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EXCHANGE --- Friday's Markets: U.S. Shares Extend Their August Slump --- Major indexes were mixed Friday but fell for the week; bond yields remained lofty

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Major U.S. stock indexes shed more than 2% this week, deepening their August slump, while Treasury yields touched their highest levels in years.

U.S. government bond yields on Friday slipped from Thursday's multiyear highs, but remained lofty enough to make investors think twice about betting on stocks to maintain this year's surprising rally.

The Nasdaq, packed with rate-sensitive technology stocks, fell 0.2% on Friday. The Dow Jones Industrial Average rose about 26 points, less than 0.1%, while the S&P 500 declined less than 0.1%. Every segment of the S&P 500 ended the week lower.

"The market seemed to be a bit ahead of itself in these last couple of months. It was due for a slowdown," said Eric Kelley, interim chief investment officer at UMB Financial, a Kansas City bank. "It's still been an incredible year, even with the week we've had."

Bond yields, on the other hand, may have room yet to rise, he said, reasoning that they tend to peak just before the Federal Reserve reaches the end of rate-hike cycles. "The Fed is sending a very clear signal that we can't assume that they're done," Kelley said.

Kelley said UMB analysts have concluded that 10-year Treasury yields greater than 4.75% pose a threat to stocks.

The 10-year Treasury yield declined to 4.251%, from 4.307% on Thursday, which was the highest closing level since 2007. The 30-year Treasury yield was 4.379%, down from Thursday's 12-year high of 4.411%. Bills from one-month to one-year are paying more than 5%

"Almost no one under 40 has invested in an environment that wasn't characterized by zero-interest rate policy," said Doug Peta, chief U.S. investment strategist at BCA Research.

More than a decade of piddly yields on government bonds gave rise to the belief that "there is no alternative" worth investing in besides equities. Over the past year, as the Fed has raised interest rates in hopes of taming inflation, investors have begun to rethink that philosophy.

"Now there are plenty of alternatives," Peta said.

Money-market funds continued to balloon this week as investors parked cash in sure bets on government bonds. Money-market funds drew in almost $36 billion over the past week, their biggest inflow since May.

Mountains of money moving out of stocks and into bonds is one way that investors expect higher interest rates to eventually end the rally in stocks that has sent the S&P 500 14% higher this year and the Nasdaq up 27%. The other threat comes from higher borrowing costs eroding consumers' spending power and corporate earnings.

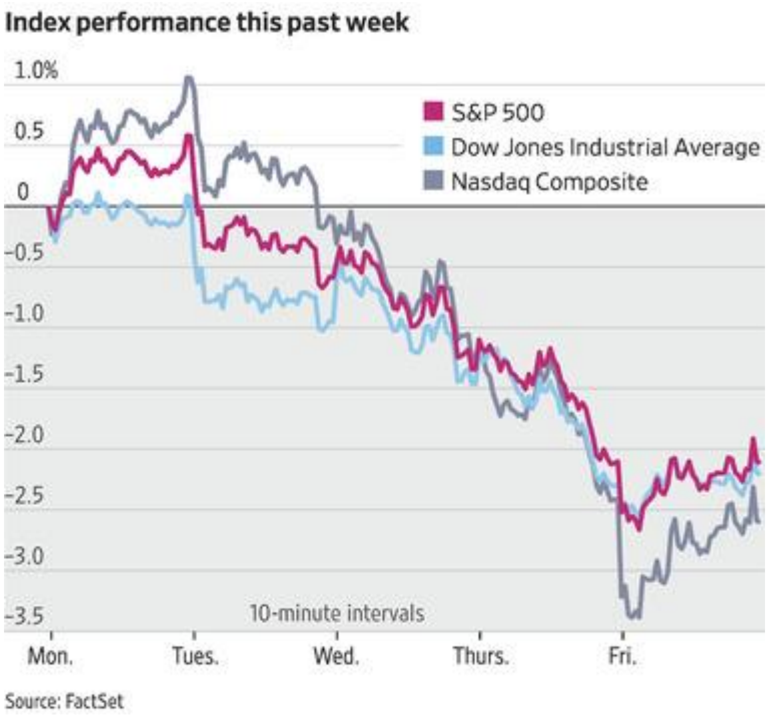
The biggest losers in the S&P 500 on Friday were sunk when they reported quarterly earnings and issued financial outlooks that disappointed investors.

Keysight Technologies, which makes electronic test and measurement equipment such as oscilloscopes and digital multimeters, dropped 14%. Deere & Co. fell 5.3%. Mounting concern over China's economy is one worry for Deere shareholders.

Cosmetics giant Estee Lauder, which shed 3.3% Friday, chalked up its quarterly loss to declining sales in China.

Ross Stores was the S&P 500's top gainer. The discount retailer rose 5% after posting better-than-expected earnings and boosting its second-half sales and profit outlooks after Thursday's closing bell. Cheaper ocean freight is helping margins and lower inflation is giving its low- to moderate-income customers more to spend, executives said.

Hong Kong's Hang Seng Index lost more than 2%, falling into a new bear market, while stocks in Japan, Germany, France and the U.K. also declined.



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