Markets Briefing Markets

Global stock markets record worst week in more than a year

Concerns over 'contagion' grow as Netflix shares plunge after warning on subscriber growth

Netflix on Thursday warned subscriber growth would slow substantially © Bloomberg

Naomi Rovnick, **George Steer** and **Harriet Clarfelt** in London and **Nicholas Megaw** and **Eric Platt** in New York JANUARY 21 2022

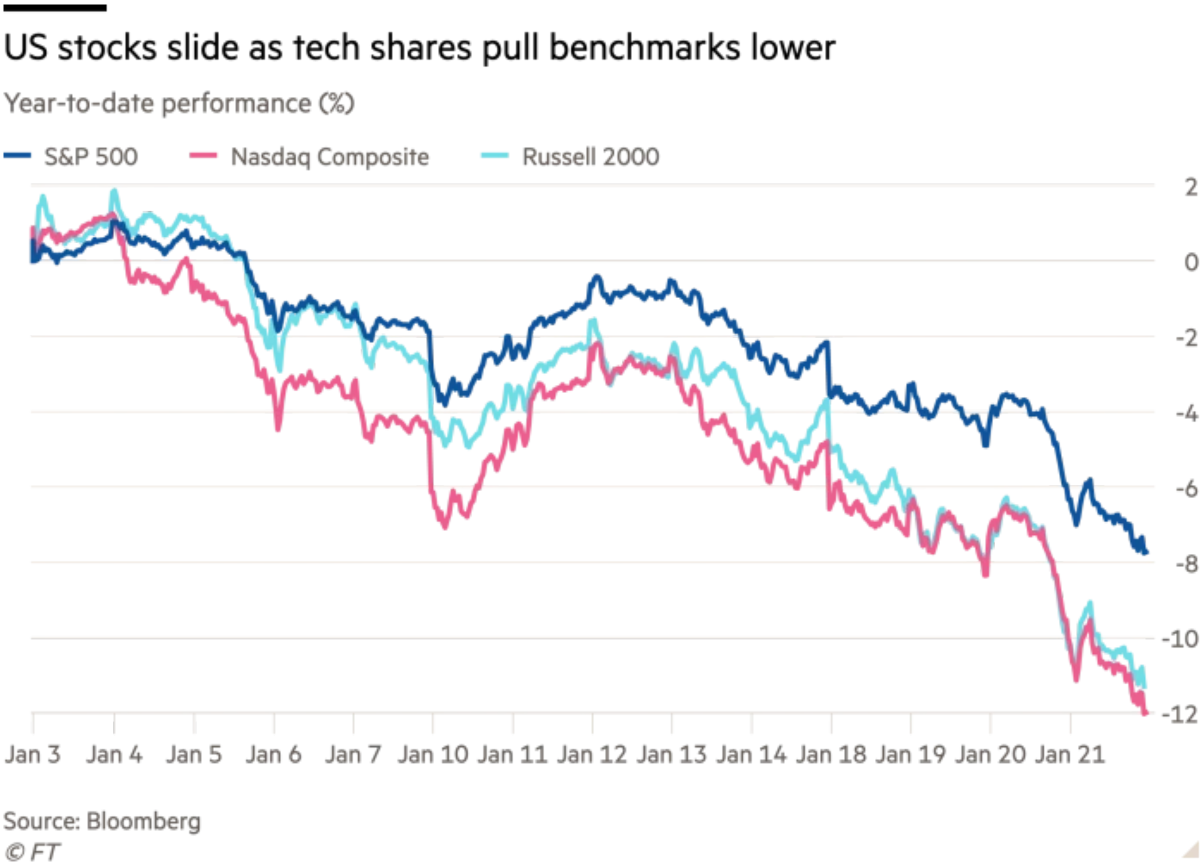
Global equities suffered their biggest declines in more than a year as heavy losses in Netflix shares accentuated a sell-off in tech stocks that spilled into other sectors.

Investors have raced out of speculative corners of the market as the Federal Reserve moves to tighten financial conditions. Share declines have been particularly extreme in the US, where many of last year's high-flying tech companies are listed.

The tech-heavy Nasdaq Composite index fell 7.6 per cent this week, its biggest slide since the coronavirus pandemic rocked US financial markets in March 2020.

The blue-chip S&P 500 index, the closely followed barometer of the $50tn US stock market, shed 5.7 per cent over the past week. More than two-thirds of the companies within the index are now in a technical correction — or down at least 10 per cent from their record high — including 149 stocks that have declined 20 per cent or more.

The FTSE All-World index of developed and emerging market shares has fallen 4.2 per cent since last Friday, recording its steepest weekly decline since October 2020.



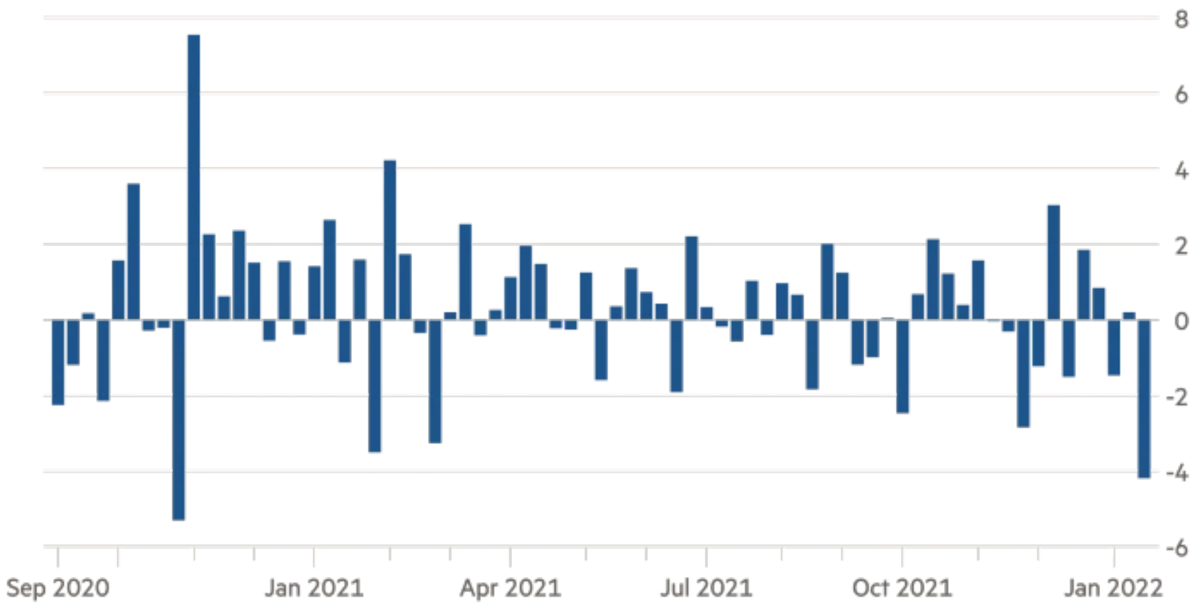
Among the hardest hit US stocks was Netflix, which tumbled 22 per cent on Friday after the streaming group warned subscriber growth would slow substantially. The decline shaved about $49bn from its valuation, or roughly the market capitalisation of foods group Kraft Heinz.

Tim Skiendzielewski, investment director at Abrdn, the $700bn asset manager, said a weak start to earnings season had knocked investor confidence just as markets were showing signs of recovery after an earlier sell-off.

“At a time when investors were broadly hopeful that we’d found a bottom and would get into an earnings season that would help ease investor concerns and give a lift to the market, Netflix’s report did the opposite, sending jitters through the market that things won’t pick up from a demand perspective,” he said.

Global stocks suffer worst week since October 2020

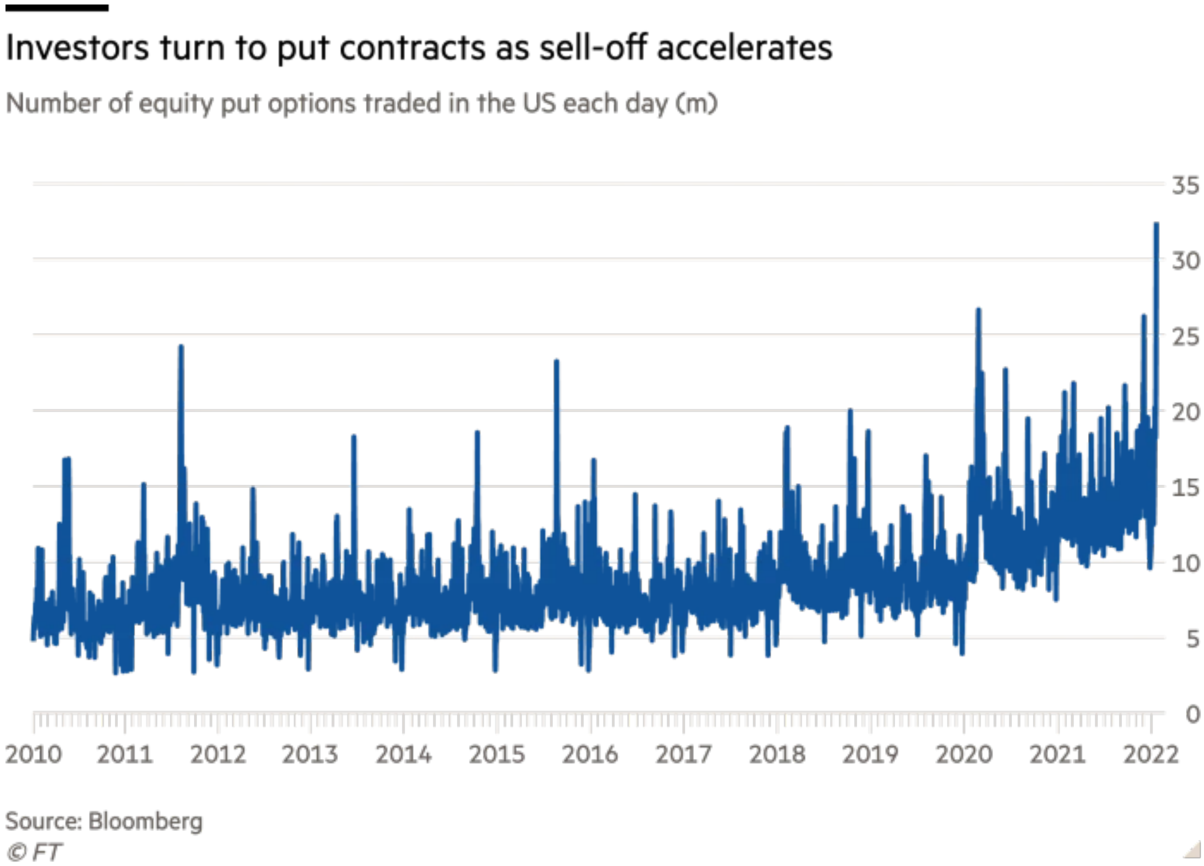
Weekly performance of the FTSE All World Index (%)



Source: Bloomberg

The drawdown in equity markets prompted many investors to buy derivatives to hedge themselves from further declines. Volumes of equity put options in the US, which can pay off if a stock or index falls in value, surged above 30m contracts, the first time in history activity had ever crossed that threshold in a single day.

Investors were heavy buyers of puts on State Street's $420bn SPDR S&P 500 exchange traded fund, known by the ticker SPY. Roughly 6m put contracts on the ETF were bought on Friday, including more than 1m that expired today.



“Some kind of contagion from tech to the rest was inevitable at some point,” said Luca Paolini, chief strategist at Pictet Asset Management. “When you have these kinds of losses they affect sentiment and everything else goes down.”

The shift out of highly valued and fast-growing companies such as Netflix on Friday marked the latest stage of a pullback that has reverberated across global financial markets, as investors grapple with a US central bank that is dramatically shifting monetary policy.

Traders expect the Fed to raise interest rates four times this year and to end other stimulus measures that had helped propel stock markets since the start of the pandemic. That pivot from the Fed has been acutely felt in the $22tn Treasury market, the backbone of the global financial system and the market that serves as a gauge for which all other assets are priced.

Yields on Treasuries have shot higher this year, prompting a powerful stock market rotation out of tech stocks and into shares of businesses whose fortunes are pegged to the economic rebound from the shocks of coronavirus.

Those higher yields have damped the appeal of so-called growth stocks, whose valuations are reliant on future profits that will not be earned for many years.

Even as Treasury prices firmed on Friday, extending a rally that began in the previous session, the so-called 10-year real yield continued to rise, briefly hitting minus 0.54 per cent, its highest level since February 2020.

Real yields have spiked as investors ready for Fed rate rises

10-year US Treasury real yield (%)

Source: Bloomberg
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Other assets that had been in vogue have also had a turbulent start to the year as real yields have surged from minus 1.1 per cent at the end of 2021. Bitcoin, a highly speculative asset that reached an all-time high in November 2021, has fallen 17 per cent in 2022 while an index of unprofitable tech stocks collated by Goldman Sachs has shed more than a fifth of its value over the same time period.

"The equity market has become very bearish [over the prospect that] the Fed will be forced to act," added Jim Tierney, a fund manager focused on growth stocks at AllianceBernstein. "The Fed has never in the last 20 years — in most of our investing careers — been hyper hawkish, but the market now is pricing in the idea that they are going to have to be."

Stock markets also fell across Europe, with the regional Stoxx 600 equity gauge falling 1.4 per cent for the week, its third consecutive weekly loss.