

Broad rotation favors small caps despite mega-cap weakness

The stock market endured a choppy and ultimately modestly negative week, as early record highs in the S&P 500 gave way to a broad pullback driven by profit-taking in mega-cap stocks and a lack of follow-through catalysts.



The S&P 500 finished the week down 0.4%, the DJIA fell 0.3%, and the Nasdaq Composite declined 0.7%. While the major averages struggled to hold gains, the underlying tone of the market continued to improve, with leadership broadening meaningfully and small- and mid-cap stocks once again outperforming.

The S&P 500 briefly pushed to fresh record highs early in the week before retreating into negative territory, while the Nasdaq Composite lagged amid sustained pressure on mega-cap technology and growth names. In contrast, the S&P 500 Equal Weight Index gained 1.3%, underscoring a rotation away from index-heavy leadership and toward a wider swath of cyclical and value-oriented stocks. That dynamic was reinforced by another strong week for smaller-cap stocks, with the Russell 2000 up 2.0% and the S&P Mid Cap 400 higher by 1.3%, both of which

significantly outpaced large-cap benchmarks.

Mega-cap stocks were a persistent headwind throughout the week, as investors trimmed exposure following an extended run and reassessed positioning amid sticky inflation data and a still-distant outlook for Fed easing.

Semiconductor stocks stood out as a notable exception to the broader weakness in technology. Strong earnings and upbeat capital spending guidance from Taiwan Semiconductor Manufacturing kept chipmakers firmly bid, as the information technology sector declined 0.7%.

At the sector level, defensive and cyclical areas showed relative strength. Real estate (+4.1%), consumer staples (+3.7%), industrials (+3.0%), energy (+2.4%), and utilities (+2.1%) finished the week higher, helping offset notable weakness in consumer discretionary (-2.0%), financials (-2.3%), communication services (-1.5%), and health care (-1.1%).

The week's economic data did little to alter the macro outlook. CPI and PPI readings came in largely in line with expectations but failed to deliver a downside inflation surprise, reinforcing the view that the Federal Reserve may remain on hold for several months.

Meanwhile, retail sales and manufacturing data pointed to a still-resilient economy, supporting continued strength in cyclical areas of the market.

Earnings season also got underway, with big banks delivering mixed results. While some early reports disappointed, later earnings from major financial institutions helped stabilize the financials sector and underscored generally healthy credit conditions despite policy uncertainty surrounding proposed credit card rate caps.

Overall, this was a week defined less by index-level performance and more by internal rotation. Leadership continued to broaden, small- and mid-cap stocks remained in favor, and cyclical sectors attracted steady inflows. As the market heads into the coming week, investors will be watching whether earnings momentum and upcoming economic data can reaccelerate upside participation at the index level or further entrench the ongoing rotation beneath the surface.

- Russell 2000: +2.0%
- S&P Mid Cap 400: +1.3%
- DJIA: -0.3%
- S&P 500: -0.4%
- Nasdaq Composite: -0.7%

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