Markets Swoon on Recession Fears

Global investors dumped everything from stocks to corporate bonds to foreign currencies and fled to the relative safety of U.S. Treasurys on fears of another recession and a Greek debt default.

Markets, already reeling from economic weakness around the globe, have been further destabilized by a growing sense that governments and central banks are unable to get growth back on track. Stocks began tumbling Wednesday after the Federal Reserve unveiled a new round of economic stimulus, and they kept falling Thursday. Friday morning, Asian markets continued lower.

In a bid to reassure investors, officials from the Group of 20 leading advanced and developing economies issued a statement Thursday night saying they would "take all necessary actions to preserve the stability of banking systems and financial markets."

With the exception of U.S. Treasurys and the dollar, nearly every type of investment was hammered. Commodity prices, including oil and copper, tumbled on fears that struggling economies will mean less consumption of raw materials.

Despite a small late-day rebound, the Dow Jones Industrial Average fell 391.01 points Thursday, or 3.5%, to 10733.83. The Dow is down 16% from its April high, nearing the 20% drop that would signal a bear market.

The broad Standard & Poor’s 500-stock index fell 3.2% to 1129.56, down 17% from its April high. On Thursday, 1,949 stocks traded in the U.S. hit 52-week lows.

French and German stocks already are in a bear market, as are the small-stock Russell 2000 index and the Dow Jones Transportation Average, all of which tumbled on Thursday.

U.S. Treasury bonds surged in price as investors fled to their perceived safety. The rising price pushed their yields down to their lowest levels since at least the 1950s. German government bonds also rose in price, pushing their yields lower.

Even gold fell, despite its status as a refuge in some investors’ minds, as some people sold anything they considered risky or speculative. The dollar rose 0.8% against the euro and 1% against the pound.

This week’s selloff dashed hopes that stocks were on the mend following their severe August declines. Both the Dow and the S&P finished Thursday slightly above their August lows.

“I think we are in a bear market,” said Phil Roth, chief technical market analyst at brokerage firm Miller Tabak + Co. Both the Dow and the S&P 500 are headed for further declines, he said, and “the question is how severe it will be.”

Stocks had rebounded since August on hopes the Federal Reserve would pump fresh money into the economy. After its meeting on Tuesday and Wednesday, the Fed as expected said it would shift its bond holdings toward longer-maturity bonds.

Few investors thought that would be enough to stave off economic weakness. With Congress locked in another budget dispute that could lead to a government shutdown, investors doubted the government would be able to continue propping up the economy.

"It’s clear that the Fed is out of bullets," said Bob Worthington, president of Hatteras Funds.

Mr. Worthington, who invests in a number of hedge funds, said most of the funds he owns are taking heavy short positions, or bearish bets, or moving to the sidelines in cash.

Money managers, meanwhile, have been passing around analyst reports suggesting that a Greek debt default is becoming inevitable, and are worrying that European efforts to prevent it are just prolonging the pain.

"Part of it is the Fed, part of it is the seeming slowness as well as lack of effort on the part of European nations to really come out with a scheme to handle heavily indebted nations and their banking systems," said Thomas Villalta, portfolio manager at Jones Villalta Asset Management in Austin, Texas. "The fear is really pronounced."
On top of that, a new report showed that Chinese manufacturing activity declined in September. And FedEx Corp. warned that its results could be weaker than expected because of weak Asian shipments.

Taken together, the news persuaded investors that the risk of economic trouble is rising.

"We've got to get our people in Washington to do something, for God's sake," said Terry Morris, portfolio manager at National Penn Investors Trust. "China adds to the thesis that maybe we're heading into a double-dip."

Reflecting the extent of the anxiety, total trading volume in shares listed on the New York Stock Exchange hit 6.95 billion shares, the highest since Aug. 11. The Dow's two-day decline was the largest in point and percentage terms since 2008. Unless stocks recover Friday, the Dow will turn in its biggest weekly decline since 2008 as well.

The Nasdaq Composite Index fell 3.3% to 2455.67, down 14.5% from its April high.

Investment-grade corporate bonds fell broadly, led by Bank of America Corp.'s 7.625% bond due 2019, whose price declined five cents on the dollar.

In Hong Kong, the local stock index fell 4.9% on Thursday. Stocks fell 2.9% in South Korea, 4.1% in India, 4.7% in Britain, 5% in Germany, 5.3% in France and 4.8% in Brazil. Stocks in Hong Kong and France were back at 2009 levels. Asian shares declined Friday morning, although losses were somewhat mitigated by the G-20 pledge. By midday trading Hong Kong was down 1.6% and South Korea down 4%. Tokyo markets were closed for a holiday.

Among Thursday's few winners were government bonds, to which frightened investors fled. The yield of the 10-year Treasury note tumbled to 1.717%, the lowest since at least the 1950s. Investors sent the yield of the 30-year Treasury bond to 2.789%, the lowest since December 2008, when the recession was near its bleakest point.

"We think rates can still go lower from here," said Ira Jersey, U.S. interest-rates strategist at Credit Suisse. "The search for yield becomes more acute when you're worried about recession and deflation."

Copper futures, often seen as a barometer of overall economic activity, tumbled 7.3% to a 52-week low. Crude-oil futures fell 6.3%, settling at $80.51 a barrel, the second-lowest settle price this year. Gold futures fell 3.7% to $1,739.20 a troy ounce, as a rising dollar undercut the gains that precious metals sometimes see when investors seek havens. Silver futures, more volatile than gold, fell 9.6%.

Some investors may have been selling precious metals to cover losses elsewhere; gold remains up 22.4% and silver up 18.2% for the year.

"Fear and uncertainty continue to dominate the markets. The Europe situation is unresolved, the U.S. fiscal situation is unresolved, and the market hates uncertainty," said Stephen Cucchiaro, chief investment officer of Windhaven Investment Management, a subsidiary of Charles Schwab Corp., which has nearly $7 billion under management.