MARKETS

U.S. Stocks Hit Hard as Tech Worries Deepen

Dow Industrials fall almost 400 points, while Nasdaq loses 3% amid drop in Apple shares

By Riva Gold and Akane Otani
Updated Nov. 19, 2018 6:11 p.m. ET

U.S. stocks lurched lower Monday, deepening an autumn slump that has shaken many investors' confidence in the technology titans that had led the bull market higher for much of the past year.

The day's declines were accompanied by a broad retreat from risk across financial markets. Bitcoin prices crashed below $5,000 for the first time this year ,and Google parent Alphabet Inc. closed in bear market territory: a drop of at least 20% from a recent high.

Stocks have suffered a series of pullbacks this fall that have chipped away at much of their 2018 gains. Downbeat forecasts from former market leaders such as Apple Inc. and Facebook Inc. have raised questions over whether the past year's gains can be justified. Adding to those worries, investors are already expecting a broader slowdown in corporate earnings growth as rising rates and a stronger dollar take a greater toll on profits.

Steven Wagner, chief executive officer of Omnia Family Wealth in Aventura, Fla., decided in the first half of 2018 that the firm would pare its exposure to risky investments, trimming some of its holdings of high-growth companies that had performed well over the past few years.

"Look, you could have another 20% blowup rally, but we just don't know. Nobody knows. So you have to ask yourself if you have to get every last nickel off the table," Mr. Wagner said. "We're willing to be a little early on that and maybe give up a little bit of the last leg of the bull market."

The Dow Jones Industrial Average ended the day down 395.78 points, or 1.6%, to 25017.44 after tumbling more than 500 points earlier. The S&P 500 fell 45.54 points, or 1.7%, to 2690.73 and the tech-heavy Nasdaq Composite lost 219.40 points, or 3%, to 7028.48.

Apple, which this month reported record revenue and profit for the latest quarter but delivered a revenue outlook that disappointed investors, slid $7.67, or 4%, to $185.86, ending just shy of bear market territory: a drop of at least 20% from a recent high. The stock's retreat is the latest sign to investors that even companies that had produced expectations-defying growth in past quarters are vulnerable to sharp reversals.

Companies that supply components and parts for Apple like Lumentum Holdings Inc. and Qorvo Inc. also came under pressure, hurt by signs of lower-than-expected demand for new iPhones.

The rout spread beyond Apple, taking semiconductor firm Advanced Micro Devices Inc., Netflix Inc., Facebook Inc. and Amazon.com Inc. down more than 5% apiece. All of those stocks had rallied earlier in the year, buoyed by bets that technology-driven companies would be able to deliver robust growth.

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"When you lose leadership in the market, people start wondering if that's indicative of the whole market," said Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management.

A trader at work on the floor of the New York Stock Exchange. PHOTO: BRYAN R. SMITH/AGENCE FRANCE-PRESSE/GETTY IMAGES

Now, investors are grappling with signs that the momentum that had driven stocks around the world to records is fading.

Earnings for companies in the S&P 500 look set to grow 26% in the third quarter—the fastest pace since 2010, according to FactSet. But analysts expect that pace to slow to the single digits next year, in part as windfalls fade from the U.S. tax overhaul passed late last year.

As the declines spread, traders readied for more volatility ahead. The Cboe Volatility Index, which measures expectations for stock swings, jumped 11% to 20.10.

Meanwhile, investors flocked to assets that tend to do well during volatile stretches of trading. Treasurys strengthened, sending the yield on the benchmark 10-year U.S. Treasury note lower for the sixth consecutive day—the longest such streak since September 2016. Bond yields fall as prices rise.

Outside the U.S., the Stoxx Europe 600 declined 0.7% to end at its fifth lowest level of the year. Shares of French car maker Renault cut into broader gains in the region following reports that its chief executive, Carlos Ghosn, was arrested in Japan.

Asian markets rallied despite lingering trade tensions between the U.S. and China at the Asia-Pacific Economic Cooperation summit. The summit of world leaders ended Sunday without issuing a communiqué for the first time in its nearly three-decade history amid a fight over Chinese trade practices.

"China is the main reason we've been reducing risk in the near-term," said Hani Redha, a portfolio manager at PineBridge Investments, which recently pulled back on some of its exposure to riskier assets, citing the potential for a sharper slowdown in China.

Hong Kong's Hang Seng added 0.7% and the Shanghai Composite Index rose 0.9% as Chinese property companies climbed, while Japan's Nikkei Stock Average rose 0.6%.

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