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Chinese Stocks Slide, Weighing on Global Markets

Equities in China post their biggest decline in over eight months as the coronavirus weighs on airline, rail stocks

By Steven Russolillo and Caitlin Ostroff

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Stocks in Shanghai slumped Thursday, weighing on global markets, as China grappled with a worsening viral outbreak that led investors to reassess the potential economic fallout world-wide.

Futures linked to the Dow Jones Industrial Average edged down 0.3%, while the pan-continental Stoxx Europe 600 slipped 0.5%. The Shanghai Composite Index sank 2.8%, its biggest drop since May, on the final day of trading before the market closes for the Lunar New Year holiday period.

The Chinese government on Thursday locked down Wuhan, where the new coronavirus originated, as well as a second city in a dramatic escalation of efforts to contain the outbreak that has killed at least 17 people and infected more than 500 so far. The lockdowns come shortly before one of the busiest travel periods for people in China and the region. Authorities feared that increased travel would enable the pneumonia-causing virus to spread further.

People traveling from Wuhan arrive at Australia's Sydney International Airport. PHOTO: DON ARNOLD/GETTY IMAGES

Concerns about what the outbreak may mean for economic growth in China and elsewhere weighed on European stocks, said Lars Kreckel, global equity strategist at Legal & General Investment Management.

The caution comes as investors look to past viral outbreaks, including severe acute respiratory syndrome, or SARS, to assess how bad the damage could be on the economy and markets this time around.

"What's going on right now is it's the coronavirus in China: that's worse than expected," Peter Garnry, head of equity strategy at Saxo Bank. "What the market is trying to price in is what is the economic cost."

Airlines listed in Hong Kong and Shanghai fell sharply, including Cathay Pacific Airways Ltd. Airport operators such as Guangzhou Baiyun International Airport Co.

also dropped.

Brent crude, the global benchmark for oil, fell 1.7% to $62.16 a barrel amid concern that the fallout from the outbreak may weaken economic growth and damp demand for the commodity.

Yields on European bonds also fell as investors looked to less risky assets. The rate on German 10-year bunds fell to minus 0.310% from minus 0.298% Wednesday. Italy's 10-year bond fell to 1.287% after climbing Wednesday on fears of political instability in the nation.

"From the point of view of a bond investor who needs to get some results, overlooking Italy is not going to be a straightforward decision," said Luca Cazzulani, a fixed income strategist at Italian bank UniCredit.

Ahead of the opening bell in New York, shares in Wynn Resorts dropped over 4% and Las Vegas Sands declined 3.3%. The outbreak in China has weighed on both stocks this week on concern that the coronavirus will disrupt Chinese consumers' travel plans and impact sales at hotels and casinos.

Shares of Procter & Gamble fell 1.4% in premarket trading after the consumer-products giant's sales in the latest quarter fell short of analysts' expectations. Comcast gained 1.4% after the media company's revenue and earnings topped estimates for the fourth quarter.

Among European equities, STMicroelectronics rallied 8.3% after fourth-quarter revenue at the European chip maker beat expectations, and its guidance for the first quarter also exceeded estimates. Renault shares dipped 4.3% after Citigroup downgraded the French car maker and said it may need to sell part of its stake in Nissan Motor.

Later in the day, some of the biggest U.S. companies including Intel are scheduled to report results. Earnings so far have generally beaten analysts' expectations, according to Mr. Kreckel.

"This is not a part in the cycle where you get 10% earnings growth," Mr. Kreckel said. "But it's enough to keep equity markets where we are today."

—Joanne Chiu contributed to this article.

Write to Steven Russolillo at steven.russolillo@wsj.com and Caitlin Ostroff at caitlin.ostroff@wsj.com