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U.S. MARKETS

Stocks Stabilize, as U.S. Crude Oil Falls Below $50

Dow industrials, S&P 500 edge up after sharp losses the last two days

By Anna Isaac and Chong Koh Ping

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U.S. stocks bounced back a bit even as oil prices slipped Wednesday with investors struggling to assess the impact of the fast-spreading coronavirus and its economic fallout.

The Dow Jones Industrial Average moved 1%, or 305 points, higher in early New York trading. The gauge of blue-chip stocks fell nearly 900 points on Tuesday to end at its lowest level since October after U.S. health officials said they expect a wider spread of the coronavirus and are preparing for a potential pandemic.

“This is a time of peak uncertainty for coronavirus,” said Edward Park, deputy chief investment officer at Brooks Macdonald. “We don’t yet know the size of how much it’s spread or the mortality rate. That’s what markets are reacting to, peak uncertainty, rather than facts.”

Investors’ anxiety was also reflected in bond markets, where the yield on the U.S. 10-year Treasury dipped to 1.312% Wednesday before recovering to 1.365%. On Tuesday, it had settled at an all-time low of 1.328% as fund managers sought the safety of government bonds, extending a decadeslong rally.

U.S. yields, which fall as bond prices rise, have come under pressure in recent days in part because of a growing expectation among investors that the Federal Reserve may cut interest rates at least two times later this year. But Federal Reserve Bank of Dallas President Robert Kaplan told The Wall Street Journal Tuesday that events were still too fluid around the coronavirus outbreak for the central bank to cut short-term interest rates.

“There’s a big question over how efficient it might be to have more easing from the Fed,” Mr. Park said. “More fiscal stimulus might be needed to stimulate growth in the short term.”

Meanwhile, the recent surge in volatility in the U.S. stock market showed few signs of abating. The Cboe Volatility Index, a closely watched measure of market turbulence known as VIX, remained elevated on Wednesday at 25.8.

“Markets are reacting to snippets of news or even a few hours of silence,” said Paul O’Connor, head of the U.K.-based multiasset team at Janus Henderson Investors. “The spike up in volatility this week reflects the increased uncertainty over the economic outlook. Investors are deleveraging.”

The S&P 500 advanced 1.3%, while the Nasdaq Composite Index rose about 1.6% in early New York trading. Earlier, regional equity indexes across most of Europe pared back trading losses through the day. The pan-continental Stoxx Europe 600 dropped 0.2%. The U.K.’s equity benchmark FTSE 100 index shed 0.3% after having briefly entered correction territory earlier in the day when it dropped over 10% from its Jan. 21 high.

“Investors do not want to catch this falling knife,” said James Athey, a senior investment manager at Aberdeen Standard Investments. “The speed with which equities are declining here is something investors find very troubling. It’s hard to see people willing to step in and buy.”

Brent crude, the benchmark for global oil prices, fell 1.4% to $53.53 a barrel, and U.S. oil prices dropped to a 12-month low below $50 a barrel. Industrial metals including copper also waned.

In Asia, markets closed lower. Japan’s Nikkei 225 index shed 0.8% to reach its lowest level since October. Australia’s S&P/ASX 200 dropped 2.3% and Korea’s Kospi retreated 1.3%.

“The market is pricing in a significant slowdown in global growth and corporate earnings,” said Ong Zi Yang, senior macro analyst at FSMOne.com in Singapore. “It is hard to quantify the economic impact now but there will definitely be a slowdown.”

Workers spray disinfectant at a market in Seoul, South Korea.

PHOTO: CHUNG SUNG-JUN/GETTY IMAGES

Deaths and confirmed cases of the coronavirus have continued to climb outside China—notably in Italy, Iran, Japan and South Korea. Concerns among investors that the virus will spread further, disrupting the global economy, have triggered two sharp consecutive stock selloffs this week.

Many European and Asian benchmarks, including those in Germany, Japan, and South Korea are now solidly in negative territory for the year. Germany's DAX is down 4% year to date, while Hong Kong's Hang Seng Index and the Kospi in Seoul have both declined more than 5%, according to FactSet.

"This is a classic case of risk aversion," said Kelvin Tay, regional chief investment officer at UBS Global Wealth Management in Singapore, who added that markets were likely to remain volatile.

In currencies, the Australian dollar fell to its lowest level against the U.S. dollar since March 2009. Meanwhile, the ICE U.S. dollar index was up 0.2% Wednesday, taking its gains against other major currencies so far this year to 2.9%.

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The British pound fell 0.6% against the dollar amid concerns about the government's mandate for trade talks with the European Union, which is due to be made public Thursday.

Salesforce.com fell 1.2% in offhours trading after the company said its Co-Chief Executive Keith Block would step down just 18 months after taking the job.

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