

## Record High, Followed by Profit-Taking

Markets were closed on Monday for President's Day. The S&P 500 hit a fresh record high (6,147) in first half of the week, driven by resilience to selling interest and the inclination to buy on any weakness.



The market-cap weighted S&P 500 jumped 1.5%.

The vibe shifted, though, when a consolidation trade rooted in profit-taking activity prevailed by the end of the week. Valuation concerns fueled the consolidation trade along with the loss of momentum in some of the biggest year-to-date winners. That induced chatter about the market possibly being at a near-term top, which in turn has curtailed buying interest.

Growth concerns were also in play following Friday's economic data. The preliminary February S&P Global US Services PMI fell to contraction territory (i.e., below 50), the final University of Michigan Consumer Sentiment report for February dropped to 64.7, and existing home sales declined 4.9% month-over-month in January.

Disappointing fiscal Q1 and full-year guidance from Walmart (WMT) also contributed to the selling interest in the latter half of the week.

Mega cap stocks and small cap stocks saw the largest decline while the "rest" of the market held up okay. The market-cap weighted S&P 500 declined 1.7% from last Friday; the equal-weighted S&P 500 registered a 0.7% decline this week; the Russell 2000 fell 3.7%.

The weakness in the mega cap space led the S&P 500 consumer discretionary (-4.3%) and communication services (-3.7%) sectors, which house mega cap components, to register the largest declines among the 11 sectors. The defensive-oriented sectors like utilities (+1.4%), consumer staples (+0.9%), and healthcare (+1.1%) were some of the top performers.

Market participants were digesting more talk about tariffs, but took it in stride due to a view that tariffs are more of a bargaining chip than a permanent feature. President Trump said the auto tariff rate will be in the neighborhood of 25% starting April 2, and that he is also considering tariffs for pharmaceuticals and semiconductors.

- Dow Jones Industrial Average: -2.5% for the week / +2.1% YTD
- S&P 500: -1.7% for the week / +2.2% YTD
- Nasdaq Composite: -2.5% for the week / +1.1% YTD
- S&P Midcap 400: -3.0% for the week / -0.6% YTD
- Russell 2000: -3.7% for the week / -1.6% YTD

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