MARKETS

Stocks Rocket Back to Finish Higher After Deep Slump

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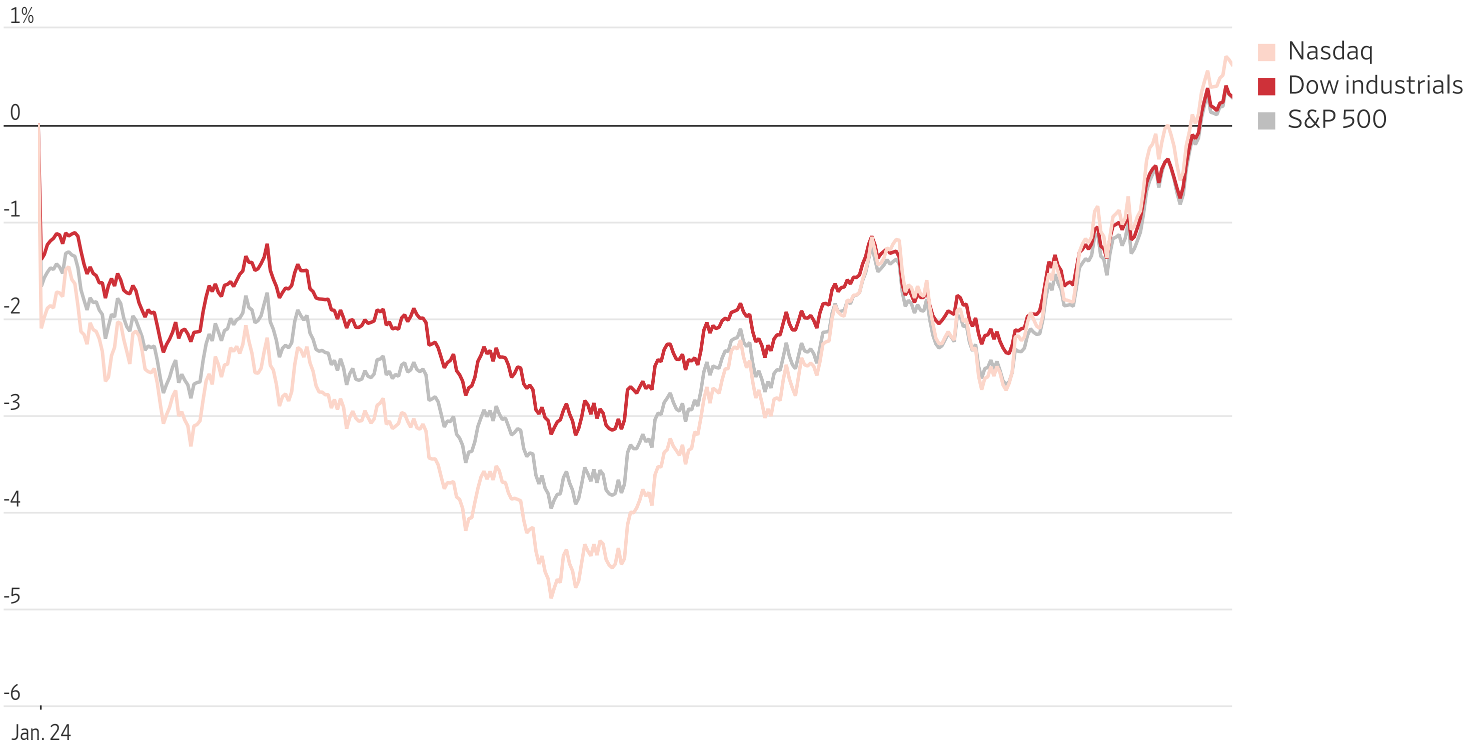
Index performance



Source: FactSet

By Alexander Osipovich , Gunjan Banerji and Joe Wallace
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Major U.S. stock indexes registered a massive comeback Monday to close higher after the Dow industrials were down more than 1,100 points at midday.

Just after noon, the Dow was off 3.25% and the Nasdaq Composite Index had dropped 4.9%. The declines extended the losses that have hammered a once-buoyant market this month, battering the shares of technology firms, smaller companies and once-highflying sectors such as cryptocurrencies. At their lows Monday, shares of vaccine developer Moderna were down more than 40% for the year, while bitcoin had lost more than half its value at its November high.

Behind the volatility was investor anxiety over the Federal Reserve and how quickly it will move to combat inflation, and how that action will ripple through asset prices. Investors are bracing for a Fed meeting this week in which the U.S. central bank is expected to shed more light on its plans for boosting short-term rates and reducing the size of its balance sheet.

Then, in the blink of an eye, bargain-seeking investors stepped in, snapping up shares of technology favorites such as car maker Tesla and chip firm Nvidia. By the end of the day, the Dow Jones Industrial Average had gained 99.13 points, or 0.3%, to close at 34364.50. The Dow had never before closed positive after being down at least 1,000 points. Nasdaq advanced 86.21, or 0.6%, to close at 13855.13.

Investors and analysts said the turnaround was driven by a handful of factors, first and foremost the carnage of this year opening the way for some rare opportunities to purchase favored shares at lower prices.

“Things were ridiculously oversold this morning,” said Scott Martin, chief investment officer of Kingsview Wealth Management. Stocks appeared to turn around after the cryptocurrency market started to recover, he said. Bitcoin rose 4.1% Monday. “Once bitcoin bottomed out, markets started to calm down,” Mr. Martin said.

Others said the rebound appeared driven by hedge funds and algorithmic traders, which often buy and sell shares when preset criteria are met. “If people had stocks on their wish lists and they wanted to buy them at low prices, they had the chance,” said Michael Mullaney, director of global markets research at Boston Partners.

The question for investors now is whether Monday’s U-turn signals that the market storm of 2022 is past, or whether further volatility is ahead.

Some traders said that heavy options trading and positioning among traders during the weeks of heavy selling this month helped stoke the volatility. Options activity hit the highest level ever on Friday, with more than 62 million contracts changing hands, according to Cboe Global Markets data, and volumes remained elevated on Monday.

“That’s creating this very high intraday volatility that we’re seeing,” said Peter van Dooijeweert, a managing director at Man Solutions, a unit of investment firm Man Group of London.

The rebound, which took the S&P 500 up 0.28% for the day but left it down 8.1% from its Jan. 3 high, had the marks of what investors call a capitulation, in which news appears so bad that a massive selloff brings in a wave of fresh buyers. The index had earlier flirted with entering a correction, or a decline of 10% from a recent high on a closing basis.

That said, the action in 2022 has been distinguished by repeated sessions in which significant market rallies evaporated and led to large selloffs as trading closed. Traders and portfolio managers said they remain wary that that pattern could yet reassert itself in the days ahead.

"We've seen plenty of 'buy the dip' type activity," Mr. van Dooijeweert said. But for the most part, "the 'buy the dip' crowd is starting to get overrun by the 'sell the rally' crowd."

Popular technology stocks such as Tesla and Nvidia were hard-hit early on but later rebounded. Bitcoin dipped at one point below $33,000—less than half the market value of its November high—but later rallied to about $36,851.

The S&P 500 climbed 12.19 points on Monday to 4410.13. At its lowest point on Monday, the broad index was in correction territory, defined as a 10% drop from a recent high.

Short-term bond yields dropped in a sign that some investors were starting to bet that the Fed might raise interest rates less aggressively than previously thought. The yield on the two-year Treasury note settled at 0.950%, according to Tradeweb, down from 0.993% Friday.

Interest-rate derivatives suggested investors saw a 58% chance that the Fed will raise rates by 0.25 percentage point at least four times this year, down from 67% Friday, according to CME Group.

The yield on 10-year Treasury notes fell to 1.735% from 1.747% Friday as investors sought the safety of government bonds. Yields move in the opposite direction from prices.

"The Fed was way behind the curve on inflation," said Lisa Shalett, chief investment officer of Morgan Stanley Wealth Management. She expects the Fed to raise interest rates four times in 2022 and to start shrinking its bond holdings.

Investors are looking ahead to a fresh batch of corporate earnings reports, including from some big tech companies. General Electric, Microsoft, Apple and Tesla are all due to report quarterly results later in the week. Of the 65 companies in the S&P 500 that filed results through midday Monday, nearly 77% beat analysts' expectations, according to Refinitiv.

Retailers were among the surprising winners in Monday's rollercoaster markets. Gap was the best performer in the S&P 500, climbing $1.26 a share, or 7.9%, to $17.12.

Among the day's losers were Airbnb, which tumbled $8.83 a share, or 5.6%, to $147.90. Netflix shares dropped $10.35, or 2.6%, to $387.15, adding to their losses after the streaming company warned last week of slowing subscriber growth.

So-called meme stocks popular with individual investors took a beating. GameStop and AMC Entertainment each dropped more than 5%. Both stocks have lost more than 30% of their value since the beginning of the year.

The prospect of higher U.S. interest rates continued to weigh on global markets.
PHOTO: BERTHA WANG/AGENCE FRANCE-PRESSE/GETTY IMAGES

Fears of a possible Russian invasion of Ukraine are weighing on markets, analysts said. The State Department on Sunday instructed the families of U.S. diplomats in Ukraine to leave the country, while the White House is considering sending several thousand troops to Europe.

War in Ukraine and its possible consequences—including the potential closure of the U.S. financial system to Russian banks—could play out in markets in unpredictable ways, said Sebastien Galy, senior macro strategist at Nordea Asset Management.

“The closer you get to the cliff, the more nervous [the market] is,” Mr. Galy said. “We don’t have the information to trade.”

The Russian ruble fell 1.6% against the dollar.

—Rebecca Feng and Sam Goldfarb contributed to this article.

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