

[What's New]

Stock Market Rally Collapses Amid Recession Fears and Weak Economic Data

The stock market experienced significant declines as recession concerns emerged following weak economic data, including a disappointing July jobs report and Amazon's (AMZN) warning about consumer challenges.

Federal Reserve Chairman Jerome Powell indicated on Wednesday that rate cuts are forthcoming. By Friday, markets anticipated a 50-basis point rate cut from the Fed in September and a total of at least 100 basis points by the end of the year.

Major Indexes and Key Stocks Plunge

Leading indexes such as the Russell 2000 and Dow Jones fell to key support levels, along with many non-tech leaders. The S&P 500 and Nasdaq dropped below critical thresholds.

Amazon.com (AMZN) plummeted on earnings news, while chip stocks faced massive declines, including Nvidia (NVDA), which is reportedly under investigation by the Justice Department. Tesla (TSLA) fell to crucial support, erasing much of its recent gains as a Delaware court hearing on Elon Musk's pay package commenced. Apple (AAPL) managed to edge higher for the week, maintaining a key level, and Meta Platforms (META) also climbed, although it retreated from its highs.

Overall Market Performance

The stock market endured a tough week, despite Wednesday's gains driven by optimism about artificial intelligence and the Fed meeting. Thursday's sell-off disrupted market expectations, and heavy losses continued into Friday.

The Dow Jones Industrial Average fell 2.1% over the past week. The small-cap Russell 2000, which hit a 30-month high on Wednesday, ended the week down 6.7%. Both indexes tested their 50-day moving averages on Friday but managed to close above this key level.

The S&P 500 index lost 2.1%, and the Nasdaq composite fell 3.35%, both sliding below their 50-day moving averages and breaching the previous week's lows. The Nasdaq entered a traditional intermediate correction territory.

While the Russell 2000 and Dow, which contain more "real economy" components than the

tech-heavy Nasdaq, were strong performers in July due to anticipated Fed rate cuts, they have since fallen back amid recession fears. Banks, industrials, and aerospace stocks are also retreating.

Defensive growth stocks in sectors such as discount retail, insurance, and medical, along with defensive utilities and consumer staples, held up better.

Despite indexes closing above Friday's lows, they still ended the week with sharp declines. Weekly charts do not show any significant rebound.

The 10-year Treasury yield dropped 40 basis points to 3.795%, nearly reaching the late December low. The two-year yield fell 52 basis points to 3.87%, marking the largest weekly decline for both since March 2023. The yield spread is the least inverted it has been in two years.

U.S. crude oil futures fell 4.7% to \$73.52 a barrel last week, reaching a two-month low on Friday.

Market Volatility Surges

The CBOE Volatility Index (VIX) spiked on Friday to its highest level since March 2023, surpassing the peaks seen in October 2023 and April 2024.

Excessive fear can indicate a short-term market bottom, but this does not always happen immediately or last. Market fear could increase further if recession concerns continue to grow.

ETFs Performance

Among growth ETFs, the iShares Expanded Tech-Software Sector ETF (IGV) dropped 5.4%, with Palantir stock as a component.

The VanEck Vectors Semiconductor ETF (SMH) fell 9.1%, with Nvidia as the top holding. NVDA stock declined 5.1% to 107.27, amid reports of a DOJ investigation into the chip giant's AI dominance. However, shares recovered somewhat from Friday's intraday lows.

The SPDR S&P Metals & Mining ETF (XME) dropped 7.7% last week. The Global X U.S. Infrastructure Development ETF (PAVE) fell 4.9%. The SPDR S&P Homebuilders ETF (XHB) decreased by 4.7%. The Energy Select SPDR ETF (XLE) lost 4.1%, while the Health Care Select Sector SPDR Fund (XLV) gained 0.6%, with Eli Lilly being a significant holding.

The Industrial Select Sector SPDR Fund (XLI) dropped 2.8%, with Caterpillar as a major member. The Financial Select SPDR ETF (XLF) fell 3%, and the SPDR S&P Regional Banking ETF (KRE) declined 9.2%.

Reflecting more speculative stocks, the ARK Innovation ETF (ARKK) plummeted 9.9% last week to its lowest level since last November. The ARK Genomics ETF (ARKG) fell 9.7%.

Tesla is a significant holding across Ark's ETFs. TSLA stock fell 5.5% for the week to 207.67, dropping between the 50-day and 200-day moving averages. Shares are down 23% since reaching a 10-month high of 271 on July 11. On Friday, the Delaware Chancery Court began a hearing on Elon Musk's 2017 pay package, which was struck down earlier this year. Shareholders approved the pay package again in June, but it is unclear if the court will consider this legally binding.