

# U.S. Stocks Drop Most Since Crash of 1987 on Recession Concerns

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Oct. 15 (Bloomberg) — U.S. stocks plunged the most since the crash of 1987, hammered by the biggest drop in retail sales in three years and growing doubt that plans to bail out banks will keep the economic slump from deepening.

Exxon Mobil Corp. and Chevron Corp. tumbled more than 12 percent as oil fell below \$75 a barrel on concern the slowing economy will hurt demand. Wal-Mart Stores Inc. retreated 8 percent after the Commerce Department said purchases at chain stores decreased 1.2 percent last month. Morgan Stanley lost 16 percent after Oppenheimer & Co. analyst Meredith Whitney said the government's bank rescue is not a "panacea" solution.

The Standard & Poor's 500 Index sank 90.17 points, or 9 percent, to 907.84, with nine companies declining more than 20 percent. The Dow Jones Industrial Average retreated 733.08, or 7.9 percent, to 8,577.91, its second-biggest point drop ever. The Nasdaq Composite Index lost 150.68, or 8.5 percent, to 1,628.33. About 37 stocks fell for each that rose on the New York Stock Exchange.

"It's absolutely trading on fear right now and uncertainty, because nobody knows yet how bad the economy is going to get," said John Wilson, the co-director of equity strategy at Memphis, Tennessee-based Morgan Keegan, which manages \$120 billion. "It's disquieting to me, and I've been doing this for 35 years."

## Rally Pared

The retreat over the past two days erased almost all of the gains in the S&P 500 and Dow on Oct. 13, when the market rallied the most since the 1930s on speculation the government's plan to shore up banks will ease the credit crisis. Efforts to calm financial markets probably won't result in an immediate economic rebound, Federal Reserve Chairman Ben S. Bernanke told the Economic Club of New York.

All 10 S&P 500 industries fell more than 6 percent today. About \$1.1 trillion in value was erased from all U.S. equities. The declines came after the drop in retail sales was almost twice economists' estimates, sending Macy's Inc. and Dillard's Inc. down more than 15 percent. The Federal Reserve's index of New York manufacturing slumped to minus-24.6, a record low. The data overshadowed a retreat in money-market rates and better-than-estimated earnings reports from JPMorgan Chase & Co., Coca-Cola Co. and Intel Corp.

"A big chunk of our economy is in recession right now," said Tom Wirth, senior investment officer at Chemung Canal Trust Co. in Elmira, New York, which manages \$1.5 billion. "There's fear the Christmas season is going to be miserable."

## **VIX Jumps**

The VIX, as the Chicago Board Options Exchange Volatility Index is known, jumped 26 percent to 69.25 for the biggest gain in three weeks. The measure, known as Wall Street's "fear gauge," has tripled since the beginning of September.

About 1.7 billion shares changed hands on the floor of the NYSE. The value of shares traded on the Big Board was \$43.3 billion, the lowest since Oct. 3.

The S&P 500 lost more points on Sept. 29 when it fell 106.62, while its percentage decline of 8.8 percent was less than today's tumble.

Stocks in Europe and Asia fell for the first time in three days, helping push the MSCI World Index, a benchmark for 23 developed countries, to a 7.3 percent decline. Brazilian stock trading was briefly halted after the Bovespa index plunged 10 percent. The index closed down 13 percent after trading resumed.

Exxon Mobil, Chevron and ConocoPhillips, the three biggest U.S. oil companies, helped lead energy companies to the biggest retreat among 10 S&P 500 industries as crude fell below \$75 a barrel for the first time in more than a year. The Organization of Petroleum Exporting Countries cut its 2009 demand forecast for a second month.

## **Lowest Level**

The S&P 500 Energy Index, once the year's best performing industry group, retreated 15 percent today for its steepest loss since the gauge was created in 1989. It is down 49 percent from its peak in May.

Citigroup Inc. fell \$2.39, 13 percent, to \$16.23 and Morgan Stanley slid \$3.54 to \$18.13 after Oppenheimer's Whitney said the capital infusions from the Treasury are "one large step in the right direction," though not a "panacea."

"We are at least several quarters away from stabilizing fundamentals," Whitney wrote in a note dated yesterday. "Credit costs will continue to surprise on the upside and revenues will begin to surprise on the downside as companies will be forced to make money off of lower asset bases."

Visa Inc., MasterCard Inc. and American Express Co. had declines greater than 11 percent on concern consumers will charge less during the holiday season.

## **JPMorgan Erases Gain**

JPMorgan erased earlier gains and fell 5.5 percent to \$38.49 even after the largest U.S. bank by market value reported quarterly earnings that beat analysts' estimates. The company will set aside more money to cover loan losses as the lender braces for the economic slump to get "a lot worse," Chief Executive Officer Jamie Dimon said.

Jones Apparel Group Inc. lost 30 percent to \$9.51, the biggest drop in the S&P 500. The maker of Jones New York clothing and Nine West shoes forecast profit lower than its previous projection and S&P strongly recommended selling the stock.

Dell Inc. dropped 11 percent to \$12.58. The world's second-largest personal-computer maker was cut to "neutral" from overweight by JPMorgan analyst Mark Moskowitz. The company gets about 60 percent of revenue from personal computers, which is a "hurdle to achieving consistent growth," the analyst said.

EBay Inc. retreated 14 percent to \$15.33. The largest Internet auction company was cut to "underperform" at Merrill Lynch & Co., which said it doesn't expect "positive" third-quarter results or fourth-quarter forecast. EBay reports earnings after the official close of U.S. exchanges today.

### **Coke Gains**

Coca-Cola Co. climbed 1.1 percent to \$44.21 for the only advance in the Dow average. The world's largest soft-drink maker posted third-quarter per-share profit that exceeded analysts' estimates by 8.1 percent on increased sales outside the U.S.

Genentech Inc. added 3 percent to \$81.50. The largest U.S. maker of cancer drugs said third-quarter profit rose 6.7 percent as sales of tumor-fighting medicines beat analysts' estimates.

The S&P 500 fell yesterday as a worsening earnings outlook at PepsiCo Inc. and Microsoft Corp. overshadowed the \$2 trillion global push to rescue the financial system. The U.S. is in a recession and the Fed's interest-rate stance is aimed at addressing the risks of a deeper slump, according to San Francisco Federal Reserve President Janet Yellen.

### **Weakening Economy**

The economy deteriorated throughout the U.S. last month and pessimism about the outlook spread, the Federal Reserve said in its regional economic survey. Retailing, auto sales and tourism declined in "most" districts, while housing and construction "weakened or remained low," according to the Beige Book report, published two weeks before officials meet to set interest rates.

Confidence in the global economy plunged in October after a deepening freeze in financial markets increased the chances of a recession, a survey of Bloomberg users on six continents showed. The Bloomberg Professional Global Confidence Index fell to 4 from 11.3 in September, the lowest since the survey began in November.

The latest chapter in the credit crisis came when Lehman Brothers Holdings Inc. filed the biggest bankruptcy in history on Sept. 15. The company's hedge-fund clients are now largely unable to access their Lehman accounts even as the value of the securities continues to fluctuate along with the markets.

### **Margin Calls**

The investors may be required to put up more collateral if the value of those securities drops, a process known as a margin call, according to Steven Pearson, the partner at PricewaterhouseCoopers responsible for unraveling Lehman's U.K. operations.

Goldman Sachs Group Inc.'s Hedge Fund VIP Basket, an index of stocks with the most hedge-fund ownership, slumped 12 percent today.

Dollar money-market rates fell after the European Central Bank, Bank of England and Swiss National Bank offered lenders unlimited U.S. currency for the first time in a coordinated effort to unlock credit markets. Three-month dollar Libor slid 0.09 point to 4.55 percent.

BHP Billiton Ltd., the world's largest mining company, and Xstrata Plc, the fourth-biggest copper producer, lost more than 14 percent as copper, lead, tin and nickel prices slid on the London Metals Exchange. Posco, Asia's third-largest steelmaker, retreated 8.5 percent.

### **`Slowing Hard'**

"The rest of the world is slowing and slowing hard, and so that translates to basically being underweight the global cyclicals, which is energy and materials," Binky Chadha, the New York-based chief U.S. equity strategist at Deutsche Bank AG, said on Bloomberg Radio.

Merrill Lynch & Co., Honeywell International Inc., Citigroup Inc. and Google Inc. are among the S&P 500 companies slated to release earnings this week.

The S&P 500 has tumbled 38 percent in 2008 as losses and writedowns from mortgage-related investments at financial firms worldwide topped \$640 billion. The U.S. stock benchmark is valued at 11 times estimated 2008 profit for its companies. When that price-to-earnings ratio sank to 10.9 on Oct. 10, the index was the cheapest compared with the multiple using trailing profit since June 1985.

The S&P 500 has tumbled 42 percent from its Oct. 9, 2007, record and the Dow has lost 39 percent from its peak the same day.

"I'm pretty sure that if I go all in right now, I'll be better off in the next six months, but boy, I'll lose some sleep," said Morgan Keegan's Wilson. "There's always that little nagging voice that says, 'What if it's different this time?'"

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