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THE ASSOCIATED PRESS July 11, 2011, 5:30PM ET

Stocks sink on fresh fears about global economy

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NEW YORK

July doesn't look so promising anymore.

The European debt crisis appears to be widening, with concerns about government debt defaults spreading beyond Greece to much larger countries like Italy and Spain. If that happens companies that do business internationally could see their revenue and profits decline as European countries and companies curtail purchases. What's more, a widespread financial crisis could cause a credit crunch in Europe and elsewhere.

The concerns sent stocks down. After a rally that sent markets up sharply the last two weeks of June, the Standard & Poor's 500 index dropped 24.31 points, or 1.8 percent, to 1,319.49 on Monday.

The Dow Jones industrial average had its biggest percentage drop in nearly a month. It fell 151.44 points, or 1.2 percent, to 12,505.76. And after closing one point off its 2011 high late last week, the Nasdaq composite fell 57.19, or 2.0 percent to 2,802.62.

Italy and Spain, Europe's third and fourth largest economies, have seen bond yields rise sharply. It's the latest sign that investors are less willing to hold the debt of those countries. Italy's largest banks, UniCredit SpA and Intesa, fell sharply on European exchanges. Some investors believe several of Italy and Spain's financial institutions might not pass an upcoming stress-test for European banks.

"What the European Union is trying to do is keep the problem contained at a sovereign level and not have the infection spread to the banking system," said Jack Ablin, chief investment officer at Harris Private Bank. "To see a bank drop that much that fast suggests there may be a breach."

That has led to fears in Europe and elsewhere that the aid from international lenders may not be enough to stop a broad deterioration of the European economy.

The S&P fell broadly, led by financial companies. Financial stocks in the index fell 2.8 percent as bank stocks sank. Investment manager Janus Capital Group fared worst, falling 6.8 percent to $9.16. Citigroup Inc. led banks down, declining 5.3 percent to $39.79. If Europe's debt crisis continues to spread, bank lending could seize up. Banks are also expected to report weak earnings beginning later this week.

Of the 500 companies in the S&P index, 492 fell.

The euro fell against the dollar and U.S. government bond prices rose. The euro fell below $1.40 for the first time since May 23 and hit a record low against the Swiss franc. The yield on the 10-year Treasury note fell to 2.95 percent from 3.02 percent late Friday. Bond yields fall when their prices rise.

Markets seemed to be recovering during the last half of June. The last week of the month, the Dow had its best week in two years after several positive reports on manufacturing and consumer spending. All three major indexes were close to their previous highs for the year, reached April 29.

But the run-up just gave markets more room to fall, says Ralph Fogel, an investment strategist at Fogel Neal Partners in New York.

"When markets are at their bottom, they don't listen to bad news. But because we're at the top end, they listen," said Fogel.

The broadening of Europe's debt troubles follows disappointing U.S. employment news and a setback in negotiations over the country's borrowing limit.

The government reported Friday that employers pulled back sharply on hiring in June, compounding fears that the U.S. economy was in even worse shape than previously thought. The unemployment rate rose to 9.2 percent.

Weekend budget talks between Republicans and Democrats also stalled, raising the possibility that lawmakers might not reach an agreement on raising the country's debt limit before an Aug. 2 deadline. President Obama said he wouldn't sign a short-term extension to the limit.

"Markets don't like when they don't know what's going on," said Fogel. "They don't appreciate politics."

News Corp. fell 7.6 percent on Monday, the most of any company in the S&P 500, as its phone hacking scandal threatened the approval of its proposed takeover of British Sky Broadcasting, a highly profitable satellite TV company in Britain. The deal will now be reviewed by British competition authorities, which will put off a final decision for several months.

Wells Fargo fell 2.6 percent after the bank offered to settle for $125 million with pension funds that accused it of not warning investors about risky mortgage-backed securities.

Insurer American International Group Inc. fell 3.6 percent after saying it would fire one or more of the banks it used for its recent public stock offering when it sells more stock later this year. The move indicates that the company might not have confidence in its ability to sell more stock at a desirable price.

Gulfport Energy Corp. fell 6.2 percent. The oil and natural gas producer plans to sell 3 million shares to repay debt and pay for acquisitions.

Aluminum maker Alcoa Inc. fell 2.9 percent ahead of announcing its second-quarter results. Alcoa's report marks the unofficial beginning of U.S. earnings season. Aluminum is used in everything from airplanes to beer cans; the company's results typically offer insight into the health of the broader U.S. economy.

The company reported earnings after the market closed. Its income more than doubled as higher sales and prices offset increasing prices for raw materials, the company reported. Alcoa earned 32 cents per share. Analysts expected the company to earn 33 cents per share, according to FactSet. The company reaffirmed its forecast for 12 percent growth in global aluminum demand this year. Alcoa was down 0.4 percent in early aftermarket trading.

Several companies did post gains on Monday. Arch Chemicals Inc. rose 11.7 percent after saying it would be bought by Swiss drugmaker Lonza for $1.2 billion. Arch makes antibacterial products.

Chip-maker Microsemi Corp. was up 2.3 percent after an Oppenheimer analyst upgraded its rating on the company. The analyst cited a growing backlog of orders and improving profit margins.

LinkedIn rose 1.1 percent after web analytics company Comscore said that in June, the professional networking site was second only to Facebook among social networking sites in its number of unique visitors. LinkedIn had 33.9 million unique visitors in June. Facebook had 106.8 million unique visitors.

Six stocks fell for every one that rose on the New York Stock Exchange. Volume was lighter than usual at 3.5 billion shares.

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