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U.S. MARKETS

Nasdaq Slides Into Correction Territory

Tech-heavy index falls more than 1% as regulators signal increased scrutiny of industry giants

By Akane Otani

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The tech-heavy Nasdaq Composite entered correction territory Monday, hit by investor fears that regulators might take a fresh shot at industry giants such as Alphabet and Facebook .

The Nasdaq slid 1.6% putting it down more than 10% from its May record. The S&P 500 lost 0.3% and the Dow Jones Industrial Average ended nearly unchanged.

Stocks began the day little changed, but then fell to session lows around midday as a report that the Federal Trade Commission had secured rights to begin a potential antitrust investigation into Facebook sent technology shares skidding.

Alphabet shares had also been under pressure earlier in the day on a report that the Justice Department had been given chief oversight over a Google probe.

The moves were the latest to sting technology shares, many of which had climbed double-digit percentages in 2019 as investors piled into fast-growing companies.

Worries about escalating trade tensions between the U.S. and China had briefly sent semiconductor shares and consumer device giants such as Apple lower, although the selling had appeared to ease a bit before news of the potential antitrust investigations broke.

“There’s a lot of uncertainty out there right now that will be a speed bump for the sector,” said Karyn Cavanaugh, senior vice president and portfolio manager at Voya Investment Management.

Traders placed bets on the volatility continuing, sending the Cboe Nasdaq Volatility Index—which tracks expectations for swings in the Nasdaq-100 over the next month—up around 5%.

The next key step will be sussing out the long-term impact that potential regulatory probes could have on companies’ profits, Ms. Cavanaugh said.

Investors have seen the sector hit hard before. Technology shares slumped in March 2018, when Facebook came under fire over its privacy and data-use standards. Shares of the so-called

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FAANG group—which includes Facebook, Amazon.com , Apple , Netflix and Google owner Alphabet—wiped out hundreds of billions of dollars in market value in less than two weeks.

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Tech shares also slumped at the start of the year after Apple warned that its quarterly sales in China would likely clock in well below its initial expectations.

In the months that followed, though, much of the tech group rebounded—supported by earnings that have largely proven to be better than investors had feared.

The bounce has allowed much of the tech sector to continue to outperform the broader market, notwithstanding Monday's drawdown.

Technology stocks have also remained popular bets among hedge funds, according to RBC Capital Markets, which found in an analysis last month that companies in the communication services, software and IT services groups accounted for the majority of shares that are most held by hedge funds.

Elsewhere, the Stoxx Europe 600 rose 0.4% as gains in shares of health-care companies offset losses among banks.

German bond yields drifted lower after the chairwoman of Chancellor Angela Merkel's junior coalition partner stepped down, adding to uncertainty over the government in Berlin.

In Asia, the Shanghai Composite fell 0.3% for its third consecutive session of losses, while Japan's Nikkei Stock Average lost 0.9%.

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