

## Energy, Tech Stocks Crushed as S&P 500 Loses Yearly Gains

The S&P 500 fell 3.8% on this holiday-shortened trading week, erasing its gain for the year. The Dow Jones Industrial Average lost 4.4%, the Nasdaq Composite lost 4.3%, and the Russell 2000 lost 2.6%.



There was palpable sense of real angst about the market's prospects with market commentary beginning to emphasize the growing risk of a bear market. Factors contributing to that outlook have included rising recession risk; widening credit spreads; the message being sent by the sharp losses in cyclical sectors and former leadership stocks/sectors; lack of buy-the-dip success in November, calling into question the prospects of a seasonal rally; and burgeoning calls to bolster defensive positioning in investment portfolios.

Energy and tech stocks took the brunt of the damage with the energy (-5.1%) and information technology (-6.1%) sectors posting heavy losses this week. The consumer discretionary (-4.3%), communication services (-4.0%), materials (-3.5%), and industrial (-3.2%) sectors also had poor performances.

WTI crude, which has been pressured by ongoing supply concerns and decreasing demand, dropped 9.2% to \$51.28/bbl this week and extended its decline to 33.3% from last month's four-year high. Oil prices were pressured on Tuesday after some speculation that Saudi Arabia might not force an oil production cut after U.S. President Donald Trump defended the United States' relationship with Saudi Arabia in the wake of the killing of Jamal Khashoggi. U.S. crude stockpiles also rose for the ninth consecutive week, according to the U.S. Energy Information Administration's weekly crude inventory report.

The tech sector, in particular, has been prone to liquidation efforts that have aimed to reduce exposure to a crowded sector running into concerns about a cyclical slowdown, valuations, and increased regulatory scrutiny. In addition, a lack of leadership and the continued inclination to sell into strength have translated into a lack of buying interest.

Apple (AAPL) shares took a hit after a Wall Street Journal report indicated the company cut its production orders for all three new iPhones it launched in September.

Regarding the iPhone XR, Apple reportedly slashed its production plan by up to a third of the approximately 70 million units it had asked some suppliers to produce between September and February. Apple has fallen 21.3% since providing a disappointing outlook for the holiday quarter on November 1.

Facebook (FB) shares continued to struggle, losing 5.6% this week, amid ongoing negative publicity surrounding the social network. CEO Mark Zuckerberg was reportedly not happy with COO Sheryl Sandberg over the handling of the Cambridge Analytical scandal, according to a WSJ report. Also in the report, Mr. Zuckerberg's newly-adopted, aggressive leadership style has not fared well with key executives, some of whom have resigned.

Conversely, the real estate (-1.5%) and utility (-1.4%) sectors were the only groups to finish with weekly losses under 2.0%.

This week featured a list of earnings reports from notable retailers. Reports from Lowe's (LOW), Target (TGT), Kohl's (KSS), L Brands (LB), and Ross Stores (ROST) reflected ongoing concerns over gross margin pressures, elevated inventory levels, disappointing same-store sales, and included some cautious guidance. On the other hand, retailers Urban Outfitters (URBN), Best Buy (BBY), Foot Locker (FL), and Gap (GAP) released more positive reports. Separately, Deere (DE) missed top and bottom line estimates.

In other corporate news, a U.S. appeals court refused to stop generic versions of Johnson & Johnson's (JNJ) prostate-cancer drug Zytiga from entering the market, according to Bloomberg. Also, Chinese authorities approved United Tech's (UTX) acquisition of Rockwell Collins (COL) for \$140/share in cash and stock.

U.S. Treasuries ended the week on a mixed note. The 2-yr yield added three basis points to 2.83%, and the 10-yr yield decreased two basis points to 3.05%. Meanwhile, the U.S. Dollar Index increased 0.4% to 96.94

Overseas, the Asia-Pacific Communications Summit concluded on Sunday without the release of a joint communique due to the ongoing trade disagreement between United States and China. On a related note, U.S. Trade Representative Robert Lighthizer released a report on China's intellectual property practices, alleging that China has not altered its "unfair, unreasonable, and market-distorting practices" that led to the imposition of tariffs. China's Shanghai Composite lost 3.7% this week.

Elsewhere, Chairman of Renault-Nissan-Mitsubishi Carlos Ghosn was arrested in Japan for alleged financial violations. Nissan voted to remove Mr. Ghosn from his Chairman post on Thursday.

S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Indices are unmanaged and one cannot invest directly in an index. Each company's security affects the index in proportion to its market value. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Dow Jones Industrial Average is a widely-used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service oriented firms. Data and rates used were indicative of market conditions as of the date shown and compiled by briefing.com. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security. Past performance is not a guarantee of future results. Russell 2000 Index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

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