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Stocks Slump in First U.S. Trading Since Downgrade

By CHRISTINE HAUSER and DAVID JOLLY

Stocks on Wall Street plummeted on Monday, following global markets lower, as skittish investors reacted to last week's unprecedented downgrade of the United States's credit rating.

The declines, reflecting the first opportunity for investors to sell since Standard & Poor's cut its rating on the nation's debt late last Friday, set the equity market on track to extend losses that were beginning to recall the days of the 2008 financial crisis. They also reflect anxiety over the United States economy and Europe's debt woes.

Following on from a dismal showing in European and Asian markets, the broader United States market as measured by the Standard & Poor's 500-stock index was down 41.13 points, or 3.43 percent, just before noon. The Dow Jones industrial average was down 322.64 points, or 2.82 percent, and the Nasdaq was down 90.56 points, or 3.58 percent.

Within the first two hours of trading, the S.&P. 500 was down about 14 percent over the last 11 sessions, one analyst noted, bringing back echoes of the last financial crisis. Last week represented the worst five-day trading period since November 2008.

"The rapidity of the decline and its force now rivals almost anything we've seen in the post-war era,"

said Dan Greenhaus, the chief global strategist for BTIG. “We have fallen so far and so quickly that we are up there with the most vicious sell-offs.” The market took a sharper turn downward less than an hour into New York trading as Standard & Poor’s announced additional downgrades, including cuts to the debt ratings of the housing giants Fannie Mae and Freddie Mac.

The downgrade of the United States’s debt to AA+ from AAA has global implications, said Alessandro Giansanti, a credit market strategist at ING in Amsterdam.

“We can see that this may force the U.S. to move more aggressively to cut spending,” he said, something that could drive the already weak economy into **recession** and weigh on the economies of all of its trading partners. “That’s the main driver” of the stock market declines, he said.

Gold topped \$1,700 for the first time, and **the dollar** continued to weaken against most major currencies. The Treasury’s benchmark 10-year note yield was down to 2.37 percent from 2.56 percent on Friday.

Guy LeBas, chief fixed-income strategist for Janney Montgomery Scott, said higher prices for bonds were “a testament to the fact that global investors view U.S. bonds as the safe-haven asset choice.”

While the debt downgrade was likely to continue to reverberate, investors are also concerned about the weak United States economy and Europe’s debt problems.

Some investors are turning their attention to a meeting of the Federal Reserve this week and whether there will be any new measures to stimulate the economy.

Kevin H. Giddis, the executive managing director and president for fixed-income capital markets at Morgan Keegan & Company, said the Federal Open Markets Committee was not likely to take action on interest rates, but would most likely discuss what policies would give support to the market.

“The rest of the conversations should happen in Washington,” Mr. Giddis said in a research note. “This country has an economic problem, which can only be fixed with jobs, not governmental liquidity, and

that is the one that worries me the most.”

The interest rates on Spanish and Italian bonds plummeted after the [European Central Bank](#) expanded its purchases of government debt to support those countries for the first time. The yield on 10-year Spanish bonds dropped by 88 basis points, while comparable Italian yields fell 80 basis points. News agencies cited traders as saying the E.C.B. was intervening in the secondary market to buy the securities.

The E.C.B. declined to comment Monday. But in a statement issued late Sunday after an emergency conference call, the central bank said it would “actively implement” its bond-buying program to address “dysfunctional market segments.” It did not specify which bonds it would buy, but hinted it would be Spain and Italy by welcoming their efforts to restructure their economies and cut spending.

Previously the bond buying had been limited to bonds from Greece, Portugal and Ireland — the three euro-zone countries that have already received international bailouts. Fears that the bloc’s sovereign debt crisis would spread to the much bigger economies of Italy and Spain had contributed greatly to recent market losses.

European leaders agreed last month to revamp their bailout fund to allow it to purchase bonds on the secondary market, but those powers still have to be drafted and ratified by national parliaments, which will take weeks, at best.

European equities opened higher, but the rally fizzled, dashing hopes that the E.C.B.’s actions would be enough to soothe broader market jitters.

The Euro Stoxx 50 index, a barometer of euro zone blue chips, fell 3.72 percent, while the FTSE 100 index in London fell 3.39 percent.

The German market fell heavily as industrial companies declined, led by the automakers BMW, which fell 8.8 percent, and Daimler, which fell 6.9 percent.

The euro fell to \$1.4175 from \$1.4282 late Friday in New York. But the dollar hit new lows against the Swiss franc, falling to around 0.7480 franc, before recovering to 0.7637 franc. The dollar also fell to 77.87 yen from 78.40 yen.

In Asia, the Tokyo benchmark Nikkei 225 stock average fell 2.2 percent. In Hong Kong, the Hang Seng index fell 2.2 percent, and in Shanghai the composite index closed 3.8 percent lower.

United States crude oil futures for September delivery fell 3.2 percent to \$83.67 a barrel.

Comex gold futures rose \$47.40 to \$1,699.20 an ounce, having traded as high as \$1,715.50, their first time to break through \$1,700. Adjusted for inflation, however, gold remains well below its record of more than \$2,400 an ounce, according to Capital Economics.

The rout in equities brought global stock markets, as measured by the MSCI all-country index, back to their levels of last September.

Many analysts stressed that because the S.&P downgrade of United States debt had been well telegraphed, it would probably not raise the country's borrowing costs sharply.

"It's important to note that there is no regulatory requirement for U.S. investment institutions to sell long-term U.S. Treasuries if they are not rated AAA, ditto for short-term Treasuries," analysts at UBS wrote in a note on Monday.

In addition, they wrote, Asian central banks "don't have much choice" but to continue to buy Treasuries, in addition to intervening in currency markets to help protect their exporters.

Blackrock echoed this in a statement Monday: "The downgrade of U.S. sovereign credit by S.&P. on Friday reflects facts that have been well known to the market for some time. So, it does not imply a fundamental increase in risk, and we don't believe that investors should change their behavior based solely on the downgrade."

Mr. Giansanti of ING noted that the yields on United States government bonds had actually fallen

Monday, partly because the downgrade had been expected, but also because of the increasing gloom about the growth outlook.

“The bond market is now pricing in a greater-than-50 percent probability of another U.S. recession by late 2011 or early 2012,” he said.

Christine Hauser reported from New York and David Jolly from Paris. Bettina Wassener contributed reporting from Hong Kong, Jack Ewing from Frankfurt and Hiroko Tabuchi from Tokyo.



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