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Stocks plunge worldwide

Fears about the U.S. economy send markets diving overseas. The sell-off continues in Asia early today.

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Stock markets worldwide on Monday suffered one of their worst routs since the 2001 terrorist attacks on growing fears that U.S. economic woes could turn global boom times to bust.

Foreign markets, most of which had been sliding in recent weeks along with U.S. shares, faced a barrage of selling that left many of them down more than 5% for the day, and some down as much as 8%.

The German market dived 7.2% -- the equivalent of the U.S. Dow Jones industrial average plummeting 871 points. Stocks sank 5.5% in Hong Kong, 7.4% in India and 6.6% in Brazil.

Early today in Asia, the selling wave continued, setting a worrisome tone for a beleaguered Wall Street when U.S. markets reopen after being closed Monday in observance of Martin Luther King Day.

The pain overseas will be felt keenly by American individual investors, who have funneled large sums into foreign shares in this decade as those markets have rocketed. Mutual funds that buy foreign stocks have been among the most popular investments in many 401(k) retirement savings plans.

The heavy losses in world markets could increase pressure on the Federal Reserve and other central banks to cut short-term interest rates further. Rumors of emergency rate cuts swept the financial world early today.

Most foreign stock markets have tumbled since the start of the year as the outlook for the U.S. economy has gone from bad to worse amid the housing crisis and rising losses on mortgages and other consumer loans at major banks.

"The U.S.' problems are stretching out globally," said Alan Ruskin, chief international strategist at investment firm RBS Greenwich Capital in Greenwich, Conn. "Clearly these markets are very vulnerable, plainly nervous -- and uncertainty rules."

The main concern is that, despite the spectacular growth of many up-and-coming economies such as China, India and Brazil, the world couldn't easily withstand a severe downturn in the U.S., which consumed $2.1 trillion of foreign goods and services in the first 11 months of 2007.

"If the States really goes into a serious recession, it will have knock-on effects for all other major economies," said Ruth Lea, economic advisor to Arbuthnot Banking Group in London, where the main British stock index plunged 5.5% on Monday.

Foreign investors apparently took little comfort in President Bush's call Friday for about $150 billion in tax rebates and other measures to give the domestic economy a boost. Some forecasters, including brokerages Goldman, Sachs & Co. and Morgan Stanley, have said a U.S. recession is probably unavoidable.

On Wall Street, the Dow index fell 0.5% on Friday to 12,099.40. It was down 4% for the week and has lost 14.6% from its record high set in October.

Many analysts warned against becoming too pessimistic about the global economy, noting that the U.S. doesn't dominate world growth as much as it did 20 years ago, and that many foreign countries have built up massive wealth reserves to see them through rough waters.

Even though the U.S. economy is stumbling, "I don't think it's even conceivable the world economy could go into recession" this year, said C. Fred Bergsten, director of the Peterson Institute for International Economics in Washington.

He said he expected that the "worst case" was for global economic growth of 4% this year, adjusted for inflation, which would be healthy by historical standards.

European finance ministers, holding a regularly scheduled meeting Monday in Brussels, voiced confidence that Europe's economy could remain on a growth track despite America's problems.

"We feel comfortable with our economic situation at the moment," Jean-Claude Juncker, Luxembourg's finance minister, said at a news conference after the meeting.

Still, he acknowledged, "if there is a real slowdown in the U.S., obviously that would be felt" in Europe.

There is some good news for the world's consumers as growth concerns proliferate: Prices of many commodities have begun to pull back after reaching historic highs in recent months. Crude oil, for example, fell to $88.46 a barrel in electronic trading early today, down from a record high of $99.62 on Jan. 2, as some traders bet that a weaker global economy would subdue energy demand, at least temporarily.

One key to global growth this year will be whether cash-flush Asian consumers, businesses and governments ramp up their spending or pull back, analysts said.

A global slowdown "will be a test of domestic demand in Asia," said Ruth Stroppiana, director of Asia-Pacific economics at Moody's Economy.com in Sydney, Australia. "It remains to be seen whether domestic demand will continue to accelerate and make up" for weakening demand in the U.S. and elsewhere for Asian goods.

Some countries are likely to be hit harder than others by a U.S. slowdown or recession. Japan, struggling with sluggish employment growth and weak consumer confidence, faces the risk of its own economic downturn because a fifth of what it exports is shipped to the U.S., analysts said.

The Japanese stock market has been one of the world's worst performers in recent months. At the end of trading Monday, the blue-chip Nikkei 225-share index was down 27% from its 2007 high, compared with a 15.7% decline in India's main index and a 16.2% drop in the German market from their respective highs.

Concerns about a potential U.S. recession deepened last week after a survey of factory activity in the mid-Atlantic region suggested that manufacturers were cutting back on production. Manufacturing had been a bright spot in the economy in the last two years even as housing slumped.

What's more, major U.S. financial companies continue to reel from losses on mortgage-related securities as more homeowners default on loans. Merrill Lynch & Co. said last week that it lost a record $9.8 billion in the fourth quarter after credit write-offs.

The red ink at leading banks and brokerages is making credit tougher to get for many U.S. consumers and businesses, analysts say, draining the lifeblood from the economy after years of easy money.

The debacle in so-called sub-prime U.S. mortgages, or loans made to high-risk borrowers, also has directly infected some foreign economies by way of investments that local banks have made in bonds backed by sub-prime loans.

Chinese shares were hammered Monday in part by a Chinese newspaper report that Bank of China, the nation's second-largest lender, might post a net loss for 2007 because of substantial write-downs on U.S. sub-prime-related investments.

Reflecting those fears, a senior official at the China Banking Regulatory Commission warned Monday that China's banks would "see rising credit risks," with an increasing proportion of their loans unlikely to be paid.

The Shanghai composite stock index slid 5.1% on Monday, its biggest one-day drop since July.

Still, foreign markets, particularly emerging markets, are notoriously volatile -- a fact that investors tend to ignore

as long as the general trend is up.

Despite that volatility, U.S. investors have scored handsome gains in foreign stocks this decade thanks to robust economic growth abroad and a long decline in the dollar's value. A falling dollar means securities denominated in strengthening foreign currencies are worth more when translated into

greenbacks.

For example, the Fidelity Diversified International stock mutual fund posted a cumulative return of 184% in the five years ended Dec. 31, compared with 78% for the U.S. Dow index. Lured by such rich returns overseas, U.S. investors have pumped hundreds of billions of dollars into foreign stock mutual funds in the last few years.

Now, however, the dollar's value is rebounding because some global investors continue to view the U.S., especially Treasury securities, as the safest place in a storm.

The stronger dollar is compounding losses for U.S. investors in foreign markets. That raises the risk that Americans will add to the selling wave overseas -- by taking profits in foreign stock mutual funds, for example.

For the moment, simple fear of the unknown is driving many investors and traders to raise cash as a buffer in their portfolios, experts said.

The markets' decline also is being exacerbated by short-term traders who "don't actually give a toss about the macroeconomics," said Peter Bickley, director of economics at Tilney Private Wealth Management in Shrewsbury, England.

"All you care about is which way the wind seems to be blowing, and it's not too difficult to spot that at the moment the wind is blowing in a rather negative direction."

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