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U.S. MARKETS

Stocks Post Their Worst Day in Months on Trade Anxiety

Dow drops more than 600 after China says it will raise tariffs on some U.S. imports

By Akane Otani

Updated May 13, 2019 6:29 p.m. ET

Stocks posted their biggest drop in months Monday after officials in Beijing and the White House exchanged fresh threats in a trade fight that many observers fear could crimp growth.

The Dow Jones Industrial Average fell 617.38 points, or 2.4%, to 25324.99 and the S&P 500 dropped 69.53 points, or 2.4%, to 2811.87, with both indexes posting their biggest one-day losses since Jan. 3. The Nasdaq Composite declined 269.92 points, or 3.4%, to 7647.02 in its worst showing since December.

The moves showed investors that one of the biggest assumptions many had held this year could be in danger of falling apart. Many money managers had credited the stock market's 2019 rally to a combination of easy monetary policy, steady growth in the U.S. and signs of progress in trade negotiations.

There is still time for the U.S. and China to carve out a trade agreement, analysts said, noting the two countries' increased tariffs won't hit goods in transit immediately. And U.S. indexes are still up solidly for the year: The S&P 500 and Nasdaq are up by double-digit percentages in 2019, rebounding from a fourth-quarter rout. Stocks pared some of Monday's losses after President Trump said he would meet with Chinese President Xi Jinping at the coming G-20 summit.

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Have trade tensions caused you to make changes to your portfolio recently, and if so, what did you do? Join the conversation below.

Still, investors and analysts say a breakdown of trade talks risks damaging business and consumer confidence, potentially crimping spending at a time when growth is already widely expected to moderate.

UBS analysts estimate U.S. growth could drop by 0.75 to 1 percentage point and stocks could fall by double-digit percentages if the U.S. hits all Chinese exports with 25% tariffs.

“This back and forth that we’re seeing on trade is a distraction,” said Alan Adelman, senior fund manager and research analyst at Frost Investment Advisors.

So far, corporate earnings in the U.S. have proven better than feared, helping share prices rise off the lows they hit last year.

But Mr. Adelman said he would be closely watching earnings “for any signs that trade is starting to translate” into poorer results.

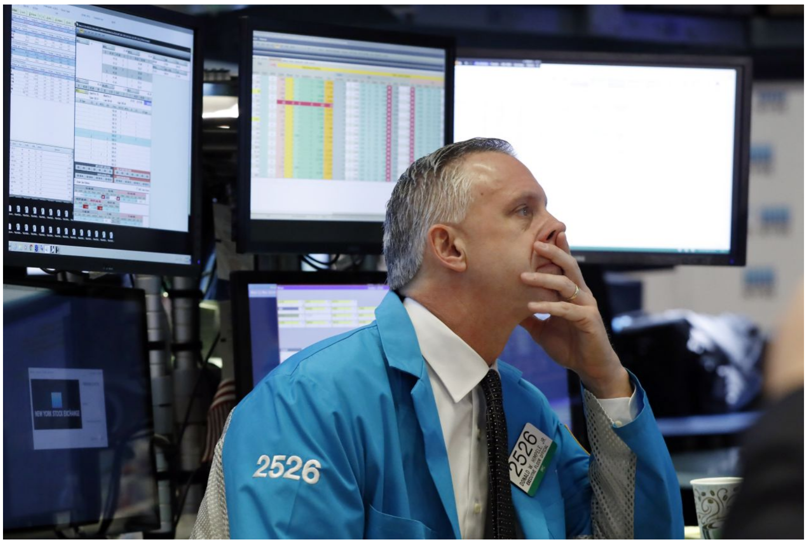
Shares of manufacturers and chip makers slid anew, extending a slide from late last week.

Heavy machinery maker Caterpillar fell $6.04, or 4.6%, to $125.30, while Boeing lost $17.30, or 4.9%, to $337.37 and memory-chip maker Micron Technology shed $1.56, or 4%, to $37.38. The group has been sensitive to developments on trade, especially because many analysts believe its profits are closely tied to global growth and demand from China.

iPhone maker Apple, which assembles almost all of its goods in China, slid $11.46, or 5.8%, to $185.72.

Major indexes have made a sharp retreat from records as trade tensions between the world’s two biggest economies have ratcheted higher. Chinese officials said Monday that they would raise tariffs on roughly $60 billion worth of U.S. imports, following through on threats last week to hit back at the U.S. after its own increase in tariffs went into effect.

The Russell 2000 index of small-capitalization companies, which tends to be especially sensitive to U.S. growth prospects, lost 3.2%.



A trader on the floor of the New York Stock Exchange. Major stock indexes have made a sharp retreat from records as trade tensions between China and the U.S. have ratcheted higher. PHOTO: RICHARD DREW/ASSOCIATED PRESS

Meanwhile, shares of ride-hailing app Uber Technologies slumped $4.47, or 11%, to $37.10, extending declines after tumbling in its public markets debut Friday. The stock ended Monday 18% below its initial-public-offering price of $45.

As stocks swung lower, analysts said it is difficult to pinpoint when calm will return to the markets.

There are many other issues around global trade that could spur volatility, said Neil Dwane, global strategist at Allianz Global Investors. He cited a U.S. deal with Japan that could be signed next month and trade relations between the U.S. and Europe, which could weigh on the German car industry and French agriculture.

Others said further escalation in trade tensions could dent growth to the point where central banks consider taking additional steps to ease monetary policy.

"The question is, are trade tensions easing, are central banks responding by cutting rates, and are the economic data deteriorating or not," said Alessio de Longis, portfolio manager for the global multiasset group at OppenheimerFunds.

As uncertainty lingered, traders bet on the volatile streak in markets continuing. The Cboe Volatility Index, or VIX, which tracks expectations for stock swings, soared 28%—its biggest one-day increase since October. The VIX tends to rise when stocks fall, and its recent increase is yet another sign that investors are gearing up for bigger swings ahead.

Stock indexes outside of the U.S. also came under selling pressure, with the Stoxx Europe 600 and Shanghai Composite losing 1.2% apiece.

Later this week, investors will be watching for reports on U.S. retail sales, as well as housing starts.

The bond market flashed fresh warning signs about growth Monday, with the yield on the benchmark 10-year U.S. Treasury note briefly sliding below 2.400% from 2.455% Friday. Yields, which fall as bond prices rise, tend to decline when investors are less optimistic about the economic outlook.

The spread between short- and longer-term government bond yields also narrowed further, with three-month Treasurys ending Monday yielding more than 10-year Treasurys.

Analysts have looked at the so-called yield curve with caution because shorter-term Treasurys have often yielded more than longer-term ones before the economy has slipped into recession.

—Avantika Chilkoti contributed to this article

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