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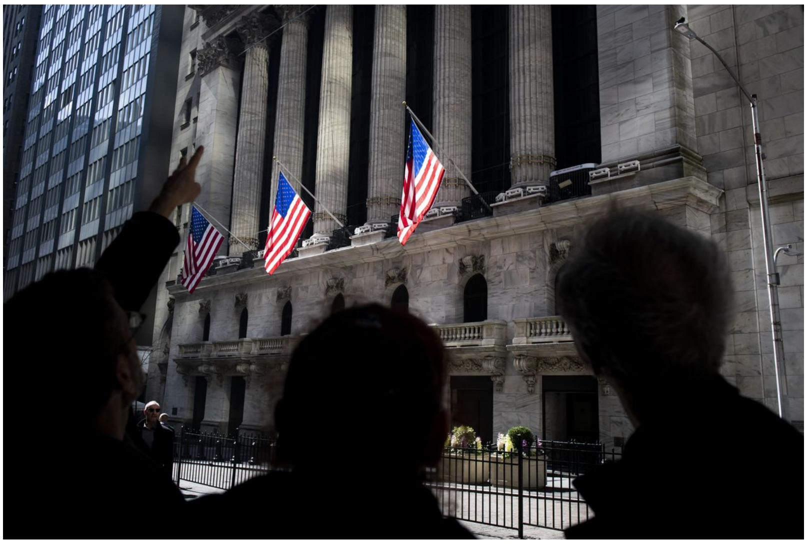
U.S. MARKETS

Stock Futures, Bond Yields Slide After Fed Slashes Rates

Dow futures fall more than 1,000 points



The New York Stock Exchange. Investors are worried that coronavirus will fuel a recession.

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By Amrith Ramkumar and Chong Koh Ping

Updated March 15, 2020 11:59 pm ET

U.S. equity futures slid, global stocks weakened and bonds rallied after the Federal Reserve slashed its benchmark interest rate to near zero, a sign that investors remain worried that the coronavirus will fuel a recession even with borrowing costs dropping.

Dow Jones Industrial Average and S&P 500 futures each fell nearly 5%. Trading limits prevent futures from losing more than about 5% in out-of-hours trading. However, changes in futures don't necessarily reflect moves after the opening bell, and moves Sunday evening can be especially volatile.

In morning trading in Hong Kong on Monday, the yield on the benchmark 10-year U.S. Treasury note fell 0.32 percentage point to 0.64%, back to levels seen last Wednesday. Bond yields fall as prices rise.

In regional stock markets, Australia's benchmark S&P/ASX 200 retreated more than 7% and Hong Kong's Hang Seng lost 2%, while indexes in South Korea and Shanghai shed less than 1%.

Terence Wong, chief executive of Azure Capital, a Singapore-based fund management firm, said the Fed's second emergency rate cut this month hadn't been well-received, since it appeared to investors to be a "sign of desperation."

"It's basically using up all their ammunition within a three-week span. And there's nothing left. They can't use monetary loosening as part of their arsenal anymore," said Mr. Wong.

In addition to slashing borrowing costs, the Fed said it would buy $700 billion in Treasurys and mortgage-backed securities, would cut the rate charged to banks for short-term emergency loans from its discount window, and activate swap lines with five other central banks.

The Fed already took several steps last week to calm the Treasury market, which is the most liquid and actively traded bond market in the world. Outsize swings in Treasury yields and other safe-haven assets have added to investor anxiety lately.

The reaction in U.S. markets showed investors were already looking past the Fed and waiting for the federal government to act with bigger stimulus measures, said Joseph Brusuelas, chief economist at RSM US.

"Until they signal that they understand the magnitude of the coming demand shock, markets will continue to sell off and be subject to significant volatility," he said.

Fed Chairman Jerome Powell told reporters plunging oil prices were a factor in the Fed's decision. Brent crude, the global gauge of crude prices, fell 2.8% to $32.94 a barrel in Hong Kong on Monday.

In Asia, economic data for January and February showed Chinese retail sales, investment in fixed assets, and industrial output all fell sharply, and more than economists expected. Industrial output was 13.5% lower year-over-year.

Japan's Nikkei 225 bucked the trend to be little changed by midday trading. Jingyi Pan, a market strategist at IG in Singapore, said the Bank of Japan's own move to host an emergency meeting on Monday had helped buoy sentiment. She said investors were looking to measures such as increased purchases of exchange-traded funds.

"Prime Minister [Shinzo] Abe had also suggested unprecedented economic policies so the market is looking to some coordinated policy response," she said.

Despite the Fed's action, some analysts expect markets to remain volatile with many segments of the global economy shut down in tandem due to the coronavirus. Stocks last week extended a period of dizzying gyrations that ended an 11-year bull-market run, with the S&P 500 ending the week 20% below its February all-time high.

Gold also climbed alongside Treasury prices, with investors favoring assets that tend to hold their value during times of market and economic turmoil. Most-active gold futures were up about 1.7%, paring some of last week's declines. Lower rates make the metal more attractive to yield-seeking investors.

The WSJ Dollar Index, which tracks the dollar against a basket of 16 others, fell 0.5%.

—Paul Vigna contributed to this article.

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