Marketwatch

S&P 500, Dow on pace for steepest slide since Brexit aftermath

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The benchmark S&P 500 dropped sharply in early trade Friday, following hawkish comments from Federal Reserve officials while a slump in oil prices hit energy shares.

Boston Fed President Eric Rosengren—a voter on the Fed's interest-rate setting board—said the U.S. central bank could resume gradual rate increase as the risks facing the economy are more in balance, reigniting fears about the end of easy-money policies.

Rosengren's comments drove the U.S. dollar DXY, +0.44% firmly higher, while the yield on the 10-year Treasury note TMUBMUSD10Y, +4.26% jumped to the highs before the U.K.'s vote break from the European Union roiled global markets June 23.

The S&P 500 index SPX, -1.31% tumbled 26 points, or 1.2%, to 2,155 with all 10 main sectors trading in negative territory. So-called defensive sectors—utilities, telecoms and consumer staples—were leading the losses, while energy shares declined sharply amid a drop in crude-oil futures.

If the S&P 500 closes at current levels, it will be the first time since June 27 that the benchmark logged a drop of more than 1%. It will also be the steepest decline for the Dow industrials since late June, in the aftermath of the U.K.'s vote to leave the EU, dubbed Brexit.

Wall Street losses followed declines for European SXXP, -1.09% and Asian markets, which were unsettled by North Korea's confirmation that it has successfully carried out a fifth nuclear test.

The Dow Jones Industrial Average DJIA, -1.16% dropped 185 points, or 1%, to 18,292, with all 30 blue-chip companies trading lower. Meanwhile, the Nasdaq Composite Index COMP, -1.38% shed 58 points, or 1.1%, to 5,201.

"When the market is near its top—as this market has been—any piece of bad news will results in a selloff," said Thomas Siomades, head of Hartford Funds Investment Consulting Group.

Some analysts think that a rate increase by the Fed in September could be greeted positively by the market.

"If the Fed does it for the right reasons—that the economy is on solid footing—then, markets would welcome a rate increase," said **Joe Saluzzi**, partner at **Themis Trading**.

Other analysts suggest that investors are losing confidence in the effectiveness of monetary policy.

"With the ECB's inaction sparking fears that central banks have lost confidence in the benefits of further monetary easing, Wall Street could find itself vulnerable to steeper losses," said FXTM Research analyst Lukman Otunuga in a note.

“Bears are on the prowl for the catalyst which could trigger a heavy market selloff, and [that] should force investors to remain alert,” he said.

Other central-bank talk: Fed Gov. Daniel Tarullo, who’s viewed as dovish on monetary policy, said he couldn't rule out a rate increase this year, but would like to see more inflation., during an interview on CNBC.

Fed officials will gather on Sept. 20-21 to set interest rate policy, and the quiet period before that meeting begins Tuesday.