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MARKETS

Stocks plunge on financial system fears

The Dow tumbles 237 points, while the S & P 500 is down 10% from its recent high.
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Stocks plunged anew Monday on worsening fears about the financial system, driving the Dow index down 237 points and leaving the Standard & Poor's 500 index off more than 10% from its recent record high -- the sharpest pullback in more than four years.

Markets may be reaching a pivotal moment in the turmoil rooted in the housing sector's troubles, some analysts say.

With the latest steep sell-off in stocks, blue-chip indexes fell into "correction" territory -- meaning a decline of at least 10% from their peaks.

What's more, some investors continued to rush into Treasury bonds as a haven, driving yields on the securities to new multiyear lows.

The gloom has become so thick that some analysts say markets are overdue for a respite. "Sentiment is so bearish you have to wonder who's left to sell," said Sam Stovall, investment strategist at Standard & Poor's in New York.

In a surprise announcement late Monday that could help Wall Street's mood, struggling banking giant Citigroup Inc. said it would receive a $7.5-billion capital infusion from the sovereign wealth fund of Abu Dhabi. That helped trigger a rebound in Asian stock markets early today.

The danger is that if the market atmosphere doesn't lighten soon, it could get far worse as more investors move to protect their portfolios, Stovall and others acknowledge.

Fresh worries about the health of the banking system sent the Dow Jones industrial average down 237.44 points, or 1.8%, to 12,743.44, leaving it down slightly more than 10% from its all-time closing high Oct. 9.

The S&P 500 slid 33.48 points, or 2.3%, to 1,407.22. It's off 10.1% from its record high of 1,565.15 also set Oct. 9.

That means the latest decline now has exceeded the 9.4% drop in the S&P 500 from mid-July to mid-August, amid the first throes of the global credit crunch.

It's also the biggest pullback since the index fell nearly 15% from late 2002 to March 2003, just before the Iraq war began.

Once a decline in the indexes exceeds 20% it's generally considered a full-on bear market.

As usual in recent months, financial stocks led the day's sell-off, after HSBC Holdings, Europe's biggest bank, said it would shift $45 billion of assets now in two struggling specialized investment funds to its own balance sheet to avoid a fire sale of the debt securities.

The move raised concerns that other big banks would have to make similar moves, taking substantial losses in the process -- atop the tens of billions of dollars in write-offs tied to mortgage defaults already recorded.

As the banks reel from loan losses, investors have grown fearful that the stress on the financial system

could become severe, with potentially dire consequences for markets and the economy, said Lou Crandall, economist at Wrightson ICAP in New York.

"I think there are a lot of investors who recognize that the risk of an accident is far greater than it has been in a long time," he said.

That is driving big investors into Treasury bonds as a haven, analysts say. On Monday, heavy buying of government securities pushed the yield on the 10-year T-note to 3.84%, down from 4% on Friday and the lowest since spring 2004. Bond yields fall as the securities' prices rise.

"It's a total fear thing, top to bottom," Kevin Giddis, a bond trader at Morgan Keegan Inc. in Memphis, said about the rush into Treasuries.

Stock and bond markets failed to be soothed Monday by the Federal Reserve's statement that it would supply more money to the banking system between now and year's end in an attempt to forestall any cash shortages.

Yet some analysts said the latest sell-off in stocks may well have marked at least a short-term bottom for the market -- and for bond yields.

Crossing the 10% correction level, some said, should bring in bargain-hunters.

"I think we're closer to a bottom here than people think," said Larry Adam, investment strategist at brokerage Deutsche Bank Alex. Brown in Baltimore.

Like many optimists, he doesn't believe that the housing sector's woes will be enough to drag the economy into recession, and expects that investors soon will be attracted to lower stock prices on the assumption that the market will recover in 2008.

Tony Dwyer, equity market strategist at FTN Midwest Research Securities in New York, said the markets were in a "pure fear-based flight to quality."

What investors have learned about other times like this, he said, is that "you almost always want to take advantage of it" by buying stocks for a rebound.

Today could be a key test for the market, Stovall said. If the S&P 500 can hold above its lowest close in August -- which was 1,406.70 on Aug. 15 -- it could encourage market bulls to jump in.

Still, Dwyer said it wasn't clear whether any near-term rebound would be sustainable. That will depend on whether the global economy can continue to expand -- which may, in turn, depend on whether the U.S. can avoid recession.

"The greatest risk to investors right now is that the global growth story doesn't work out the way they thought," he said.

Among Monday's market highlights:

*** The drop in the S&P 500 index pushed it back into the red for the year to date, off 0.8%, not including dividends. The Dow still is up 2.2% for the year.**

*** Losers topped winners by about 3 to 1 on the New York Stock Exchange and on Nasdaq. The Nasdaq composite fell 55.61 points, or 2.1%, to 2,540.99.**

The Russell 2,000 small-stock index tumbled 2.6%, and is down 14.1% from its peak July 13.

*** In the financial sector, Freddie Mac fell $1.97 to $24.50 and Fannie Mae lost $3.28 to $28.92 after brokerage UBS cut its ratings on the mortgage giants to "neutral" from "buy," citing rising loan defaults.**

Among other financial issues, Citigroup slid $1 to $30.70, Bank of America fell $1.27 to $41.88 and Merrill Lynch lost $2.31 to $51.23.

*** Retail stocks fell despite what some analysts said was an encouraging start to the holiday shopping season. Kohl's fell $1.23 to $47.49; Target slid $1.95 to $55.22.**

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