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U.S. MARKETS

Stock Markets Stay Sharply Lower As Trading Halt Lifts

Dow industrials fall about 1,400 points as investors push U.S. Treasury yields to fresh lows

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U.S. stocks careened on Monday, pushing major indexes closer to bear-market territory as a price war for oil and the fallout from the coronavirus frightened investors, who sought shelter in government bonds and propelled yields to unprecedented lows.

The selling was heavy across markets and geographies, with U.S. stocks falling hard enough after the open to trigger a 15-minute trading halt. Recently, the Dow sank 1,455 points, or 5.6%, to 24410. The S&P 500 fell 5.6% to 2807. And the Nasdaq Composite slid 5.1% to 8141.

All 11 sectors in the S&P 500 were down, led by energy, which slid 10%. Financials were down 3.3%, and materials were down 2.6%.

When stocks' circuit-breaker tripped, the Dow and Nasdaq were down 19% from record highs set earlier this year and the S&P had fallen 18%, leaving them on the brink of bear-market territory. A drop of 20% from the highs would halt a bull-market run of steadily rising prices that began after the financial crisis.

"The 11-year bull market is over," said Peter Cecchini, the chief market strategist at Cantor Fitzgerald, noting that it isn't just about an official 20% drop.

Mr. Cecchini said central banks suppressed interest rates over the years, and that became a big narrative investors used to justify buying stocks. Meanwhile, signs have emerged that global growth was slowing, such as an inverted yield curve late year, but were ignored, he said.

"That underlying backdrop of fragility is one of the reasons why this has unwound so quickly," he said. "When a bubble extends this far, it doesn't take much to prick it."

Saudi Arabia's decision over the weekend to instigate a price war as it escalates a clash with Russia sent oil prices down by the most since the Gulf War in January 1991. Crude prices, along with U.S. government bond yields, are typically viewed as key barometers of economic health and confidence, said Gregory Perdon, co-chief investment officer at private bankers Arbuthnot Latham.

“There has always been an assumption that when the oil price collapses the world is going to become a darker place, whether that is driven by the demand side or supply side,” Mr. Perdon said. The latest tensions put the oil market in somewhat uncharted territory with pressure in terms of both supply and demand as the coronavirus epidemic threatens to sap businesses’ appetite for energy.

The plunge in crude added to two weeks of turmoil in equity and credit markets as investors have grown increasingly concerned about economic growth stalling. It also raised fresh concerns about the risks tied to heavily indebted energy companies in the high-yield market, and the fallout for other companies if broader credit markets tighten.

U.S. government bonds, which have already rallied to unprecedented highs, extended gains. The yield on the 10-year Treasury, which moves inversely to bond prices, dropped to 0.431%. The 30-year yield fell below 1%, reaching 0.866%.

The Federal Reserve Bank of New York said Monday it will increase the amount of very short-term loans it has been offering to money markets amid the widening market rout. The move underscores the growing concerns about funding constraints and liquidity.

“The fear today is about a global recession,” said Thomas Hayes, chairman of Great Hill Capital, a hedge fund-management firm based in New York. “If Russia does not come back to the table soon, investors worry the default risk and credit spreads widening will lead to tighter credit and even a recession.”

Public-health authorities are escalating efforts to contain the coronavirus outbreak, leading to a drop in business activity and curtailing global trade. The number of confirmed coronavirus cases has exceeded 110,000, with over 3,800 fatalities globally. At least eight American states including New York have declared states of emergency as infections spread to new parts of the U.S., and Italy quarantined some 17 million people.

“It’s a falling knife situation,” said Esty Dwek, head of global market strategy at Natixis Investment Managers. “You don’t need to be buying on a day like today.”

Brent crude, the global gauge of oil prices, shed 23% to $35.01 a barrel, while U.S. crude futures dropped 23% to $31.69 a barrel.

Ahead of the opening bell in New York, U.S. energy producers were among the hardest hit. Chevron and Exxon Mobil dropped over 15% in premarket trading. Smaller energy companies plummeted even more, with Devon Energy, Occidental Petroleum and Marathon Oil stocks dropping over 30%.

Rising defaults among U.S. energy producers may make it harder for companies in other sectors to access credit markets, analysts said.

“That ultimately is the negative aspect to lower oil,” said Viktor Hjort, head of credit strategy at BNP Paribas. “There is a real risk, and that is tighter credit conditions.”

The price war between major oil producers is “throwing petrol on the fire” at a time when investors are struggling to understand how deeply the outbreak will impact global supply chains and consumer spending, according to Lyn Graham-Taylor, a rates strategist at Rabobank.

“We have got a massive demand decline brought about by the virus and now you’ve got headline inflation going through the floor: all combinations that say we need to do more easing,” Mr. Graham-Taylor said.

Stocks in the European energy sector led markets lower in the region, with BP plummeting over 20% in London. Anglo-Dutch firm Royal Dutch Shell, Norway’s Equinor, Italy’s Eni, the U.K.’s BHP Group and France’s Total were also among the big decliners.

That led the pan-continental Stoxx Europe 600 index down over 6.6% with key equity benchmarks in the U.K. and France entering bear-market territory.

Foreign-exchange markets also faced renewed volatility on Monday, as steep drops in oil sparked a flight from commodity-linked currencies. The Russian ruble lost 8.3%, while the Norwegian Krone dropped 2.8%.

In the Asia-Pacific region, the S&P/ASX 200 index in Australia dropped 7.3%, suffering its worst day since October 2008, during the depths of the global financial crisis. That puts the gauge close to bear-market territory, which is typically defined as a peak-to-trough decline of more than 20%. Japan’s Nikkei 225 index closed down 5.1%, its biggest daily drop since 2016, while the benchmark stock index in Shanghai dropped more than 3%.

The Japanese yen, which often rallies in times of market stress, surged 2.9% to trade below 103 to the dollar, at its strongest levels since 2016. Gold, which is also normally considered a haven asset during times of turmoil, edged up 0.3%.

“We are in uncharted territory now,” according to Hubert de Barochez, markets economist at Capital Economics. “Up until last week, what we were seeing was bond yields lower, stocks hurt and riskier currencies getting hit, but the idea was that if good news were to come all these moves would revert.”

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—Xie Yu and Akane Otani contributed to this article.

Corrections & Amplifications
The Australian dollar fell during Monday's trading to about 65.35 U.S. cents. Earlier versions of this article incorrectly gave this figure as 0.6535 cent. (March 9)

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