

Oil volatility drives rotation as mega-caps weigh on the market

The stock market moved lower again this week, with the S&P 500 (-2.1%) and Nasdaq Composite (-3.2%) pacing the decline, while the Dow Jones Industrial Average (-0.9%) held up relatively better.



Beneath the surface, however, the action told a more nuanced story—one defined by sharp rotations, mega-cap weakness, and continued sensitivity to oil-driven geopolitical developments.

The week began on a strong note, as a sharp pullback in oil prices—driven by hopes of a potential pause in hostilities between the U.S. and Iran—sparked a broad risk-on rally. All eleven sectors advanced on Monday, and the S&P 500 and DJIA briefly reclaimed their 200-day moving averages. However, that optimism proved fleeting, as conflicting reports around negotiations quickly reintroduced uncertainty.

From there, markets struggled to gain traction. Oil resumed its volatile swings, and Treasury yields moved higher overall, creating a difficult backdrop for equities—

particularly large-cap growth stocks. While there were intermittent bouts of strength tied to dips in oil prices, each rebound attempt was capped near key technical resistance levels.

A key theme throughout the week was the pronounced divergence between mega-cap stocks and the broader market. The Nasdaq Composite underperformed sharply, weighed down by significant losses in the communication services (-7.2%) and information technology (-3.5%) sectors. Weakness in mega-cap names—particularly across software and internet platforms—was a persistent drag.

In contrast, smaller-cap stocks showed relative resilience for much of the week, with the Russell 2000 (+0.5%) and S&P Mid Cap 400 (+0.4%) managing gains. Additionally, more commodity-linked areas outperformed, highlighting a clear rotation away from growth.

The energy sector (+6.2%) led all gainers as oil prices ultimately pushed back toward the \$100 per barrel mark by week's end, despite early volatility. The materials sector (+4.2%) also posted strong gains, supported by strength in chemicals and metals amid ongoing supply concerns tied to Middle East tensions.

Defensive sectors saw steady inflows as well, with utilities (+2.9%) and consumer staples (+1.2%) outperforming, particularly during the latter part of the week as risk sentiment deteriorated.

By Thursday and Friday, selling pressure intensified. Rising oil prices, climbing Treasury yields, and escalating geopolitical rhetoric combined to drive broad-based losses. Mega-cap stocks led the decline, with all of the “Magnificent Seven” finishing lower on Friday, while continued weakness in software and semiconductor stocks compounded the downside.

Ultimately, this week reinforced a market increasingly shaped by external macro forces—namely, oil prices and geopolitical developments. While there were signs of resilience beneath the surface earlier in the week, persistent weakness in mega-cap stocks and repeated failures at key technical levels left the broader market vulnerable.

As long as oil remains volatile and geopolitical uncertainty persists, the path forward for equities is likely to remain uneven, with sector rotation and macro sensitivity continuing to define price action.

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