Banks Lead Dow to 186-Point Gain

By JONATHAN CHENG

Central bank promises of a flood of dollars for European lenders helped buoy investors' spirits, keeping the recent rally rolling.

Investors bought risky assets like stocks and commodities. The Dow Jones Industrial Average rose 1.7% and is up 4% in the past four days. The euro enjoyed its best day in a month. Gold, which has been seen as a safe asset, tumbled back below $1,800 a troy ounce.

The European Central Bank-led effort to extend dollars to the Continent's banks, announced ahead of Thursday's opening bell in New York, is far from a final solution to the region's debt woes.

But investors said the surprise move mitigated, at least for the time being, fears of a major disruptive event—for instance, a Greek default that would cripple European banks. That sense of relief bought more time for investors to grab assets that had fallen sharply in recent weeks.

"It's really become an expectations game in terms of how the markets are reacting to the news flow out of Europe," said Eric Thorne, senior vice president and investment adviser at Bryn Mawr Trust in Pennsylvania. "There's no way we're out of the woods on this situation yet, but if you can provide enough liquidity in the system to let Greece go down without taking any other ships down with it, that's the closest we'll get to a good scenario these days."

That added leg of support allowed investors to turn their attention back toward the economy and corporate prospects.

While neither of those pictures is particularly bright, some say the recent stock slide is excessive, with the Dow finishing last week down 14% from late July.

"If we're able to move past the current risk without some broader financial contagion, then the markets are basically pricing in too much downside," said Jonathan Golub, chief U.S. equity strategist at UBS.

In the U.S. Thursday, weekly jobless claims continued to rise, regional manufacturing remained sluggish and consumer inflation clocked in higher than expected.

For investors in the U.S., the central banks' move helped alleviate contagion concerns. European banks are the most obvious transmission mechanism for any fallout from a potential Greek default. Supplying these banks with ample access to liquidity was an attempt to soothe those fears.

"Particularly as it pertains to the United States, this clears that contagion risk," said Andrew Slimmon, managing director for global investment solutions at Morgan Stanley Smith Barney in Chicago. "And clearing that contagion off the table gets people focused on earnings, and maybe earnings aren't going to be as bad as people thought," he said, pointing to a relatively quiet slate of profit warnings ahead of third-quarter earnings season next month. "It may be kicking the can down the road again, but for the equity markets, this is enough."
In the U.S., stock futures soared after the announcement of the swap facility. French bank stocks leapt. Société Générale finished up 5.4% in Paris after trading roughly flat before the news. France’s BNP Paribas jumped 13% and Italy’s Intesa Sanpaolo gained 10%.

Within minutes of the move, the euro shot up more than 1% against the dollar to $1.3928 before finishing the U.S. trading session at $1.3876, compared with $1.3754 late Wednesday. Germany’s DAX index jumped 3.2% for its third straight day of gains, its best three-day percentage advance since April 2009.

The Dow finished with a gain of 186.45 points, or 1.7%, to 11433.18, capping a four-day gain that has erased most of September’s losses. The Nasdaq Composite, buoyed by the recent strength of technology stocks, is now up 1.1% for the month.

Safe-haven investments fell broadly. Gold tumbled for a second straight day, dropping $45 a troy ounce, or 2.5%, to $1,778.50. Treasurys also fell, pushing the yield on the 10-year note to 2.085%, a two-week high.

For some investors, the attempts to extend emergency-lending facilities for banks was a flashback to the beginnings of the financial crisis, when the Federal Reserve acted to head off a liquidity crisis in the banking system. While memories of the global financial crisis in 2008 remain fresh, that recent tumult also offered hope that policy makers would act to avert a situation akin to the failure of Lehman Brothers Holdings Inc., which occurred three years ago to the day on Thursday.

"What a lot of folks are thinking is, 'Is this a 2008 event for Europe, which would then cause the U.S. a lot of headaches, too,'" said Mr. Thorne, of Bryn Mawr Trust. "Our thought at this point is, there's certainly a risk of that, but we just saw the damage created a few years ago, and lots of countries are prepared to provide liquidity and keep something like that from happening again."

But even the optimists downplayed the impact of the central banks’ move, acknowledging that it only fixes one piece of the larger European debt crisis.

"European banks have dollar obligations, and this addresses that portion of the concerns, but ultimately these banks have holdings in sovereign paper that could be damaged if conditions worsen," said UBS's Mr. Golub. "This solves part of a puzzle, but this is not the solution to this problem. It takes one specific risk and makes it much smaller."

—Brendan Conway contributed to this article.

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