Dow Slides While Nasdaq Rallies: Omen Or Rotation?

The Dow has lost ground for three weeks running, down nearly 3.5% from its August 28 close, while the Nasdaq 100 is slightly higher over the same period. That performance gap has worried some market pundits, as they say it may be signaling a downturn. While that might be true, we think the performance differential is more likely a rotation as investors adjust their holdings in response to the Fed taking a more hawkish policy by raising rates.

The graph below shows that the Dow and Nasdaq were trading similarly until the Fed meeting on September 16th. The divergence we note above largely occurred after the Fed meeting. Given the Fed is more restrictive, it?s not surprising that economically sensitive sectors and financials underperformed, while less sensitive sectors outperformed. Over the last three weeks, the economically sensitive industrials sector fell 4.2%, and financial stocks, sensitive to rising interest rates and a flattening yield curve, fell 3.9%. Over the same time frame, technology rose 2.1%.

As we show below, the Dow?s price-weighted construction is over 25% weighted toward financial stocks, while the Nasdaq 100 holds none. Industrials account for 16% of the Dow, but only 3% of the Nasdaq. Conversely, technology stocks are nearly 60% of the Nasdaq but only a fifth of the Dow.

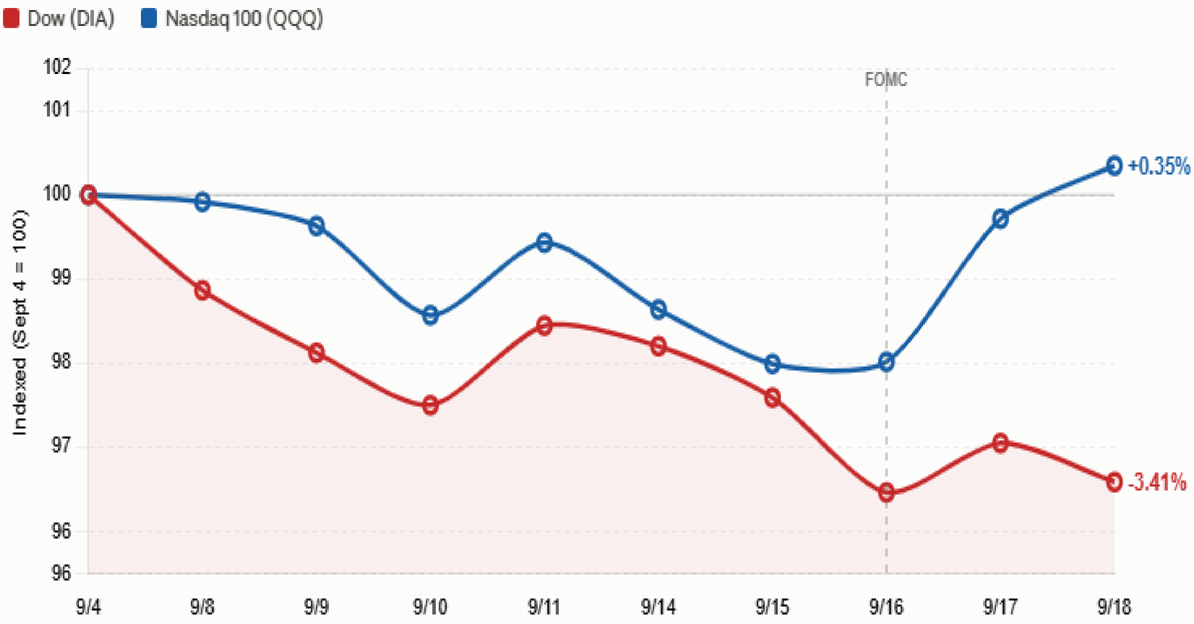
The 10-year Treasury yield touched its highest level since 2007, and the parts of the market carrying the most cyclicality and refinancing exposure absorbed the damage. Technology shares rallied on the rate hike, in part because AI infrastructure commitments are contracted years forward and largely indifferent to a quarter-point move in the policy rate.

Dow vs. Nasdaq 100, last two weeks

Indexed to the September 4 close

Real Investment Advice

Dow, 2 weeks	Nasdaq 100, 2 weeks	Divergence
-3.41%	+0.35%	3.75 pts



Why the two moved apart

GICS sector weights — the Nasdaq 100 excludes financials entirely by index rule

Sector	Dow	Nasdaq 100	
Financials	28.7%	0%	*excluded by methodology*
Technology	19.3%	59.0%	
Industrials	16.3%	~3%†	

What To Watch Today

Earnings

Company (Ticker)	Timing	EPS est.	Rev. est.
AutoZone (AZO)	Before open	$54.22	$6.71B
KB Home (KBH)	After close	$0.90	~$1.3B
A rare same-day read on the consumer and on housing. Also reporting: MillerKnoll (MLKN) before the open. The bellwether slate broadens Wednesday with General Mills (GIS), Paychex (PAYX) and Cintas (CTAS).			

Fed speakers: Out of blackout after the September 16 hike. Richmond's Tom Barkin addresses the CFA Society of Baltimore around 1:00 p.m. ET, and the New York Fed hosts its annual Treasury Market Conference, where President John Williams and other officials speak. The slate builds to Chair Powell on Wednesday.

Economy

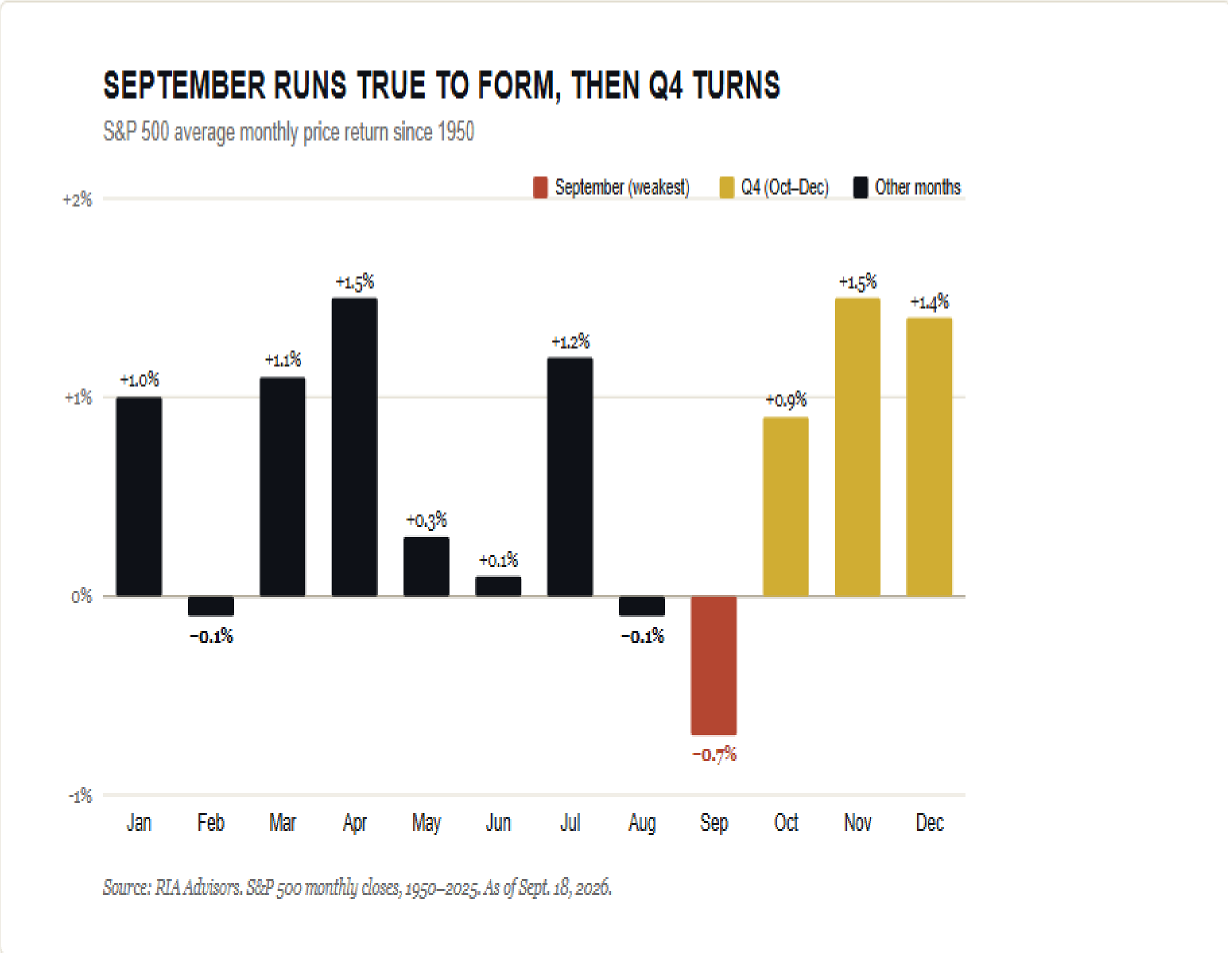
Time (ET)	Release (period)	Prior	Consensus	Forecast
8:55 AM	Redbook retail sales (weekly, y/y)	+8.5%	—	—
10:00 AM	Richmond Fed Manufacturing Index (Sep)	+4	—	—
No top-tier U.S. release today. The week's marquee data begins Wednesday with the flash S&P Global PMIs, followed by durable goods, the final Q2 GDP revision and weekly jobless claims later in the week, and the PCE inflation report at month-end.				

Market Trading Update

Yesterday, we covered the technical market levels heading into this week. Today, read the calendar instead, because September market seasonality is playing out almost perfectly true to form.

Start with the tape. The S&P 500 closed Friday at 7,650.50, roughly 1.9% below the August 13 record close of 7,798.99. That?s it. The index reclaimed its 50-day moving average near 7,615 on Thursday. It sits about 6.5% above a rising 200-day near 7,180. The 14-day RSI is back near 50 after tagging the low 40s on Fed day. The real story is under the surface.&#2013266080;**Only about 31% of members trade above their own 50-day line, and nine of eleven sectors are lower on the month.**&#2013266080;This has been a narrow, rotational pullback, NOT a disorderly one.

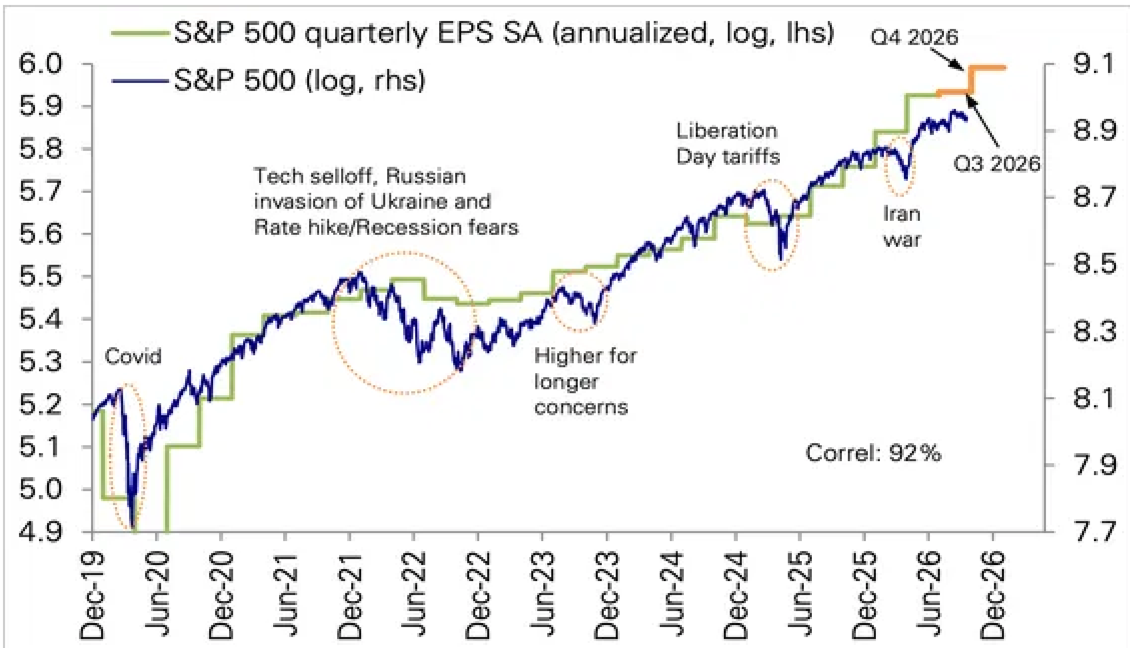
Notice how ordinary that is in the chart below. Since 1950, September is the only month with a reliably negative average return, near-0.7%. The back half is the weakest two-week stretch on the whole calendar. Scott Rubner?s desk at Citadel frames the same window from the flow side. Buybacks are marching into blackout, from 10% of index weight now to 61% by September 30. Roughly $7 trillion of options rolled off at Friday?s triple-witching and quarter-end rebalancing, tilting pensions toward selling stocks. As I warned back in the spring, the seasonal headwinds are real, and in a midterm year like 2026, the overlay only sharpens them.



September market seasonality: since 1950, September is the S&P 500's only reliably down month, while October through December has been one of the strongest stretches of the year. Source: RIA Advisors; S&P 500 monthly closes, 1950–2025.

Here?s what matters. That same weakness is what builds the turn. Look at Citadel?s midterm-year path below. Since 1928, the average midterm-year slide into quarter-end bottoms near September 30. From that low, it climbs about 5.6% into year-end, accelerating past Election Day. The index has been higher for twelve months after every midterm since 1950.&#2013266080;We?re sitting right at the ?you are here? mark, days past September opex, **and just ahead of the seasonal low.**

Then layer on earnings. The chart below tells the rest. Forward estimates are still climbing into the fourth quarter, and Q2 delivered its steepest positive revision path since 2000. Price follows earnings, and earnings keep rising.



For now, we continue to suggest holding quality and value over high beta. The cash buffer keeps earning its 4%, right where we were Friday, and you want to start building a shopping list to add into the month-end weakness rather than chase a bounce. Capital preservation comes first. The calendar is handing us an entry, not an exit, and the ones who wait to feel safe are the ones who miss it.

Expanding On The Fed-Led Rotation

As we led this commentary and show below, courtesy of SimpleVisor, technology and energy shares are outperforming the market, while most other sectors lag. Utilities are very oversold, likely a response to higher interest rates. With low earnings growth and relatively high dividend yields, utility stocks tend to correlate with bond yields. Some investors even treat them as a surrogate for bonds.

While the divergence between technology and sectors like utilities, discretionary, and real estate is getting extreme, a rotation toward those more conservative sectors may not be on the table immediately. The market will likely want to feel more comfortable with Fed rate-hike expectations. Furthermore, they may likely take their cue from bond yields. If the ten-year yield can resist 5% and begin to trend lower, we suspect the lowest-scoring sectors may start to outperform. Furthermore, rates are closely correlated with oil prices, so some sort of agreement with Iran could also go a long way toward helping the underperforming sectors, but equally important, weigh on those sectors if conditions remain combative.

SECTOR	ABSOLUTE	RELATIVE
Technology XLK	+0.48	+0.63
Energy XLE	+0.36	+0.35
Healthcare XLV	+0.13	+0.11
S&P 500 (Benchmark) SPY	+0.09	+0.00
Communication Services XLC	-0.05	-0.08
Financials XLF	-0.31	-0.34
Materials XLB	-0.31	-0.64
Consumer Staples XLP	-0.37	-0.59
Industrials XLI	-0.41	-0.60
Transportation XTN	-0.49	-0.59
Real Estate XLRE	-0.55	-0.81
Consumer Discretionary XLY	-0.57	-0.79
Utilities XLU	-0.77	-0.81

Earnings Mean Reversion: When Estimates Snap Back

This has been an incredible year in that Wall Street has spent all of it raising its earnings estimates, and the second-quarter season only accelerated the trend. Analysts began the year expecting S&P 500 earnings to grow about 15%. By the close of Q2, that number had been ratcheted up to roughly 24%, with 2027 and 2028 estimates drifting higher right behind it.[1] Rising profits are good news. The question I keep coming back to is whether the slope of these revisions can hold, or whether we?re setting up for an earnings mean reversion that catches a lot of people leaning the wrong way.

Here?s why it matters. Based on the current consensus, forward earnings are close to 50% above their long-term growth trend. **Make no mistake, a gap that wide does not appear at random points in a cycle. It shows up near the top of one.**

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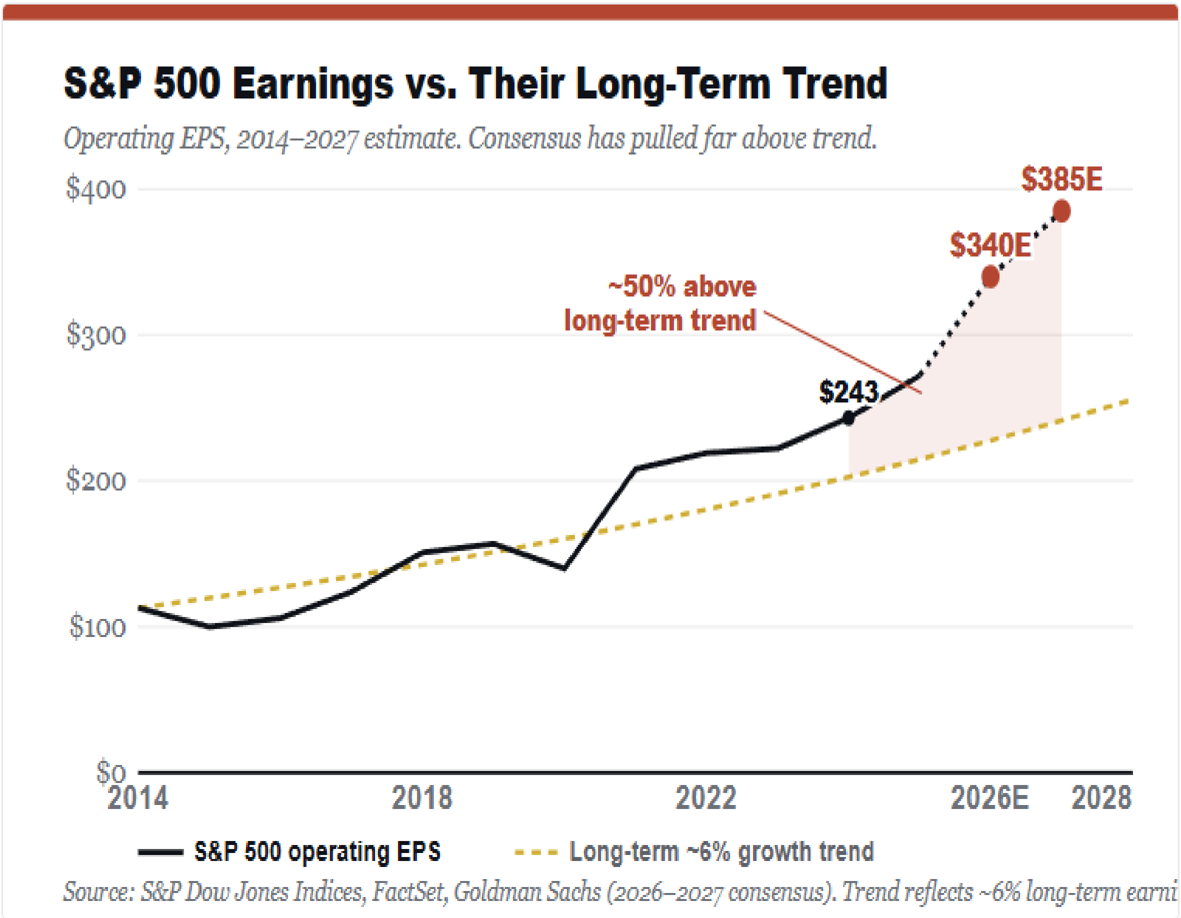
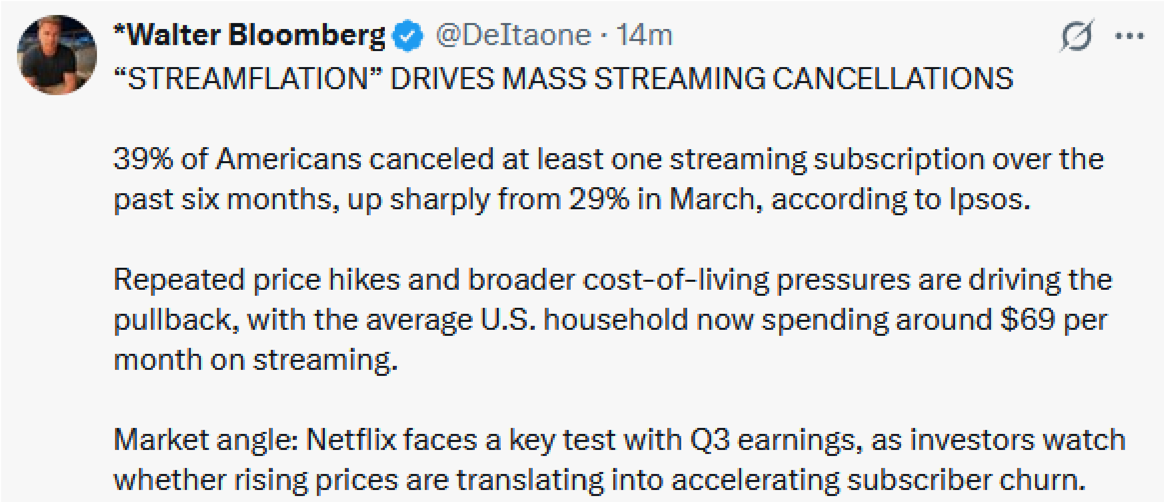


Earnings hugged their long-term trend until 2020, then pulled away and kept climbing. The 2026 consensus near $340 and the 2027 estimate near $385 compare to roughly $224 and $214 at the historical growth pace. Source: S&P Dow Jones Indices, FactSet, Goldman Sachs, 2026.

Tweet of the Day



*Walter Bloomberg @DeItaone · 14m

“STREAMFLATION” DRIVES MASS STREAMING CANCELLATIONS

39% of Americans canceled at least one streaming subscription over the past six months, up sharply from 29% in March, according to Ipsos.

Repeated price hikes and broader cost-of-living pressures are driving the pullback, with the average U.S. household now spending around $69 per month on streaming.

Market angle: Netflix faces a key test with Q3 earnings, as investors watch whether rising prices are translating into accelerating subscriber churn.

New UPDATED Trading Rules With Desktop Printout

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