Dow dips to worst day in 5 weeks; bond prices jump

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NEW YORK — Investors retreated from stocks Thursday, leading the Dow Jones industrial average to its worst day in five weeks, after disappointing earnings from Wal-Mart and mixed news about the global economy.

Financial markets reflected broader investor jitters: government bonds rose, small-company stocks continued to plunge, and safe, slower-growth industries fared the best.

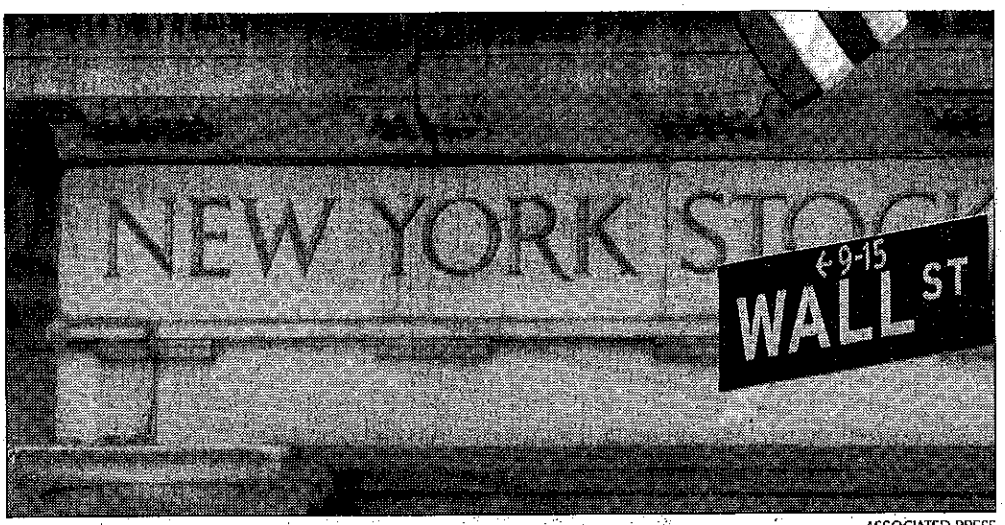
The latest economic data from the United States was mixed: Factory output fell. But fewer people sought unemployment benefits, evidence that hat solid hiring should continue. The news was more disappointing in Europe, where the economy of the 18 countries that share the euro saw output rise just 0.2 percent in the first quarter.

"People are just a little bit nervous about the entire global economic environment at the moment," said Ryan Larson, head of U.S. equities at the Royal Bank of Canada.

The Dow lost 167.16 points, or 1 percent, to 16,446.81. The Standard & Poor's 500 index fell 17.68 points, or 0.9 percent, to 1,870.85 and the Nasdaq composite fell 31.33 points, or 0.8 percent, to 4,069.29.

The Dow was dragged down by Wal-Mart, which fell $1.91, or 2.4 percent, to $76.83. The company reported lower earnings for its most recent quarter and warned that the current one was not expected to be much better.

The company, like many other retailers, blamed harsh winter weather. Department store operator Kohl's fell after announcing a drop in first-quarter earnings. Kohl's ended down $1.82, or 3.4 percent, to $52.21.



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Global stock markets were mostly lower Thursday ahead of quarterly European growth figures that investors hope will show a strengthening economic recovery.

One bright spot was Cisco Systems. The telecommunications equipment maker jumped $1.37, or 6 percent, to $24.18. It was one of only two stocks in the Dow 30 to rise. Cisco reported earnings that were better than expected.

The broader stock selloff comes two days after the Dow and S&P 500 hit record highs.

But the bigger story of what happened on Wall Street was in the bond market.

Bonds had their best day since early February, when measured by the Barclays U.S. Aggregate bond index, a broad gauge of the entire market, from Treasurys to corporate debt.

The yield on the U.S. 10-year note hit its lowest level in 10 months, dropping to 2.49 percent. At the beginning of the week, the 10-year had a yield of 2.66 percent. That is an extraordinary move for bond yields.

Typically, such a movement in the bond market would signal that there was something wrong with the U.S. economy. But Thursday's economic news was mixed at worst. Factory production declined in April. But the number of Americans seeking unemployment benefits fell to a seven-year low last week.

To add to the mystery, U.S. consumer prices rose at their fastest pace in nearly a year in April, the Labor Department said Thursday. The consumer price index, an often-quoted barometer of inflation in the U.S., rose by 0.3 percent last month due to higher food and gas prices. Inflation is on pace to rise 2 percent this year. While not alarming, it is noticeably higher than a year ago.

In a normal environment, investors don't buy bonds at 2.5 percent interest if inflation is running at 2 percent. It's just not worth it.

"It's really confusing, to be honest," said Jack Ablin, chief investment officer at BMO Private Bank in Chicago, who oversees $66 billion in assets. "The bond market thinks there's a risk out there that the stock market isn't seeing."

One explanation is that foreign buyers raced into the U.S. Treasury market looking for safety, causing a distorted move in prices, traders said. Despite their fall, yields of U.S. government bonds are higher than those of some developed economies.

"This flight to quality is overwhelming bond investors," said Tom di Galoma, a fixed-income trader at ED&F Man Capital.

Telecommunications stocks, a popular safety play, did rise Thursday, but barely. AT&T rose 13 cents, or 0.4 percent, to $36.52 while Verizon Communications fell 5 cents, or 0.1 percent, to $47.96.

Once again, investors sold riskier stocks in the technology and biotechnology industries. Facebook, Netflix and Biogen, all companies who have seen large waves of selling in the last several weeks, fell 2 percent or more.