DOW JONES, A NEWS CORP COMPANY

DJIA 25052.83 -2.13% ▼ Nasdaq 7329.06 -1.25% ▼ U.S. 10 Yr -8/32 Yield 3.182% ▼ Crude Oil 71.78 1.14% ▲ Euro 1.1589 -0.05% ▼

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MARKETS

Jittery Investors Deepen Stock Fall

Dow is down 5.2% after second day of rout; anxiety rises as tech shares fall

By Corrie Driebusch, Akane Otani and Jessica Menton

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A gloomy October on Wall Street turned darker Thursday, as heavy selling overseas and failed intraday rallies in the U.S. sent major stock indexes to another stinging retreat.

The Dow Jones Industrial Average tumbled 546 points, leaving the blue-chip index down 5.2% after two days of volatile trading that has been marked by sharp declines in the last hours of the day. The cost of hedging against stock-price declines soared Thursday in a sign of rising anxiety, with the Cboe Volatility Index, or VIX, soaring to its highest level since the February rout that set the Dow's intraday point-decline record.

Analysts and portfolio managers scrambled Thursday to put concerned clients at ease, though many admitted they struggled to figure out what drove the two-day tumble—and fretted it might not be over.

Rising U.S. interest rates, stretched share valuations and concerns about U.S. trade relations with China and other major nations have weighed on trading throughout 2018, and few investors said they believed economic and market conditions had turned negative enough recently to justify the across-the-board selling.

The most vicious action Thursday took place at midafternoon New York time, when the Dow briefly was down as many as 699 points in a pullback that hit energy and financial stocks hardest.

At WallachBeth Capital's offices in Jersey City, N.J., traders watched the Dow industrials drop more than 400 points in less than 20 minutes. "People don't know what to make of this," said Mohit Bajaj, director of the firm's exchange-traded funds operations.

While the Dow remains just 6.6% below its Oct. 3 record, Thursday's action disappointed investors who had hoped the carnage could be contained after a sharply lower opening gave way to a midday rebound that briefly took the index into positive territory.

The U.S. selling mirrored deep losses overseas, and the sharpness of the pullback unsettled corporate plans. Tencent Music Entertainment Group postponed its highly anticipated initial public offering until at least November, The Wall Street Journal reported, citing people familiar with the Chinese tech company's plans. The decision hit pause on what would be one of the largest IPOs in the U.S. this year.

Yet even after Thursday's selloff, many portfolio managers and analysts remained optimistic about U.S. stocks, reasoning that the conditions for strong equity performance—including economic growth, low interest rates and contained inflation—remain in the U.S. and many markets around the world.

Many said they doubted a reckoning was at hand for a bull market that has taken the Dow, S&P 500 and Nasdaq to dozens of records this year. "Is this the next 2008? It's very difficult for me to believe it is while the economy is this good," said Rebecca Patterson, chief investment officer at Bessemer Trust.

The Dow industrials swung nearly 784 points from its high to its low Thursday. All 11 sectors in the S&P 500 fell for the second straight session, but the industries that led Wednesday's rout, like technology and communications, saw more modest losses. Energy stocks led the declines, tumbling along with oil prices.

WHAT IS AILING THE STOCK MARKETS? A WSJ CONVERSATION

The stock market stumbled hard this week. Is it the fault of interest rates? A stretched technology sector? Hear from WSJ journalists in a member-exclusive call at noon Friday, Oct. 12, and ask them questions live. Register now.

The selloff took with it some of the best-performing stocks in the S&P 500 this year, sending Netflix down 9.7% over two days, Amazon.com off 8.1% and Apple 5.5% lower.

Investors had been fixated for most of the past week on a steep rise in government bond yields—something that had challenged a longstanding dynamic of low yields making relatively risky stocks attractive in comparison. But even as bond prices rallied Thursday, sending yields lower, the stock selloff continued.

At Oppenheimer & Co., traders spoke to dozens of clients looking for assurances that the long-running market rally wasn't at its end. Some needed to raise capital, said Doron Barness, global head of trading at Oppenheimer & Co., but most were more interested in getting the reactions of other investors.

"I spoke to roughly 25 clients today, some as early as 9:30 last night as they were deciding what the next catalyst would be," Mr. Barness said. "We knew that we would have to be prepared to navigate the choppy markets."

The S&P 500 tumbled 2.1%, and the technology-heavy Nasdaq Composite lost 1.3%, closing down nearly 10% from its Aug. 29 record close of 8109.69. Those indexes are on track for their worst week since March—though the S&P 500 is still up more than 2% for the year.

Stocks overseas also fell, with the Stoxx Europe 600 posting its biggest one-day slide since June and Hong Kong's Hang Seng suffering its biggest one-day loss since February.

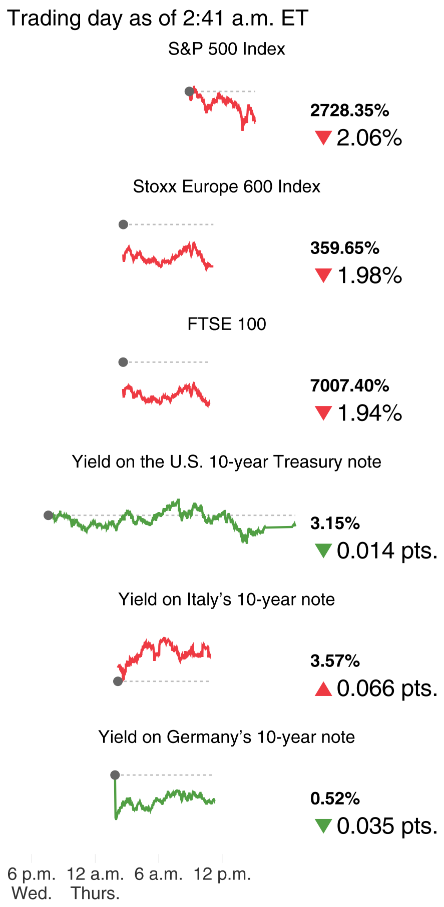
Traders braced for further volatility. The Cboe Volatility Index, which measures investors' expectations for stock swings, jumped 8.8% to 24.98—extending a recent climb that has brought it to its highest level since February.

The stock declines left many investors anxious heading into the third-quarter corporate earnings season, which kicks off in earnest Friday with big banks including JPMorgan Chase & Co. and Citigroup Inc. Financial stocks were among the worst performers Thursday, which some traders attributed to hesitancy to hold the shares ahead of the earnings reports.

"It's a tough time," said R.J. Grant, director of equity trading at financial firm Keefe, Bruyette & Woods. Few wanted to buy shares Thursday, he said, because "investors are waiting to see earnings from the banks....Earnings season can't come soon enough."

Corporate profits are widely expected to rise in the third quarter, and many investors said that could help provide a bottom for the stock pullback. But these investors say earnings season doesn't guarantee good news: Earlier this week, tools distributor Fastenal Co. reported a stronger-than-expected profit, but its shares fell as executives spoke of higher costs due in part to tariffs.

Joseph Amato, chief investment officer of equities at asset manager Neuberger Berman, said he wasn't surprised to see a pullback after the long rally, but "whenever markets move that hard in that short a time it can feel like a surprise."



Source: WSJ Market Data Group

—Michael Wursthorn contributed to this article.

Write to Corrie Driebusch at corrie.driebusch@wsj.com and Akane Otani at akane.otani@wsj.com

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