



August 18, 2009

Pessimism Still Grips Wall Street

By GERRY SHIH

In recent weeks, it seemed as if nothing could hold back investors trying to will a recovery into reality. [Stocks](#) gained week after week, adding up to a 42 percent rise since mid-March, despite troubling news of bank loan defaults, mixed corporate earnings reports and lukewarm forecasts from [Federal Reserve](#) Bank officials.

Then consumer data sobered investors.

With signs re-emerging that battered American businesses, hamstrung by tight consumer spending, will struggle for revenue growth the rest of this year, investors sent the major markets into their steepest fall in six weeks.

“There’s concern that the market had gone too far,” said Nigel Gault, chief United States economist at IHS Global Insight.

The Dow Jones industrial average fell 186.06 points, or 2 percent, to close at 9,135.34. The broader Standard and Poor’s 500-stock index dropped 2.43 percent, or 24.36 points, to 979.73, while the Nasdaq composite index shed 2.75 percent to 1,930.84.

Acknowledging continuing weakness in critical parts of the economy, the Federal Reserve and the [Treasury](#) announced Monday that they were extending a program to spur consumer and business lending for several more months. The program known as Term Asset-Backed Securities Lending Facility, or TALF, had originally been scheduled to expire at the end of 2009.

A key part of it has been dedicated to propping up the commercial real estate market, which has recently been plagued by mounting loan defaults at small and regional banks. Colonial BancGroup, a lender based in Montgomery, Ala., that collapsed Friday, was the biggest bank to fall this year.

“The Fed is extending TALF because commercial real estate is still very much a trouble spot,” said John Lonski, chief economist at [Moody’s](#) Capital Markets. “The high ranking officials only say that we’ve bottomed out and the [recession](#) has ended. But the equity market has already priced in the start of a recovery. There’s a dichotomy between the two camps.”

Adding to Wall Street’s pessimism were jittery Asian investors who feared that a sustained weakness in American spending would threaten recovery in export-dependent countries like Japan and China.

Markets in Shanghai and Tokyo posted their worst one-day drops in months. The Shanghai composite index plummeted 5.8 percent, taking its total decline since Aug. 4 to 17 percent and further eroding a rally that had sent it up more than 80 percent in the first seven months of this year.

“It’s almost an Asian flu that the markets caught today,” said Art Hogan, the chief market analyst at Jeffries & Company. “Creeping into the conversation now is, when do we see top-line revenue growth? When is the consumer going to take over from government stimulus? But the answer is consumer data has been less than spectacular.”

Lowe’s, the home improvement chain, reported [weaker earnings](#) on Monday, which seemed to encapsulate American retailers’ continuing struggle to pry open consumers’ pocketbooks. The chain reported a 19 percent drop in profit from last year after sales fell \$500 million short of expectations.

Other corporate news reinforced the belief that consumers are still in poor shape.

[Bank of America](#) and [Capital One Financial](#) said credit card defaults rose in July.

Intel, which generates about 60 percent of annual sales from Asia, saw its shares dipped 1.7 percent and I.B.M. fell 1.4 percent after economic growth in Japan trailed forecasts.

But there are signs that industry may be rebounding more quickly. According to data released Monday, New York State’s manufacturing showed growth in August. Economists at the Federal Reserve Bank in New York ratcheted up the state’s general economic index to 12.1, the highest it has been since April 2008.

“The manufacturing survey shows us returning to growth,” said Mr. Gault of IHS Global Insight. “That’ll dampen some of the initial negative sentiment from overseas.”

As stock prices sank, investors headed for the relative safety of government debt, driving up bond prices. The benchmark 10-year note rose 27/32 to 101 10/32. The yield fell to 3.47 percent, from 3.57 percent late Friday.

The price of oil retreated again to settle at \$66.75 a barrel as consumer outlook undermined future energy demand. The drop occurred despite the looming threat of [hurricanes](#) and tropical storms that could curtail supply.

[ConocoPhillips](#) fell 3.2 percent to \$42.36 after oil prices reached a two-week low.

“Oil prices were exaggerated because growth demand was exaggerated,” said Fadel Gheit, the managing director of oil and gas at Oppenheimer Funds. “Prices are still inflated.”

Asian markets were broadly lower. The Nikkei 225, Japan’s main index, dropped 3.1 percent — its worst performance in nearly five months. The benchmark market gauges in Singapore, South Korea and Thailand also fell.

The Bombay Stock Exchange’s Sensex index and the India Nifty index each dropped about 4 percent. And the Hang Seng in Hong Kong shed 3.6 percent in its largest decline since late March.

The sharpest declines were in mainland China, where homegrown uncertainties about the direction of bank lending have helped deflate a rally that many analysts had long warned would be unsustainable.

“The market in China was clearly seeing a bubble that was partially driven by massive lending by state-controlled banks,” said Dariusz Kowalczyk, chief investment strategist at SJS Markets in Hong Kong.

European markets, too, started the day in a gloomy mood. The major indexes in Germany and France finished 2 percent lower. The FTSE-100 in London was down 1.46 percent.

Following are the results of Monday’s Treasury auction of three- and six-month bills:

Matthew Saltmarsh and Bettina Wassener contributed reporting.

[Copyright 2009 The New York Times Company](#)

[Privacy Policy](#)[Terms of Service](#)[Search](#)[Corrections](#)[RSS](#)[First Look](#)[Help](#)[Contact Us](#)[Work for Us](#)[Site Map](#)