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U.S. Stocks Sag as Election Concerns, Europe Weigh

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By Jonathan Cheng

U.S. stocks tumbled to their lowest levels in three months amid concerns about the U.S. political landscape, as well as concerns about Europe's festering debt crisis.

The Dow Jones Industrial Average dropped 262 points, or 2%, to 12985 in late trading Wednesday. If the blue-chip average falls 275 points or more, it will chalk up its biggest one-day fall since Nov. 9, 2011. Wednesday's slide also put the Dow on pace to finish at its lowest level since August.

The Standard & Poor's 500-stock index gave up 28 points, or 2%, to 1400, with all 10 of the sectors and more than 90% of the 500 stocks losing ground. The technology-oriented Nasdaq Composite declined 64 points, or 2.1%, to 2948.

The declines followed a day of broad-based gains, which many investors and traders had attributed to hopes for more political certainty after the election. But Wednesday's selloff shattered that notion.

With the two houses of Congress split between Democrats and Republicans, investors are fearful of a contentious battle over taxes and the deficit that could take the U.S. government to the brink of another crisis. Political brinkmanship on deficit reduction helped trigger a credit downgrade of the U.S. by Standard & Poor's in August 2011.

This time, the concern is the "fiscal cliff," scheduled tax increases and spending cuts set to take place on Jan. 1 unless Congress reaches a compromise to avert the policy changes. The split houses of Congress, and continued partisan rancor, have fueled worries that legislators may not reach a compromise until the last minute, if at all.

In a report Wednesday, Fitch Ratings said that failing to avoid the fiscal cliff would tip the U.S. economy into an avoidable recession and result in an increase in the unemployment rate to above 10% in 2013.

"Failure to avoid the fiscal cliff and raise the debt ceiling in a timely manner, as well as securing agreement on credible deficit reduction, would likely result in a rating downgrade in 2013," Fitch said.

"The result was a larger margin than the pundits had led us to believe, and now we have a very challenging next 50 days," says Jason Ware, market strategist at Albion Financial Group in Salt Lake City, Utah. "What are politicians going to do differently to right the ship in terms of the fiscal cliff and the intransigence in Congress? Now, there are more questions than there are answers...and the clock's ticking."

Leading the declines were financial and energy stocks, as crude-oil prices tumbled and the outlook for coal darkened.

Exxon Mobil fell 2.8% and Chevron declined 2.4%, while coal stocks, weighed down by declines of 12% or more at Alpha Natural Resources and Arch Coal, were hit hard. Railroad shares, which rely heavily on coal shipments, were also weak.

Financial stocks were hit hard by investor concerns about the impact of electoral wins by Elizabeth Warren in Massachusetts and Alan Grayson in Florida. Both congressional Democrats have taken a strong line on banking regulation, potentially increasing scrutiny for financial companies. Bank of America and J.P. Morgan Chase tumbled 6.4% and 5.1%, respectively, to lead the Dow laggards. Citigroup dropped 5.7% and Morgan Stanley lost 7.8%.

"Regulation is what any industry dreads the most, whether you're in coal or in the banks," said Mike Boyle, portfolio manager at Advisors Asset Management.

Among hospital stocks, which were seen benefiting from an Obama victory, HCA Holdings and Tenet Healthcare rallied 9.9% and 9.6%, respectively. Health-care peer UnitedHealth declined 3.7%.

Adding to the U.S. concerns were developments in Europe, where markets erased early gains to turn lower.

Concerns over the impact of the euro-zone crisis on Germany came to the fore, after German industrial production for September showed a 1.8% monthly decline. Separately, European Central Bank President Mario Draghi said in remarks prepared for delivery in Frankfurt that the euro-zone debt crisis is beginning to have an impact on the German economy.

The Stoxx Europe 600 lost 1.3%, following the U.S. declines, while the German DAX gave up 2%.

Also weighing on investor sentiment in Europe were concerns over a parliamentary vote in Greece on new austerity measures, which are needed for Greece to receive the next dose of bailout funds from international lenders.

In Asia, benchmark indexes in Shanghai and Tokyo finished roughly unchanged, while Hong Kong's Hang Seng Index and Australia's S&P/ASX 200 each rose 0.7%.

Gold prices slipped 0.1% to $1,713.20 a troy ounce, while crude-oil prices tumbled more than 4% to about $84.50 a barrel. The dollar moved higher against the euro but lost ground against the yen. Demand for Treasurys gained, sending the yield on the 10-year-note yield down to 1.632%.

In corporate news, Plexus plunged 27% after the electronic-components supplier said it was informed that it would no longer be a supplier to Juniper Networks, its biggest customer. Juniper rose.

AT&T fell 2.7% after it unveiled plans to invest $14 billion over the next three years to expand its wireless and wireline broadband networks, in an effort to support increased customer demand for high-speed Internet. At the same time, the company boosted its quarterly dividend.

Sprint Nextel slipped 1.5% after it agreed to buy some wireless spectrum and customers from U.S. Cellular for $480 million and the assumption of some debt. U.S. Cellular, which also reported a drop-off in subscriptions, fell 11%.

Amyris substantially pared its advance, but gained 5.8% after the renewable fuels and chemicals company reported a much narrower-than-expected third-quarter loss and revenue that was nearly double what analysts had projected.

LivePerson skidded 12% after the provider of chat services reported third-quarter earnings that matched estimates but revenue that came up short, and provided a fourth-quarter earnings and revenue outlook that were below projections.

Time Warner gained 4.4% after the media company reported third-quarter earnings that exceeded estimates while affirming its full-year earnings outlook