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U.S. MARKETS

Stocks Close Lower on Manufacturing Report, Fresh Trade Tensions

Trump's decision to restore levies on South American steel dimmed investor optimism about revival in global manufacturing sector

By Akane Otani and Anna Isaac

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U.S. stocks fell Monday, hit by a downbeat report on the manufacturing sector and a fresh flare-up in trade tensions.

Monday's moves were a step back for stocks after they closed out their best month since June. The market has climbed to fresh highs in recent weeks, buoyed by data showing the U.S. service sector on solid footing.

But lingering uncertainty over trade policy and signs of weakening in the industrial sector have kept many investors cautious.

The Dow Jones Industrial Average declined 268.37 points, or 1%, to 27783.04, ending the trading day near its low. The S&P 500 fell 27.11 points, or 0.9%, to 3113.87, and the Nasdaq Composite dropped 97.48 points, or 1.1%, to 8567.99.

U.S. stock futures pared gains early Monday after President Trump said on Twitter that he would restore tariffs on steel and aluminum imports from Brazil and Argentina. He also accused the two countries of devaluing their currencies.

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We've seen world trade slowing down. The last thing we need is more tariffs to slow it down further," said Lucy Macdonald, chief investment officer for global equities at Allianz Global

Investors. “This has been a major source of concern for investors all year: trade, primarily the U.S. and China, but also the U.S. and everywhere else.”

Stock declines then accelerated after a gauge of U.S. factory activity came in weaker than economists had expected. The Institute for Supply Management’s manufacturing index decreased to 48.1 in November from 48.3 in October, marking the fourth straight sub-50 reading.

Readings below 50 indicate a contraction in activity.

Even with Monday’s declines, stocks are still up double-digit percentages in 2019 and headed for their best year since 2013. U.S. stocks are also continuing to outperform indexes around the world, with the S&P 500’s 2019 gains outpacing that of the Shanghai Composite, Japan’s Nikkei Stock Average and the Stoxx Europe 600.

But some traders say they wouldn’t be surprised if there was more volatility ahead in the final weeks of the year.

“We’ve seen this movie before,” said Mohit Bajaj, director of ETF trading solutions at WallachBeth Capital, who referenced the year-end pullback from 2018. Money managers are often willing to sell to lock in their profits before the end of the year, he added.

Markets were also hit Monday by selling in the technology sector, with losses hitting everything from payment processors to semiconductor companies. The declines appeared to be exacerbated by losses across momentum funds, Mr. Bajaj said. Such funds, which seek to track stocks with the best returns as of late, often include technology shares.

Nvidia slipped $7.49, or 3.5%, to $209.25, while Lam Research fell $3.89, or 1.5%, to $262.94.

Changes in analysts’ ratings also drove swings among individual stocks.

Streaming media platform Roku fell $24.30, or 15%, to $136.07 after Morgan Stanley lowered its rating for the company to “underperform” from “equal weight,” warning investors that revenue and profit growth would likely slow significantly in 2020.

The pan-continental Stoxx Europe 600 index swung lower after the president’s tweet, falling 1.6%.

The gauge had earlier gained as much as 0.7% after China’s economy showed signs of stabilizing and a key European survey signaled better-than-expected manufacturing conditions.

Two separate surveys of manufacturers in China pointed to improving confidence and demand last month. Factory activity in the euro area also gave cause for cautious optimism, with the rate of contraction easing more than markets had expected for the 19-nation region.

While economists said it was too early to say that China, the world's second-largest economy, had recovered, markets earlier in the day had cheered the fact that another major risk to the global economy seemed to be diminishing.

Separately, People's Bank of China Gov. Yi Gang said the central bank wouldn't resort to "competitive" quantitative easing, even if interest rates in other major economies approached zero. Growth remained within a reasonable range, and inflation was relatively mild overall, Mr. Yi wrote in the Communist Party's main political journal, Qiushi. The Shanghai Composite Index ended the day largely flat.

Later in the week, investors will get a look at a gauge of activity in the U.S. service sector, as well as the Labor Department's November employment report.

Economists surveyed by The Wall Street Journal expect to see a small pickup in wage growth and solid job creation, which would show investors that the labor market remains strong heading into the end of the year.

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