

Market Tags Record Highs Then Retreats Amid a Host of Concerns

The S&P 500 (-0.6%) and Dow Jones Industrial Average (-1.1%) started the week setting record highs, but the market got caught up in a myriad of concerns that left the major indices lower for the week. The S&P 500 lost 0.6%, the Dow lost 1.1%, and the Nasdaq Composite lost 0.7%. The Russell 2000 was the real loser with a 2.5% decline.



Briefly, there were concerns surrounding 1) supply chain disruptions worsened by the Delta variant, 2) vaccine efficacy, 3) the Fed's taper timeline as the July FOMC minutes rehashed commentary about tapering sooner rather than later, 4) China's regulatory crackdown, 5) Afghanistan after it was overtaken by the Taliban, and 6) the potential for a larger pullback.

Essentially, the concerns were growth-related at a time when the market was trading at record highs and the economic data wasn't all that great. Retail sales for July, total housing starts for July, and the Empire State Manufacturing Survey for August were each weaker than expected. Weekly initial and continuing claims both improved.

At one point during the week, the S&P 500 was down 2.5% from its record high on Monday. The mega-caps were among the first to rebound, though, then a broad-based advance ensued on Friday as investors bought the dip amid some fears of missing out on a rebound rally.

The damage was already done for the cyclical stocks, though. The energy sector (-7.3%) ended the week down 7% as oil prices (\$62.25, -6.12, -9.0%) tumbled 9%. The materials (-3.1%), consumer discretionary (-2.2%), financials (-2.3%), and industrials (-2.3%) sectors declined between 2-3%.

Conversely, the health care (+1.8%), utilities (+1.8%), real estate (+0.6%), consumer staples (+0.4%), and information technology (+0.4%) sectors ended the week in the green. Microsoft (MSFT) broke out to record highs with a 3.9% gain.

Longer-dated Treasuries rose in sympathy with growth concerns, leaving the 10-yr yield down four basis points to 1.26%. The CBOE Volatility Index, meanwhile, spiked 20% to 18.56 amid increased hedging interest.

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