Fear reigns on Wall Street



Markets saw a sell-off Friday amid fears the economy of any indebted European nation could collapse, weakening the global banking system. RICHARD DREW/AP

Stocks plummet as worries intensify

Investors seeking safety send yield on 10-year Treasury to historic low

By Francesca Levy
The Associated Press

NEW YORK — The problems that weighed down U.S. stocks all summer show no sign of letting up as they plunged Friday, erasing the week's gains amid rising fears about fallout from Europe's debt crisis.

Seeking safer investments, investors sent the yield on the 10-year Treasury note to the lowest level in five decades.

The resignation of a key official from the European Central Bank revealed deepening divisions over how to solve Europe's economic problems.

Traders fear that one of Europe's heavily indebted economies could collapse. That would send shock waves through the global banking system and make it difficult for other European countries facing default to borrow money.

Such an outcome to the European debt crisis would likely tip the world economy back into recession.

In the U.S., the economy faces slowing growth and a stubbornly high unemployment rate. President Barack Obama unveiled a $447 billion jobs program Thursday night, but Wall Street is not convinced the proposal can clear a divided Congress.

The Dow Jones industrial average fell 303.68 points, or 2.7 percent, to close at 10,992.13. The Dow at several points approached a 400-point decline in afternoon trading.

The Standard & Poor's 500 fell 31.67, or 2.7 percent, to 1,154.23. The Nasdaq composite fell 61.15, or 2.4 percent, to 2,467.99.

The Dow had its steepest decline in more than three weeks, a period marked by wild swings in prices and sentiment.

"Markets always vacillate between fear and greed, and today we're coming down pretty much all on the fear side," said Kim Caughey Forrest, equity research analyst at Fort Pitt Capital Group.

All three indexes are lower for the week. The Dow is down more than 2 percent. It has fallen in five of the past six weeks, and in four of the past five trading sessions.

Nervous investors rushed to buy investments seen as safe, sending Treasury yields to historic lows. The yield on the 10-year Treasury note plunged to its lowest level since the Federal Reserve Bank of St. Louis began keeping daily records in 1962. It fell to 1.93 percent from 1.99 percent late Thursday.

Word of the resignation of Juergen Stark, the top economist at the European Central Bank and an advocate for higher interest rates, came shortly after the U.S. markets opened. Published reports said he left because he opposed the bank's extensive purchases of debt issued by heavily indebted member nations.

Stark's departure rattled traders because the outcome in Europe might determine whether the U.S. economy recovers or slips back into recession, said Andrew Goldberg, market strategist

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with J.P. Morgan Funds. He said traders are latching onto any piece of news that might signal a positive or negative outcome in Europe.

Banks in Europe hold an unknown amount of bonds issued by heavily indebted nations such as Greece, Ireland and Portugal. The value of the bonds would quickly plummet if one of those nations defaults, and banks might stop lending to each other because of fears that some might fail.

In that context, Stark's departure from the central bank was seen as "a bit of news that contributes to a worse outcome, so if you're thinking of being a seller, today that's what you are," Goldberg said.

The central bank's troubles give added weight to any decisions from a meeting this weekend in France of financial leaders from the world's most developed economies.

Volatility rushed back into the market Friday. The CBOE Market Volatility Index, which measure fear about financial markets, rose 18 percent, topping 40.

Friday's plunge continues a tough quarter for the stock markets. The S&P 500 is down 13 percent since the third quarter started in July. However, it has recovered almost 4 percent since its lowest close this year on Aug. 8.

Analysts say stocks are likely to keep falling because conditions in Europe show little sign of improving.

If Europe's economy contracts, U.S. companies will likely be hurt, said Sam Stovall, chief investment strategist with Standard & Poor's in New York.

He noted that U.S. companies get about half their revenue from overseas, and half of that comes from Europe.

"Maybe the market has already priced in a very, very soft spot, but it has not priced in quicksand — it has not priced in a recession," he said.

Stovall said recent data make another U.S. recession appear more likely.

But Fort Pitt Capital's Forrest said the sell-off had brought some share prices "within buying range." She said traders have few other places to invest, with Treasury yields near record lows and currency markets gyrating because of fears about the euro.

Markets in Europe also fell sharply. France's CAC 40 and Germany's Dax fell about 4 percent. London's FTSE lost more than 2 percent.

McDonald's Corp. shares fell 4 percent after the company said a key revenue metric missed analysts' expectations. McDonald's said that revenue at restaurants open at least 13 months rose 3.5 percent in August. Analysts had expected a 4.9 percent increase.

Shares of Bank of America Corp. fell 3 percent after The Wall Street Journal reported that it might cut up to 14 percent of its workforce as part of a massive restructuring. Bank of America already has cut at least 6,000 jobs this year. CEO Brian Moynihan announced a management shake-up this week.

Specialty glass maker Corning Inc. fell 5 percent a day after it said it expected to sell less glass for LCD TVs than originally forecast.

Nearly six stocks fell for every one that rose. Volume was somewhat high, at 4.8 billion.