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U.S. Stocks Fall Most Since October Amid Curbs on Banks, China

By Elizabeth Stanton

U.S. stocks declined for a second week, sending the Standard & Poor's 500 Index to the biggest drop since October, as banks plunged on a White House proposal to limit financial risk and China moved to cool economic growth.

JPMorgan Chase & Co. and Morgan Stanley slumped more than 8 percent as President Barack Obama called for limiting speculation to prevent another financial crisis. Exxon Mobil Corp. lost 4.4 percent and Alcoa Inc. tumbled 14 percent on concern Chinese demand for commodities will slow.

The S&P 500 erased its 2010 gain, retreating 3.9 percent to 1,091.76 for the week after closing at a 15-month high on Jan. 19. The Dow Jones Industrial Average fell 436.67 points, or 4.1 percent, to 10,172.98. The Nasdaq Composite Index decreased 3.6 percent to 2,205.29.

"It's a one-two punch," **Ralph Fogel, head of investment strategy at Fogel Neale Partners** in New York, said of the curbs on Chinese growth and Wall Street firms. "In the end it's going to have the same impact -- less flow of money into the marketplace."

The three-day, 5.1 percent tumble to end the week was the biggest decline for the S&P 500 since it sank to a 12-year low in March. The VIX, an index of volatility known as Wall Street's "fear gauge," jumped 55 percent to 27.31 over the period, its largest gain since 2007.

Uncertainty over whether Federal Reserve Chairman Ben S. Bernanke will win Senate confirmation for a second term beginning Feb. 1 even with Obama's backing undermined investor confidence, traders said. Barbara Boxer of California and Russ Feingold of Wisconsin said they will oppose Bernanke.

Positive Surprises

Stocks fell even as most companies releasing fourth-quarter results beat analyst estimates. Of 62 companies in the S&P 500 that reported earnings, 46 were better than the average analyst estimate, according to data compiled by Bloomberg.

A record nine-quarter earnings slump is projected to have ended in the fourth quarter with a 73 percent increase in S&P 500 profits. More than 130 companies in the index are scheduled to release results next week, including Apple Inc., 3M Co. and Microsoft Corp.

Treasuries rose, sending yields lower. The benchmark 10-year note's yield dropped to 3.61 percent from 3.67 percent.

The S&P 500 still is up more than 60 percent from a 12-year low in March, with a valuation of about 14.2 times the combined operating earnings forecast for its companies this year.

Bank Retreat

JPMorgan, the second-largest U.S. bank, and Morgan Stanley, the world's biggest brokerage, led financial companies in the S&P 500 to a 5.2 percent drop. Obama asked Congress on Jan. 21 to bar banks from proprietary trading solely for their own profit and sponsoring private-equity and hedge funds.

Obama in June proposed an overhaul of U.S. financial regulations to fix lapses in oversight and risk-taking that helped push the economy into a recession in 2008. The economy grew in the third quarter for the first time in more than a year, and may have expanded at a 4.6 percent rate in the fourth quarter, the fastest pace in four years. That's the median estimate of economists surveyed by Bloomberg for the Commerce Department's first estimate of the fourth-quarter growth, to be released Jan. 29.

Exxon Mobil, the largest U.S. energy company, fell 4.4 percent to \$66.10. Crude oil slumped 4.9 percent to a one-month low amid speculation China, poised to overtake Japan as the world's second-largest economy after the U.S., will raise interest rates to keep economic growth from igniting inflation.

Commodity Prices

Alcoa, the biggest U.S. aluminum producer, tumbled 14 percent to \$13.40, the biggest drop in the Dow average. Aluminum, copper, lead, nickel and zinc declined after China guided three-month bill yields higher for the second time in two weeks.

Also scheduled for next week are reports on new and existing home sales in December and January consumer confidence, and the Fed's Jan. 27 meeting on interest rates.

Regional banks in the S&P 500 advanced after Fifth Third Bancorp and KeyCorp, Ohio's biggest lenders, reported fourth-quarter losses that were smaller than analysts estimated. Fifth Third climbed 6.5 percent. Keycorp rose 5.4 percent.

IBM fell 4.8 percent to \$125.50, its biggest weekly drop since March. The world's largest computer services company said sales of business services fell 2.8 percent in the fourth quarter as its customers reined in costs.

Kraft Food Inc. fell 5.8 percent to \$27.87 after Cadbury Plc of the U.K. accepted its \$19.2 billion takeover bid.

Health-care stocks fell 1.9 percent as a group, the smallest drop among the 10 industries in the S&P 500, after Republican Scott Brown won a special election to the Senate. Brown's victory cost Democrats their 60-vote supermajority, imperiling legislation to overhaul health care.