Stocks Claw Back Against the Bear

Late-Day Rally Keeps S&P 500 in Positive Terrain

By JONATHAN CHENG and STEVEN RUSSOLILLO

Stock investors beat back the bear on Tuesday.

Having spent much of the day in bear-market territory, the Standard & Poor's 500-stock index staged a late-day surge that saw the measure swing from a decline of 1.8% to a gain of 2.3% in the final hour.

The 48-minute rally saved the S&P from ending the day in a bear market, broadly considered a decline of 20% from a recent peak.

A report that European leaders may consider further help to the region's banks was cited by some as sparking the rally. And because so many traders have been betting against the market, any swing upward forced them to buy stocks to unwind those bets.

"This is what volatility is all about," said Michael Shea, managing partner at Direct Access Partners. "It's not even a news-driven market, it's a comment-driven market."

The S&P 500, which finished with a gain of 24.72 points, to 1123.95, is now off 18% from its April 29 peak.

The Dow Jones Industrial Average, as well as other market indexes, also joined in, with the blue chips finishing up 153.41 points, or 1.4%, to 10808.71. The Dow surged 377 points in less than an hour.

"It was vicious," said Jeffrey Friedman, senior market strategist at MF Global. "The last two or three days, it's been all about Europe and fears of exposure and contagion, and whatever the story was to relieve the shorts, the volatility was incredible, and I think it's going to continue."

The swing was characteristic of the recent volatile trading that has whipsawed investors and driven many out of the stock market to assets perceived as safer. Swings of more than 1% have been commonplace as investors weigh the likelihood that the U.S. economy will fall into a double-dip recession or European leaders will avoid a Greek default.

"There are not a lot of reasons for investors to step back in the market other than prices have fallen a lot," said Maury Fertig, chief investment officer at Relative Value Partners. "It's going to take some real news out of Europe to turn sentiment around and bring investors back."

Trading volumes were strong, with 6.92 billion shares changing hands in New York Stock Exchange composite volume, far more than the daily average this year of 4.35 billion shares.

Bank shares and economically sensitive stocks posted gains. The Russell 2000 index of small-capitalization stocks jumped 6.4%, while Morgan Stanley vaulted $1.54, or 12%, to $14.01. Coming into Tuesday's session, Morgan Stanley had seen nearly two-thirds of its market capitalization wiped out since February as investors worried about the U.S. investment bank's vulnerability to a Greek default.

Some market watchers were skeptical that the late rally marked a reversal in the stock market's recent misfortunes.

"These markets are so fragile that any kind of news will move stocks one way or the other," said Alan Valdes, director of floor trading at DME Securities. "It's insane. Once any kind of good news comes out, people chase it. But if the news is negative tomorrow, it'll be just the opposite."

The U.S. markets began Tuesday on a bleak note. The Dow already had lost almost 500 points in two days, falling to a one-year low on Monday, and looked set for another day in the red.

Overseas markets also fell amid worries that Europe's debt woes would take a toll on banks globally. Hong Kong's Hang Seng Index tumbled 3.4%, bringing its two-day slide to 7.6%, while in Germany, the DAX index shed 3%.

The S&P 500 immediately descended below 1090.89, the point at which it would become a bear market, or 20% off its April 29 high.

Stocks were dragged lower by what some saw as a disappointing news conference by Apple, which unveiled its latest iPhone.

"We were looking over the edge of a precipice this morning," said Peter Kenny, managing director at Knight Capital Group. "People were ready to jump."
Jean-Claude Juncker, the prime minister of Luxembourg who also presides over gatherings of euro-zone finance ministers, said a decision on releasing the next tranche of Greek aid likely wouldn’t be made on Oct. 13 as previously suggested.

In addition, Goldman Sachs said it now expects the euro zone to experience a "mild recession," Germany’s Deutsche Bank said third-quarter earnings would be substantially lower than expected and Dexia plunged 22% amid fears the Belgian-French bank would need to be broken up.

Federal Reserve Chairman Ben Bernanke briefly boosted sentiment after telling U.S. lawmakers that the central bank is ready to provide additional help to stimulate the economy. Mr. Bernanke didn’t rule out a third round of bond buying, known as quantitative easing, but he acknowledged there weren’t immediate plans to implement such a program.

The reprieve was short-lived and stocks descended again, spending the afternoon in negative territory before the sudden reversal.

In corporate news, American Airlines parent AMR rallied 41 cents, or 21%, to 2.39, after tumbling 33% in the previous session.

The Allied Pilots Association said the large number of pilots who have chosen to retire recently didn’t do so because of inside information about the financial state of the airline.

Sprint Nextel rose 13 cents, or 4.8%, to 2.86, after the company made a multibillion-dollar gamble that Apple’s iPhone will drive business at the wireless carrier.

Ford Motor surged 71 cents, or 7.6%, to 10.08, after the auto maker said it reached a deal with the United Auto Workers on a new labor contract.

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