BUSINESS

Banks' move boosts stocks

Dow soars 490 points as fear of global credit crisis eases

By Daniel Wagner
The Associated Press

A move by the world's central banks to lower the cost of borrowing exhilarated investors Wednesday, sending the Dow Jones industrial average soaring 490 points and easing fears of a global credit crisis similar to the one that followed the 2008 collapse of Lehman Brothers.

It was the Dow's biggest gain since March 2009.

Large U.S. banks were among the top performers, jumping as much as 7 percent. Markets in Europe surged, too, with Germany's DAX index climbing 5 percent.

"The central banks of the world have resolved that there will not be a liquidity shortage," said David Kotok, chairman and chief investment officer of Cumberland Advisors. "And they have learned their lessons from 2008. They don't want to take small steps and do anything incrementally, but make a big bold move that is credible."

Wednesday's action by the banks of Europe, the U.S., Britain, Canada, Japan and Switzerland represented an extraordinary coordinated effort.

But amid the market's excitement, many doubts loomed. Some analysts cautioned that the banks' move did nothing to provide a permanent fix to the problems facing heavily indebted European nations such as Italy and Greece. It only buys time for political leaders.

"It is a short-term solution," said Jack Ablin, chief investment officer at Harris Private Bank. "The bottom line on any central bank action is that it papers over the problems, buys time and in some respects takes pressure from politicians. ... If nothing's done in a week, this market gain will disappear."

Banks stocks soared as fears about an imminent disaster in the European financial system ebbed.

American and European banks are connected by contracts, loans and other financial entanglements, meaning that a European financial crisis would punish U.S. bank stocks. The brighter outlook that emerged Wednesday relieved some investor concerns.

JPMorgan Chase & Co. jumped 7.7 percent, the most of the 30 Dow components. Morgan Stanley rose 10 percent and Citigroup Inc. 8.2 percent.

Banking worries — and the reluctance of the European Central Bank to intervene — have caused borrowing rates for European nations to skyrocket. Wednesday's decision greatly alleviated fears by cutting short-term borrowing rates to banks, giving them much easier access to money. But borrowing costs remain extremely high for indebted countries such as Italy and Spain.

The Dow rose 4.2 percent to close at 12,045. It has more than gained back the 564-point slump it had last week.