazon.com and Meta is really going to set the tone for whether that rotation continues and, directionally, where the market goes," said Greg Boutle, head of U.S. equity & derivative strategy at BNP Paribas.

The rotation involves moving out of a set of high-momentum stocks, whose valuations now appear inflated, to underperforming sectors like mid- and small-cap stocks.

This shift seems to have gained momentum in recent weeks, with the small-cap Russell 2000 and S&P Small Cap 600 both advancing to their fourth closing highs of the week. The Russell 2000 scored its third straight weekly gain in two months and its best three-week run since August 2022.

These economically sensitive small-caps were supported on Friday by the moderate rise in June U.S. prices, which underlined cooling inflation and potentially positions the Fed to start easing policy in September.

Bets on a 25-basis-point cut at the Fed's September meeting held steady at about 88% after the PCE reading, according to CME's FedWatch. Traders still largely expect two rate cuts by December, LSEG data showed.

"We did see (the stable economic data) as beneficial for that broadening trade," said Adam Hetts, global head of multi-asset at Janus Henderson, noting small-caps had outperformed the S&P 500 by more than 10% over the last month.

The broadening trade has also benefited cyclical sectors of the economy. On Friday, all 11 of the S&P sectors were higher, with Industrials and Materials the leading gainers.

On Friday, the S&P 500 gained 59.88 points, or 1.11%, at 5,459.10 points, while the Nasdaq Composite climbed 176.16 points, or 1.03%, to 17,357.88. The Dow Jones Industrial Average rose 654.27 points, or 1.64%, to 40,589.34.

For the week, the Dow gained 0.75%, while the S&P 500 declined 0.82% and the Nasdaq dropped 2.08%.

Among stocks boosted by earnings, Deckers Outdoor jumped 6.3% after it raised its annual profit forecast, while oilfield services firm Baker Hughes climbed 5.8% after beating estimates for second-quarter profit.

Norfolk Southern soared 10.9%, its largest one-day percentage gain since March 2020, after the rail operator reported second-quarter profit above Wall Street estimates thanks to robust pricing.

Medical device maker Dexcom slumped 40.6% after cutting its annual revenue forecast.

Volume on U.S. exchanges was 10.92 billion shares, compared with the 11.61 billion average for the full session over the last 20 trading days.

Walmart looks to bet $200M on autonomous forklifts

Sources say retailer's rollout would occur in stages over several years

Siddharth Cavale and Jeffrey Dastin
REUTERS

Fox Robotics' driverless forklift carries a pallet in Austin, Texas. Walmart has invested $25 million in the startup, sources say. FOX ROBOTICS/HANDOUT VIA REUTERS

NEW YORK – Walmart has plans to potentially spend $200 million on self-driving forklifts as part of broader efforts to automate more warehouse operations, according to three people familiar with the matter.

The world's largest retailer wants autonomous forklifts to move pallets of goods in its distribution centers, which replenish Walmart stores. It has intended to buy possibly hundreds from Fox Robotics and invested $25 million in the Austin-based startup, the sources said.

The rollout, which Walmart could stop at any time, would occur in stages over several years and hinges on the retailer's satisfaction with the "FoxBots," said the people, who were not authorized to discuss the plans publicly.

Details about Walmart's investment and rollout have not been reported before. They underscore the company's strategy for warehouse automation, which aims to grow profit and help it compete with retailers like Amazon.

Camille Dunn, a Walmart spokesperson, declined to comment on the $200 million spending plans. She referred Reuters to an April announcement that said Walmart had piloted the technology and would add at least 19 FoxBots to four facilities, noting that deployments are "an evolving process" from proof of concept to rollout.

"We evaluate the performance at each phase to determine if the technology meets our ability to better serve customers," she said in an email. "Some initiatives we scale, some initiatives we don't."

Fox Robotics said its customer deals are confidential.

In recent years, Walmart has focused increasingly on robotics to help it replenish stores, manage costs and keep the price of goods low.

Analysts from Jefferies estimated the company could add $20 billion to its profit before interest and taxes by fiscal 2029, thanks to its efforts in automation and artificial intelligence. Arun Sundaram of CFRA Research added: "Expect more and larger deals in the future."

As one example, Walmart announced a deal in 2022 with the robotics vendor Symbotic to implement automation in 42 distribution centers. Walmart owned more than 13% of Symbotic stock as of a January securities filing.

Now, Walmart has taken a stake in Fox Robotics and has warrants to invest more, the people familiar with the matter told Reuters.

The Fox and Symbotic deals are similar in that they restrict use of their technology by Walmart's biggest competitors, the sources said. Exclusive deals with suppliers are not uncommon in retail.

The Symbotic agreement states that key employees would be bound by noncompetes and receive competitive pay, while Symbotic would be barred from selling its technology in certain non-Walmart warehouses. Details were redacted in a securities filing.

Walmart declined to comment on its contractual agreements with the robotics vendors. Symbotic said it does not comment on its customers' business strategies.

Stemming turnover

Tested for more than a year, the FoxBots unload pallets and help put them into Symbotic's automated system, which catalogs and stores goods, Walmart has said in press releases.

A single human operator can manage up to six of the autonomous forklifts at a time, saving as much as 40% on labor costs, Fox Robotics said on its website. A worker is still needed to open warehouse doors for instance, but the goal is for Walmart to depend less on labor in the long run, the sources said.

Dunn said, "People will always be part of our warehouse operations."

Finding workers to staff warehouse and other blue-collar jobs can be challenging, two of the sources said. Employers might pay little for onerous work, and sometimes staffers do not show up, one of them said. "There's a younger generation of people that just don't want to do these jobs," the source said.

At Walmart, a freight handler at its Coldwater, Michigan, distribution center might "lift up to 40 to 60 pounds repetitively for extended periods of time," according to a job posting on Glassdoor. Another ad asked if a candidate had proficiency in operating equipment such as a forklift and would work 12-hour or overnight shifts, for $19.30 to $24.80 an hour.

For David Guggina, executive vice president of supply chain operations at Walmart U.S., automation has meant new technical roles for associates and other employment opportunities, not job cuts. It reduces physically demanding work, giving Walmart "substantially low turnover," he said.

"A reduction in turnover absolutely drives savings," Guggina told Reuters. "You improve your productivity because you have less folks that are sitting in what I call (the) learning curve."

Asked how much Walmart was spending on automation overall, Guggina said Walmart was investing billions of dollars into its supply chain network.

In spite of their promise, robotics have not always paid off for the company, which pulled the plug on shelf-scanning units in its stores years ago.

Their long-term feasibility can be uncertain, depending on significant adjustments and a controlled environment, whereas humans can adapt faster, said Katie Driggs-Campbell, a professor the University of Illinois' Grainger College of Engineering.

"We are still far away from the robotics replacing humans in the retail industry," she said.

G20 finance chiefs see increasing chance of economic 'soft landing'

Marcela Ayres and Bernardo Caram
REUTERS

RIO DE JANEIRO – G20 financial leaders said on Friday the global economy was likely heading for a "soft landing," but warned wars and escalating conflicts could endanger this outlook, while more global cooperation could make growth stronger.

In a joint communique after a two-day meeting in Brazil, finance ministers and central bankers from the Group of 20 major economies also committed to resist protectionism in trade and stressed the need to reduce economic inequalities.

Last month, the World Bank forecast that the global economy would avoid a third consecutive decline in growth since a major post-pandemic jump in 2021, with 2024 growth stabilizing at 2.6%, in line with 2023, but warned that overall output would remain well below pre-pandemic levels through 2026.

"We are encouraged by the increasing likelihood of a soft landing of the global economy, although multiple challenges remain," the communique said. "Downside risks include wars and escalating conflicts," it said.

To defuse the disagreement, Brazil drafted a chair statement on geopolitical issues, stressing that these matters will be addressed by G20 leaders in November.

"The G20 made a wise decision to put geopolitical issues in their place to allow the cooperation agenda to move forward," Brazil Finance Minister Fernando Haddad told a news conference.

Haddad also hailed the group's first-ever declaration calling for cooperation to effectively tax the world's largest fortunes, although that separate joint statement papered over disagreements about the right forum to advance the agenda.

The G20 communique said economic activity had proved to be more resilient than expected in many parts of the world, but the recovery had been highly uneven across countries, contributing to the risk of economic divergence.

Balance of risks

The document flagged risks to the economic outlook that remain broadly balanced, with more economic cooperation, faster-than-expected disinflation and technological innovations, like the safe development of artificial intelligence, cited among upside risks.

But at the same AI tech could also turn out to be a downside risk to growth, the document said, along with economic fragmentation and persistent inflation keeping interest rates higher for longer, extreme weather events, and excessive debt.

Climate change and significant loss of biodiversity were key topics of concern, the G20 financial leaders agreed, warning that if poorer nations had to shoulder more of the cost of fighting climate change, it would make global inequality worse.

U.S. Treasury Secretary Janet Yellen speaks during the G20 meeting in Rio de Janeiro on Thursday.
TITA BARROS/REUTERS

"We reiterate the understanding that the cost of inaction is greater than the cost of action," the communique said.

The document also stepped-up language calling for a reform of the International Monetary Fund, that would give emerging and developing economies a bigger say in the lender of last resort.

The G20 communique underlined the "urgency and importance of realignment in quota shares to better reflect members' relative positions in the world economy."