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U.S. MARKETS

Stocks Sink as Trade Tensions Mount

Dow drops 473 points as U.S. doubles down on tariff threats; Chinese envoy will travel to Washington

By Corrie Driebusch in New York, Chao Deng and Lingling Wei in Beijing

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The stock market's declines deepened Tuesday, with the Dow Jones Industrial Average sliding more than 450 points, as investors braced for the increased likelihood the U.S. will raise tariffs on Chinese goods later this week.

China said it would send its top trade envoy to Washington to resume negotiations Thursday, a day later than planned, following a period of uncertainty after President Trump tweeted his threat of higher tariffs and Chinese officials considered pulling out of the talks.

But news of negotiations restarting wasn't enough to satisfy investors, who punished stocks after Washington doubled down on Mr. Trump's threat, accusing Beijing of reneging on its promises and vowing to boost tariffs on $200 billion of Chinese goods to 25% from 10% on Friday.

The Dow dropped 473.39 points, or 1.8%, to 25965.09, its biggest fall since Jan. 3. It had fallen as much as 648 points earlier in the day. The S&P 500 fell 1.7% to 2884.05, and the tech-laden Nasdaq slid 2% to 7963.76. Shares of trade-exposed companies, such as chip makers and industrials, were hurt the most.

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Traders and analysts said they expect this is the beginning of a choppy stretch for the stock market. They also said they fear a momentum shift after markets have been pushing higher for months, helped by a more dovish Federal Reserve, solid U.S. economic data and quiet progress on the U.S.-China trade front.

An important question for investors was whether the latest U.S. threat marked a serious escalation in trade tensions or if it was intended to secure more concessions from China. By Tuesday, some investors and traders said they believed it was no bluff.

“If the trade deal falls apart, the market is going to go even lower,” said Scott Wren, senior global equity strategist at Wells Fargo Investment Institute. He added that Tuesday’s drop could be the start of a roller-coaster ride for stocks. “The market will be pretty volatile in the next week or two reacting to headlines and comments and tweets.”

There is still hope that the trade talks could prove productive, though there is also a pile of issues that need to be resolved. At the top of the agenda is a U.S. demand that a trade agreement lay out an inventory of laws and regulations Beijing must revise for compliance, according to people briefed on the negotiations. China has objected to including the list, the people said. The U.S., though, sees it as essential to ensuring China delivers on promises of structural change.

President Trump’s announcement about the U.S.-China trade talks prompted sharp declines for markets across the globe. Above, the New York Stock Exchange. **PHOTO:** SPENCER PLATT/GETTY IMAGES

In pushing ahead with Vice Premier Liu He's trip to Washington, China's leadership decided a full breakdown in the talks may be difficult to repair and would exact costs on the Chinese economy, according to Chinese officials. In doing so, Chinese leaders broke from a public position that Beijing wouldn't negotiate under threat.

"There is definitely a sense of urgency that we should get this resolved sooner rather than later," said one of the officials, who is involved in policy-making. "An all-out trade war is in no one's interest."

As part of Beijing's deliberations, a group of vice ministerial-level officials involved in the trade negotiations huddled Tuesday to discuss whether it would still be productive to visit Washington, according to a person familiar with the matter. The officials dissected information obtained from a news conference held Monday by U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin, the person said. The officials' conclusion: Yes.

Asked about China's decision, Chinese Foreign Ministry spokesman Geng Shuang objected to the U.S. raising tariffs but said talks were the best way forward. "It's only natural for the two sides to have differences," he said at a Tuesday briefing. "We are sincere about continuing the consultation."

Despite markets' recent declines amid heightened trade anxiety, some traders and investment strategists note the S&P 500 remains up about 15% so far this year, and a day or two of declines isn't coming close to wiping out those gains.

Markets staged a mini-recovery Monday, with the Dow dropping hundreds of points in the morning on trade worries, only to end the day just marginally lower.

"With the rally back from lows yesterday, people got complacent," said Mohit Bajaj, director of ETF trading solutions at broker WallachBeth Capital LLC, adding that even though trading volumes were elevated Tuesday, he wasn't seeing any dramatic rush to the exits.

He said he worries that could change: "If we see a couple more days like today, we could see a bigger selloff."

Tech companies were the biggest laggards in U.S. markets Tuesday. Not only is China where many chips are manufactured, but its citizens also drive demand for the smartphones, computers and cars that use the chips. Companies that manufacture products in China also stand to see their costs rise. Shares of Nvidia fell $6.74, or 3.7%, to $173.11, while Intel shares dropped 74 cents, or 1.4%, to $50.48. Tech companies in the S&P 500 lost 2.1%.

The trade discussions "had fallen out of people's risk scenarios and I think the market reaction speaks for itself," said Geoffrey Yu, head of the U.K. Investment Office at UBS Wealth Management. "For all investors around the world, this one came out of the blue."

U.S.-traded crude oil fell 1.4% to $61.40 a barrel, though prices were likely also supported by tensions in the Middle East that risked limiting oil supply. In Europe, auto and oil-and-gas companies dragged the pan-continental Stoxx Europe 600 down 1.4%, its largest decline since February.

“Stocks are going to get a little rough here,” said John Brady, managing director at futures brokerage R.J. O’Brien & Associates. “The market’s getting a little nervous.”

In Asia, indexes performed better after China’s Commerce Ministry said the envoy would visit Washington. The Shanghai Composite rose 0.7% while the Hang Seng gained 0.5%. Japan’s Nikkei closed down 1.5%, however, as it played catch-up with other indexes after reopening following an extended period of holiday closures.

—Will Horner contributed to this article

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