Dow Jones sinks 666 points, sixth-worst in history

It had been 448 days since Wall Street investors had seen the Dow suffer a drop of 3% or more. DREW ANGERER/GETTY IMAGES

Mood sours on Wall Street over fears of spiking interest rates

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Senior economist at Ameriprise Financial

Adam Shell
USA TODAY

The Dow tumbled 666 points Friday — its sixth-biggest point loss ever — and suffered its worst week in two years as investors turned skittish about spiking interest rates, dashing much of the optimism that had been powering stocks to record heights.

In a matter of days, the mood of investors has swung from euphoria to concern the stock market may be at the start of its first sizable decline in years. The market, down about 4% from its recent peak, hasn't suffered a 10% drop, or "correction," since February 2016.

While Friday's point drop, its worst

Wall Street

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since the financial crisis, might cause anxiety for investors, the Dow Jones industrial average's 2.5% slide Friday didn't come close to a top-20 percentage drop for the popular stock gauge.

On Black Monday, for example, during the stock market crash of Oct. 19, 1987, the Dow dropped 22.6%, which back then amounted to 508 points.

But Wall Street pros note Friday's plunge was not due to the economy showing weakness, but instead came as growth is picking up, CEOs are confident and corporate profits are robust.

It also follows a bullish period, with the Dow sprinting 25% higher last year and the broad market last week posting its best January in 20 years. That favorable backdrop is why there is no "reason to change one's strategy based on the last few days," says Bill Hornbarger, chief investment officer at Moneta Group in Clayton, Mo.

Ironically, Friday's sell-off was sparked by continued good news in the job market, with the government reporting the economy created 200,000 jobs in January and data showing wages for U.S. workers rose at their fastest pace since 2009, which spurred fears of a spike in inflation.

Good news for workers is viewed as not-so-good news for stocks, as it suggests the economy is in danger of overheating. That could pressure the Federal Reserve to hike short-term interest rates more aggressively than expected, says Russell Price, senior economist at Ameriprise Financial.

Some analysts fear the Fed may hike rates four times this year, more than the three already signaled. "Temporarily, good news may be bad news for the stock market," Price says.

The big change in the market mentality is the fear borrowing rates, which have been near record lows since the financial crisis and were a catalyst behind the current nine-year bull market, might be on the verge of moving higher. A big sell-off in the U.S. government bond market Friday sent the yield on the 10-year Treasury above 2.85%, its highest since January 2014. Higher rates mean more borrowing costs for consumers and businesses, which can slow economic growth.