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U.S. MARKETS

## Dow Drops Over 450 Points on Coronavirus Fears

Oil, Europe equities slump as new infections are detected outside China

By *Karen Langley*

Updated Jan. 27, 2020 9:44 pm ET

Investors around the globe stepped up their retreat from stocks and many commodities, reflecting intensifying fears that a viral outbreak in China will deliver a setback to the outlook for world economic growth.

The Dow Jones Industrial Average posted its fifth consecutive daily decline, dropping 453.93 points, or 1.6%. The S&P 500 also declined 1.6%, its first drop of more than 1% since October.

Meanwhile, the yield on the benchmark 10-year Treasury note fell to 1.605%, its lowest level since October, a signal investors are eschewing risk as they reconsider an outlook that just recently had been brightening. The Cboe Volatility Index, which measures expected moves in the S&P 500 index, also climbed to its highest level since October.

“It’s probably too early to determine the impact to global growth from the outbreak of this virus,” said Allen Bond, portfolio manager at Jensen Investment Management. “The impact on global growth is probably the key uncertainty.”

Concern about the coronavirus intensified as the tally of infections jumped over the weekend. The virus has infected more than 4,500 people and killed at least 106, mostly in China’s Hubei province. It has spread to other countries including the U.S., Japan and South Korea, and public-health officials have warned that it is growing more contagious.

Shares of tourism-related companies and those with ties to China were among the hardest hit, after the country imposed travel restrictions in response to the outbreak.

Wynn Resorts, which has a large presence in gambling hot spot Macau, declined 8.1%. American Airlines Group, one of the world’s largest carriers, dropped 5.5%, and Apple, which counts China among its biggest markets, fell 2.9%.

“It reminds investors that this market can turn on a dime, should it start to question what was causing it to go higher,” said Sam Stovall, chief investment strategist at CFRA, of the volatility.

The selloff jolted an equity market that had been unusually calm: The S&P 500 hadn't logged a daily rise or fall of more than 1% since October. It also hadn't suffered two consecutive daily declines since Dec. 10.

The broad stock-market index fell 51.84 points to 3243.63, weighed down by losses in all 11 sectors. The energy, technology and materials sectors, all of which are sensitive to China and any growth-related fears, dropped more than 2%.

The 30-stock Dow Jones Industrial Average, meanwhile, gave up its gains for the year, falling to 28535.80, less than 0.1% below the level at which it ended 2019.

And the technology-heavy Nasdaq Composite dropped 175.60 points, or 1.9%—its largest one-day decline since August—to 9139.31.

“Clearly, the news today is just hit the sell button first and worry about the details later,” said Jack Ablin, chief investment officer at Cresset Capital.

U.S. stocks have steadily risen since mid-October when the Trump administration indicated it was nearing a phase-one trade deal with Beijing. Meanwhile, improving economic data—and three interest-rate cuts by the Federal Reserve—eased fears about a manufacturing slowdown bleeding into the broader economy.

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Shares have been trading at relatively high multiples of earnings, which has made them more vulnerable to pullbacks in response to negative headlines, said Yousef Abbasi, global market strategist at INTL FCStone.

“Investors were considering and really looking forward to improved global growth,” he said. “Uncertainty like this causes people to step back and reassess the amount of risk they’re taking.”

Several investment advisers said it is too soon to make portfolio changes based upon the outbreak. Kristina Hooper, chief global market strategist at Invesco, cautioned against panicking. “Investors would be well-served to stay the course and remain well-diversified,” she said.

As investors fled stocks, they sought safety in gold, which rose 0.4%, settling at the highest value since April 2013.

Making the matter more difficult to assess for investors is the fluid nature of the outbreak and the impenetrability of Chinese politics. The mayor of Wuhan said rules imposed by Beijing limit what he could disclose about the threat posed by the pathogen, suggesting the government was partially responsible for a lack of transparency about the outbreak.

In addition to developments around the virus, investors are looking ahead to a big week of corporate earnings reports. Among the companies on tap for Tuesday are Apple, Pfizer and Lockheed Martin.

With about 17% of S&P 500 companies having reported for the fourth quarter, 70% have topped analysts' earnings expectations, according to FactSet. Still, analysts anticipate earnings for the S&P 500 as a whole to register a drop of 1.9% from a year earlier, before climbing again in the first quarter of 2020.

Investors also will be keeping an eye on the Federal Reserve's meeting Wednesday, though the central bank is expected to hold its benchmark rate steady.

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*Are you concerned about the economic impact of the coronavirus? Why or why not? Join the conversation below.*

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Overseas, Stoxx Europe 600 retreated 2.3%. Markets in China, Hong Kong and South Korea were closed Monday for a public holiday. Japan's Nikkei 225 index closed down 2%.

In the U.S., hotel, cruise and airline stocks were among the biggest decliners on the day. The U.S. Centers for Disease Control and Prevention issued a warning to avoid nonessential travel to the Hubei province of China.

Las Vegas Sands dropped \$4.58, or 6.8%, to \$63.27 and MGM Resorts International lost \$1.22, or 3.9%, to \$30.35.

United Airlines Holdings shares fell \$4.27, or 5.2%, to \$77.63 and Delta Air Lines shares declined \$1.98, or 3.4%, to \$56.83.

With renewed questions about growth in China, the world's largest consumer of industrial commodities, shares of mining company Freeport-McMoRan fell 94 cents, or 7.9%, to \$10.90.

Oil prices slumped, extending their losing streak to five sessions, as the virus outbreak threatens to damp economic growth in China, the world's biggest energy consumer. Brent crude, the global benchmark, declined 2.3% to settle at \$59.32 a barrel, the lowest mark since Oct. 21.



Wuhan in China's central Hubei province is the epicenter of the deadly coronavirus outbreak. PHOTO: STR/AGENCE FRANCE-PRESSE/GETTY IMAGES

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