U.S. MARKETS

Dow Industrials Fall to End Volatile Week

All three major U.S. indexes snapped a three-week losing streak

By Jessica Menton

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U.S. stocks flip-flopped in Friday's trading, a fitting coda to a week marked by sharp plunges and euphoric rises. For investors, the day—and the week—prolonged a puzzle: What is behind the remarkably sudden swings in the market?

The Dow Jones Industrial Average changed direction 19 times during Friday's trading, ending the day down 0.3%. The losses halted a two-day winning streak for the Dow and S&P 500 in a brutal December that, with one trading day remaining, has knocked them down more than 9%, their worst month since February 2009.

Deepening the uncertainty was the seemingly capricious nature of the moves, with little news or any other clear sense to explain them. If the rough fourth quarter has any leading cause, however, it is a modest souring about the prospects of the global economy.

Among the worries: the pace at which the Federal Reserve is unwinding its easy-money policies; the trade spat with China and a government shutdown that appears likely to stretch into January.

Those concerns have led most big money managers and investors to be cautious, even after a week that saw stock-market benchmarks rally more than 2.7%.

"The volatility we're seeing is very reminiscent of some of those ugly periods like when the dot-com bubble popped in 2000, or the post-Lehman financial crisis," said Mark Travis, chief executive of Intrepid Capital, which has roughly $1 billion in assets under management.

"We don't have the systemic problems that we had then, but we're seeing a global tantrum," he said, referring to the pressure facing stocks, as well as fixed-income assets, as the Fed tightens monetary policy.

Mr. Travis said his firm has used this month's downturn as an opportunity to add exposure to stocks that have more attractive valuations, including energy company Cabot Oil & Gas and footwear company Skechers USA .

This dizzying week featured the worst-ever Christmas Eve selloff, followed by Wednesday's 1,086-point climb—the biggest one-day point gain on record—and an 871-point swing Thursday.

In Friday's action, the Dow slipped 76.42 points to 23062.40. The S&P 500 fell 3.09 points, or 0.1%, to 2485.74, and the Nasdaq climbed 5.03 points, or 0.1%, to 6584.52. Energy stocks were the biggest losers in the S&P 500, while widely held technology stocks including Facebook , Microsoft and Alphabet dropped nearly 1%.

With one trading session left in the year, the indexes are all well into the red. The Dow so far has posted a 6.7% decline, while the S&P 500 is off 7%, with nine of the 11 sectors showing losses. The technology-heavy Nasdaq, meanwhile, has slumped a more modest 4.6% this year but has suffered a steeper fall over the past three months. It is the only one of the major U.S. indexes in a bear market, which is typically defined as a 20% fall from a recent peak.

For the first time since 2013, the majority of mom-and-pop investors said they believe stock prices will drop over the next six months, according to a survey by the American Association of

Individual Investors for the week ended Wednesday. Fewer than 32% of investors said they expect to see prices rise over that period.

December has been particularly rough. Investors have yanked $75.5 billion from mutual funds and exchange-traded funds that track stocks this month, the biggest exodus from stock funds in a single month ever, according to Lipper data going back to 1992.

Investors will get more clues about the U.S. economy next week with data on employment and manufacturing.

"A bear market doesn't just come on this fast and this strong," said Tatyana Bunich, president and founder at Financial 1 Wealth Management, who said she was skeptical that the other indexes would suffer similar fates to the Nasdaq, despite teetering on the brink of bear territory during the Christmas Eve selloff.

After this past week's rally, the Dow and S&P 500 are off 14% and 15% from their respective highs.

Ms. Bunich said there would need to be signs of a recession, such as rising unemployment, weak earnings and slumping consumer-spending data to trigger a bear market.

"None of that is happening," she said. "I do believe there's going to be slowing in the economy, but it's not going to happen overnight."

Ms. Bunich, whose clients are mostly retirees, said the firm temporarily moved about 80% of its portfolio into cash in mid-December to get through the year-end volatility.

She added she expects value stocks—typically shares of utility, telecommunications, real-estate and consumer-staples companies—to come back in favor next year as investors shift from high-growth stocks.

Trading has been thin at the New York Stock Exchange this week, helping exaggerate market moves. **PHOTO:** MICHAEL NAGLE/BLOOMBERG NEWS

To be sure, corporate-earnings projections have come down since the start of the month. Companies in the S&P 500 are expected to post a 12% increase in profits for the fourth quarter, down from 14% at the beginning of December. For the first and second quarters of next year, growth is expected to slow to 3.6% and 4.2%.

Oil prices, meanwhile, have yet to find a bottom. U.S. crude settled up 1.6% at $45.33 on Friday but is off 41% from its October high amid worries about rising inventories and slowing global growth.

Ben Barzideh, wealth adviser at Piershale Financial Group, which has $250 million in assets under management, said the violent downturn in the markets has been unusual, but he still expects the gyrations to continue.

"It was nice to see the market rebound earlier this week, but we're not out of the woods yet," he said. "If we can get some strong data that shows the economy is doing well, than the Fed raising rates won't be as much of a concern. But if some of the data disappoints, that could add to concerns that the economy is peaking."

Write to Jessica Menton at Jessica.Menton@wsj.com