

Passengers wait among rubbish and paper Wednesday during the second day of a strike by the cleaning staff against budget cuts at the airport in Barcelona, Spain. MANU FERNANDEZ/AP

Stocks plummet as Europe outlook dims

Spain's fate is the latest fear factor

By Daniel Wagner
The Associated Press

NEW YORK — Fearing a financial rupture in Europe, investors around the world fled from risk Wednesday.

They punished stocks and the euro — and the yield on a benchmark U.S. bond hit its lowest point since World War II.

In the U.S., where concerns about Europe have already wiped out most of this year's gains for stocks, major averages fell more than 1 percent.

The Dow Jones industrial average was down as much as 184 points.

European stocks lost even more, and the euro dropped below $1.24, its lowest point since the summer of 2010.

"Everyone's just afraid that if Europe doesn't get its act together, there will be a big spillover in the U.S.," said Peter Tchir, manager of the hedge fund TF Market Advisors.

He said that the uncertainty over Europe's future was reminiscent of the financial crisis in the fall of 2008, when it was briefly unclear whether banks would be bailed out and "we had these giant swings up and down."

The trigger Wednesday was Spain, where the banking system is under strain a week after its fourth-largest lender required $23.8 billion in government aid to cover souring real estate loans.

Wall Street, which woke up to increased anxiety over higher Spanish borrowing rates, was down from the opening bell.

In the final half-hour of trading, the Dow was down 163 points at 12,416.

The Dow has had a miserable May, losing more than 6 percent, and is on track for its first losing month since September.

The Standard & Poor's 500 index lost 20 points to 1,312. The Nasdaq composite index fell 36 to 2,834.

Investors are increasingly worried that problems at the bank, Bankia, might recur at other Spanish banks.

Many of them lent heavily during the nation's real estate bubble. Losses from the real estate crash might be too big for Spain's government to shoulder.

Spain has enacted harsh government spending cuts to bring its budget deficit within strict new European guidelines. But the country is in a recession and has 25 percent unemployment, and might need a bailout, like Greece, Ireland and Portugal.