The Wall Street Report Equity valuation

Tech sell-off leads Wall Street sharply lower

US equities on track for biggest daily loss in months

Peter Wells and Nicole Bullock in New York 5 HOURS AGO

US stocks were on track for their worst day in months as recent rises in interest rates prompted investors to dump once high-flying technology stocks.

Analysts said this month's spike in US Treasury yields called into question the high valuations put on tech stocks during the bull market that began in 2009.

"This is much more interest-rate related than anything going on specifically with tech," said Ari Shrage, chief executive of Aliya Capital. "Interest rates are moving higher, so stocks that are most expensive typically are the ones that roll over."

At midday in New York, the tech-heavy Nasdaq Composite was off more than 2 per cent and the Philadelphia Stock Exchange Semiconductor Index was down 2.6 per cent. The S&P 500 was off 1.5 per cent, with the tech sector the worst performing

The day's biggest losers including the so-called Faangs, the one-time darlings of bullish investors. Facebook was down more than 2 per cent for the day, bringing its drop in value for the year to more than 12 per cent.

Among other technology companies, Google parent Alphabet was down more than 2 per cent while Apple lost 1.8 per cent. Amazon had fallen 3.6 per cent, Netflix was down nearly 6 per cent and Twitter by 6.7 per cent.

"Tech has been the leader all year. When you have big gains with valuations expanding, it doesn't take a whole lot for stocks to take a breather," said Peter Lazaroff, co-chief Investment officer at Plancorp. "It is pretty natural to see that they are the ones taking the fall a bit more than the broader market."

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Bonds were the catalyst for Wednesday's equity falls, with the US Treasury market remaining under pressure. The yield on the benchmark 10-year Treasury was up 1 basis point to 3.22 per cent at midday Wednesday, after hitting a seven-year high of 3.26 per cent this week on expectations of further rate rises in response to stronger US economic growth.

“On a very simple level, you have a discount rate when you value a stock and as that discount rate goes up your valuation has to go down,” said Max Gokhman, head of asset allocation for Pacific Life Fund Advisors. “Think of the stocks trading at the largest equity risk premium — those will be your high growth large-caps. The most stretched names are the ones to go first.”

Speculation this week that Republicans could keep control of both houses of Congress after midterm elections next month also renewed trade war concerns for some investors.

“If we do have a Republican sweep, meaning the Republicans keep the House, it would embolden the administration and would coalesce Republicans around (Donald) Trump,” Mr Gokhman said. “If that is going to happen, you will see a much more protracted trade war.”

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