

DOW JONES, A NEWS CORP COMPANY

DJIA **26639.87** -0.70% ▼S&P 500 **2906.50** -0.65% ▼Nasdaq **7923.82** -1.26% ▼U.S. 10 Yr **-4/32 Yield** **3.203%** ▼Crude Oil **75.69** -0.94% ▼

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<https://www.wsj.com/articles/global-stocks-drop-as-treasury-yields-continue-climb-1538639855>

U.S. MARKETS

U.S. Stocks Decline as Rising Bond Yields Reverberate

Emerging-markets assets also take a hit

By David Hodari

Updated Oct. 4, 2018 10:09 a.m. ET

U.S. stocks slumped Thursday as a rise in U.S. Treasury yields to multiyear highs reverberated around the world.

The Dow industrials fell 213 points, or 0.8%, to 26615 after notching a fifth straight session of gains and an all-time high a day earlier. The S&P 500 lost 0.8% and the tech-heavy Nasdaq Composite lost 1.3%.

Ten out of the 11 S&P 500 sectors were lower, with interest-rate sensitive sectors such as real estate and consumer staples among the biggest losers. Rising bond yields can diminish the allure of high-dividend paying stocks.

“We think Thursday’s market action is just market expectations catching up with where the Federal Reserve is projecting where it’s heading, as well as the strength in the U.S. economy relative to the rest of the world,” said Lisa Erickson, head of the Traditional Investment Group with U.S. Bank Wealth Management. “As the Fed continues to raise interest rates, it’s going to make it harder for sectors like real estate and utilities that have traditionally been purchased more on a yield play basis.”

Bond yields have jumped over the past week as data have pointed to a robust U.S. economy and investors have expressed relief over easing trade tensions in North America. Further evidence of a strong U.S. economy will likely come Friday when investors get a snapshot of the employment picture in September.

The yield on 10-year U.S. Treasuries, a bellwether for risk sentiment around the world, was recently at 3.183%, compared with 3.159% Wednesday, its highest level since July 2011. Bond prices fall when yields rise.

As U.S. Treasuries were hit by selling pressure, yields around the world climbed. The yield on Japan’s 10-year government bond hit its highest level since January 2016. The yield on 10-year U.K. government debt, known as gilts, had risen its highest level since before the country voted to leave the European Union in 2016.

Yet even as investors sold bonds, equity markets fell. Shares often follow government bond yields higher as investors betting on more robust growth move from safer assets into riskier ones, analysts say. But after a period of low interest rates, during which investors have piled into riskier assets, stocks are expensive relative to sovereign bonds, according to Sophie Huynh, cross-asset strategist at Société Générale.

In currency markets, the WSJ Dollar Index--which tracks the dollar against a basket of 16 others--was recently down 0.2%, although it remained higher for the week.

The dollar’s recent gainshave come partly thanks to comments from Fed Chairman Jerome Powell, in which he said the nation’s economy is experiencing “a remarkably positive set of economic circumstances.”

That followed news earlier in the week that Canada had joined the U.S. and Mexico in



Pedestrians pass the Wall Street subway station near the New York Stock Exchange. PHOTO: MICHAEL NAGLE/BLOOMBERG NEWS

successfully renegotiating the North American Free Trade Agreement, softening some of the global trade anxieties of recent months. But some analysts worry that calm may not last as the Trump administration is expected to refocus its attentions on its trade fight with China.

With the world's two largest economies having in recent months imposed rounds of tariffs on the import of one another's goods, "the market's now waiting to see whether we get that second round of tariffs on Chinese goods that the Trump administration is threatening," said Mihir Worah, CIO of asset allocation and real return at Pimco. "I think we're likely to see an escalation, which wouldn't be great for markets, although we may get a walk-back or a deal later on."

In commodities, U.S. crude oil slipped 1% to \$75.60 a barrel. The recent jump in oil prices is also driving yields higher, said David Hauner, head of EEMEA cross-asset strategy and economics at Bank of America Merrill Lynch.

Elsewhere, the Stoxx Europe 600 was down 1%.

In Asia, Hong Kong's Hang Seng benchmark slid 1.7% and Japan's Nikkei closed down 0.6%. Most Chinese indexes were still closed for the country's public holiday.

—Jessica Menton contributed to this article.

Write to David Hodari at David.Hodari@dowjones.com

Corrections & Amplifications

Mihir Worah is CIO of asset allocation and real return at Pimco. An earlier version of this article misspelled Mr. Worah's surname.

Copyright © 2017 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.