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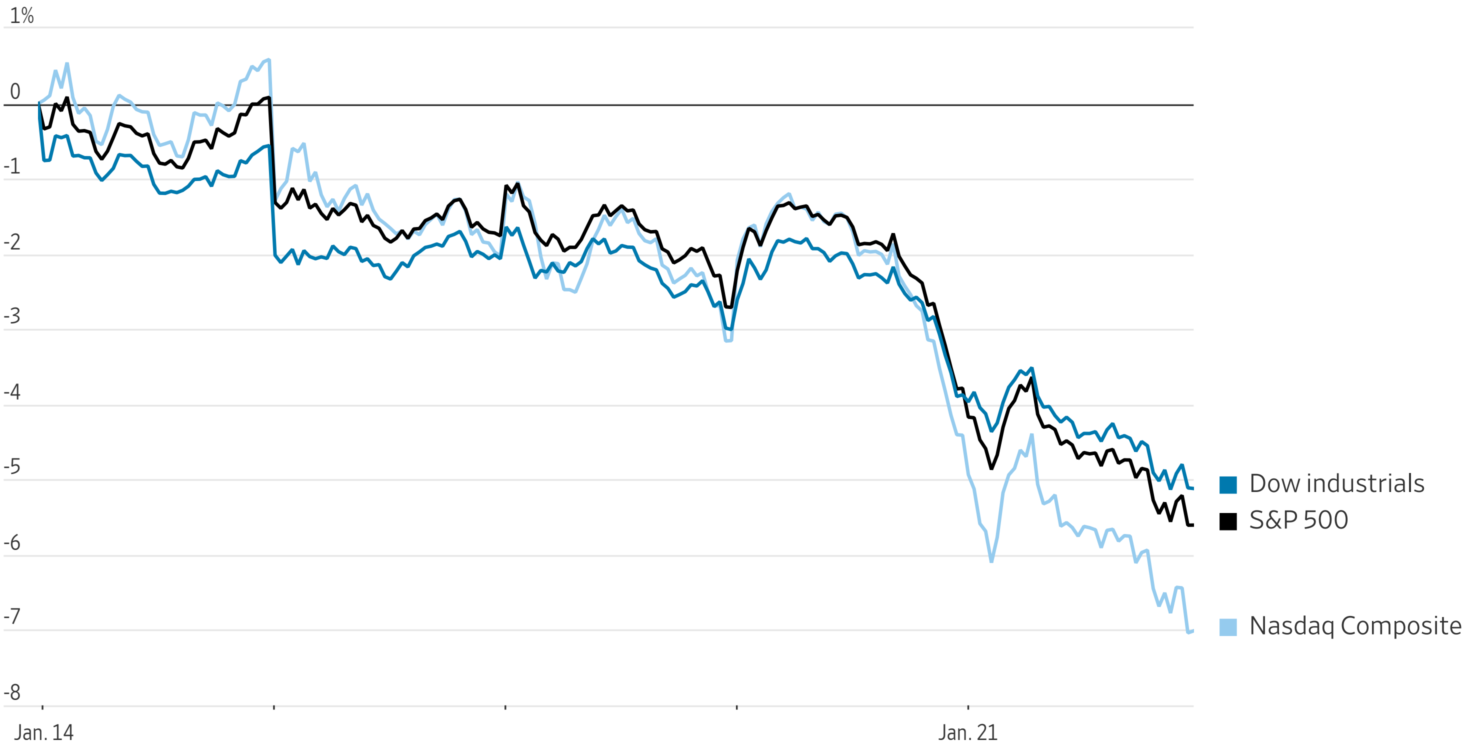
U.S. MARKETS

Nasdaq, S&P Finish Worst Week Since Pandemic Onset

Oil, cryptocurrencies drop; investors register disappointing reports from Netflix and Peloton

Index performance



Source: FactSet

By Hardika Singh and Anna Hirtenstein
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U.S. stocks fell for a third straight week, continuing their slide to start 2022, with investors worried about the prospect of higher interest rates and their effect on valuations.

The Nasdaq Composite Index and S&P 500 finished their worst week since March 2020, when the spread of the Covid-19 pandemic in the U.S. spooked investors. The tech-heavy index fell 2.7% Friday and ended the week down 7.55%. The S&P 500 was down 5.7% for the week.

Investors have repositioned themselves away from riskier assets to start the year. The possibility of higher rates has particularly hit highflying tech stocks and shares of unprofitable companies, shoving the Nasdaq into correction territory. Meanwhile, oil and yields on government bonds have climbed in 2022.

Investors' largely expect that the Federal Reserve will raise interest rates several times this year to combat inflation, which has weighed on stocks. Last week, Fed Chair Jerome Powell called rapid inflation a "severe threat" to a full economic recovery. Data showed consumer prices soared to about a four-decade high in December. Even with the hikes, interest rates will remain near historic lows, which investors hope will buoy markets.

"The Fed is saying 'OK, zero interest rates don't make sense here, so we're going to move back toward something more reasonable,'" said Jonathan Golub, chief U.S. equity strategist and head of quantitative research at Credit Suisse. "They're not really hikes, but signals that a big rate of change is coming."

Mr. Golub remains optimistic about equity markets, citing a year-end price target of 5200 points for the S&P 500, about 5.3% higher than Wall Street strategists' average target.

All three major indexes fell sharply Friday. The S&P 500, as of the 4 p.m. close of trading, was down 1.9%, while the Dow slid 1.3%, or 450 points. For the week, the Dow fell 4.6%.

Japan's Nikkei 225 index shed 0.9% Friday.
PHOTO: BEHROUZ MEHRI/AGENCE FRANCE-PRESSE/GETTY IMAGES

Cryptocurrencies tumbled, with bitcoin losing about 6.6% compared with its level 24 hours earlier, trading around $38,644. Ether fell 8.9%.

"All risk premium assets—crypto, high leverage, growth names—are being impacted, and what's working right now is the opposite of that, quality stocks," said Jerry Braakman, chief investment officer and president at First American Trust. He recommends that investors don't buy the dip for tech stocks.

Aoifinn Devitt, chief investment officer at Moneta, said higher yields will normalize the valuations of some tech stocks and make economically sensitive sectors of the market, such as utilities and real estate, more attractive. "By no means are we getting to a yield that is making equity markets look unattractive," said Ms. Devitt.

Consumer staples weathered the storm Friday. Clorox Co. added 1.5%, Colgate-Palmolive Co. gained 1% and Procter & Gamble Co. advanced 0.4%.

Stay-at home stocks have come under pressure lately. Netflix shares plunged 22% after the company said it expected a slowdown in subscriber growth. Peloton rose 12%, recouping some losses after the stock tumbled nearly 24% Thursday on reports that the connected-fitness company was halting production. Its chief executive pushed back against the claims.

Ms. Devitt said it would be hard for companies like Netflix and Peloton to notch the same level of growth in 2022 as they did when the pandemic first started. Innovation will remain key for stay-at-home stocks if they want to trudge higher, she added.

Investors' bets on faster rate increases have driven up inflation-linked bond yields, seen as a benchmark for financing costs. The yield on the benchmark 10-year Treasury note edged down to 1.747% from 1.833% Thursday. Tensions between Russia and NATO are also weighing on market sentiment, investors said.

"Geopolitical risk plays a role, repricing of [central bank] policy plays a role and the inflation mix in the sense of cost pressures. You put all those together and there is actually quite a change," said Georgina Taylor, a multiasset fund manager at Invesco. "Risk premium for equities needs to go up."

Oil prices also declined Friday. Global benchmark Brent crude fell 0.55%, trading at $87.89 a barrel, weighed down by a surprise increase in U.S. crude stockpiles, according to analysts at RBC Capital Markets.

Overseas, U.S.-listed shares of wind-power company Siemens Gamesa Renewable Energy fell 12% after it posted an operating loss and lowered its guidance, citing supply-chain constraints. Shares of some Chinese drugmakers surged after they were selected to help make cheaper versions of Merck's Covid-19 pill. BrightGene Bio-Medical Technology rose 20%, and Viva Biotech advanced 14%.

Shares in Asia-Pacific and Europe broadly retreated. The pan-continental Stoxx Europe 600 fell 1.8%, while China's Shanghai Composite Index and Japan's Nikkei 225 declined 0.9%.

—Dave Sebastian contributed to this article.

Write to Hardika Singh at hardika.singh@wsj.com and Anna Hirtenstein at anna.hirtenstein@wsj.com