The Standard & Poor’s 500 Index closed under 1,100 for the first time in more than a year, falling below the price range that held since August and putting the gauge within 1 percent of a bear market.

Declines of at least 3 percent yesterday in banks, energy producers, drugmakers and industrial companies helped push the benchmark gauge down 32.19 points to 1,099.23, bringing its two-day retreat to 5.3 percent, according to data compiled by Bloomberg. The index would complete a 20 percent decline from its April 29 high by falling below 1,090.88, the data show.

Concern governments may be running out of tools to keep the global economic slowdown from worsening has left equities from Brazil to Hong Kong and Frankfurt in bear markets. Bank of America Corp. (BAC) lost 9.6 percent yesterday and has decreased 59 percent in 2011. The declines are confounding bullish investors who speculated the recovery that began in March 2009 would boost stocks for a third year.

“Obviously I’ve been too optimistic,” said Byron Wien, the vice chairman of Blackstone Advisory Partners LP, whose parent, New York-based Blackstone Group LP, is the world’s biggest private-equity firm. Wien said the S&P 500 would climb more than 19 percent in 2011 to above 1,500 in predictions published Jan. 3. While the former Morgan Stanley strategist says shares may fall into a bear market, he said gains are possible by year end.

Losing Support

The S&P 500 slid 2.9 percent yesterday, surpassing the 2011 low of 1,119.46 set on Aug. 8. The gauge had slipped within 1 percent of the level on three separate occasions in the last two months, before rallying an average of 6.7 percent. None of the advances surpassed 1,260.34, the closing price on Aug. 3, two days before S&P stripped the U.S. of its AAA credit rating.

Companies in the benchmark gauge for American equities trade at 9.9 times 2012 forecast earnings, compared with the average in economic contractions since 1957 of 13.7, according to data compiled by Bloomberg. At the same time, analysts have cut projections for profits next year by 2.6 percent to $110.76 a share, the biggest eight-week drop since 2009, the data show.

Gross domestic product in the U.S. may expand by 2.2 percent in 2012 and 2.5 percent in 2013, according to the median forecast in a survey of 66 economists conducted by Bloomberg. The estimate for next year is down from as high as 3.3 percent in March.
Avoiding Recessions

“We can avoid a recession,” said Wien, whose prediction in January that oil would reach $115 a barrel proved correct. “If the stock market acts badly enough, that can destroy consumer confidence, which is already in tenuous shape, and that can produce a recession.”

Financial stocks fell 4.5 percent yesterday, the most in the S&P 500, bringing the retreat for 2011 to 29 percent. Mining companies and energy producers both fell into bear markets on Aug. 8 as the S&P GSCI Total Return Index of commodities slid 23 percent from its April 8 high.

“The U.S. equity market has a massive divergence of performance” Michael Shaoul, chairman of Marketfield Asset Management in New York, said in a telephone interview yesterday. Computer makers have decreased 14 percent and consumer discretionary stocks fell 16 percent since the S&P 500 reached a three-year high in April, data compiled by Bloomberg show.

“That’s why even if the S&P 500 ends up down 22 or 23 or 25 percent, you’d want to be a little bit more nuanced,” said Shaoul, who oversees $1 billion and said the S&P 500 is unlikely to fall to 1,022.58, its low in July 2010. “This is quite a different correction to that which we saw last summer. This time, the market has been picky about what is being punished.”

$10 Trillion

About $10 trillion was wiped from global equity markets in the third quarter. Benchmark measures for 37 out of 45 nations in the MSCI All-Country World Index posted declines of 20 percent or more from their peaks, according to data compiled by Bloomberg. Besides the U.S., only two other developed markets -- the U.K. and New Zealand -- haven’t dropped 20 percent or more from their most-recent highs.

Stocks are undervalued and investors are ignoring stronger- than-forecast corporate and economic data and overestimating the risk of another U.S. recession, according to Philip Orlando, the New York-based chief equity market strategist at Federated Investors Inc. He said on July 5 that equity prices already reflected the effect of a slowdown in GDP growth.

Only Europe

Investors shunned riskier countries’ bonds yesterday amid concern that the region’s crisis is careening out of control. Europe’s financial leaders are fighting on multiple fronts, trying to repair Greece’s economy while insulating Italy and Spain and shoring up banks that the International Monetary Fund says face as much as 300 billion euros in credit risks.

“All the market cares about right now is Europe,” Orlando, who helps oversee about $350 billion, said in a telephone interview yesterday. “Every investment decision is being made through the prism of Europe and the expectation that Greece is going to default and drag the rest of the world into a recession. We don’t believe that. We believe that the U.S. economy is extricating itself from the soft patch.”
Dexia SA, Belgium’s biggest bank by assets, said its board asked Chief Executive Officer Pierre Mariani to take steps to fix the company’s “structural problems” after Europe’s sovereign debt crisis worsened. The board met yesterday to discuss a possible breakup of the company after the debt crisis reduced its ability to obtain funding, three people with knowledge of the talks said.

**Net Longs**

Political impasse in Europe and the threat of a recession spurred Barton Biggs to cut bets that stocks will gain to 20 percent in his hedge fund, down from as much as 85 percent six months ago, the founder of Traxis Partners LP said on Sept. 22.

“I wish I was zero,” Biggs said on Bloomberg Television’s “Street Smart” with Matt Miller and Carol Massar. Markets are telling policy makers that “they’ve got to change and act or we’re going to go into a double-dip recession, and we’re going to go down another 20 percent,” he said.

Bank of America in Charlotte, North Carolina, slid 59 cents to $5.53 yesterday, the lowest price since March 2009. Banks have retreated as European regulators attempt to quell concern that their lenders may be hurt by the sovereign debt crisis.

The S&P 500 tumbled 14 percent in the third quarter, the worst drop since the three months ending December 2008. The Stoxx Europe 600 Index lost 17 percent in the third quarter.

Europe accounts for 21 percent of the S&P 500’s revenue, down from 23 percent in 2008, according to data compiled by Bloomberg from 185 companies that disclose results for the region. The impact on the U.S. financial sector is greater, according to Daniel Genter, who oversees about $3.7 billion as president of RNC Genter Capital Management in Los Angeles.

“Frankly, you just can’t get a handle on it,” Genter said in a phone interview yesterday. “You can’t really tell the impact it’s going to have. We look at it from a gross numbers standpoint and say, ‘This doesn’t take us to another financial crisis in the U.S.’ But honestly, I can’t sit here and quantitatively tell you why not.”

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