Dow Drops More Than 1,100 Points in Stock-Market Rout

The Wall Street Journal

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February 5, 2018
https://www.wsj.com/articles/asia-pacific-stocks-fall-to-kick-off-the-week-1517790854

- Dow industrials post largest-ever point decline
- Stock indexes around the world erase 2018 gains
- Traders describe a sense of anxiety as Dow tumbled

The long-running global stock rally turned into a rout Monday as the Dow Jones Industrial Average posted its largest-ever, single-day point decline and major indexes in the U.S., Europe and Asia gave up their gains for the year.

Traders described a growing sense of anxiety throughout the day and the Dow briefly dropped nearly 1,600 points. Although it quickly pared losses, the blue-chip index closed down 1,175.21 points, or 4.6%, to 24345.75, its largest one-day percentage decline since August 2011.

"This is the first time in a while I'd say it feels like borderline panic-type selling," said Tim Anderson, managing director at brokerage TJM Investments, as yelling broke out on the floor of the New York Stock Exchange when the stock declines accelerated.

Combined with steep falls Friday, the index has lost 7% in just two days, marking a break in the tranquility that has characterized financial markets for much of the past two years.

The selloff also signaled a potential shift in sentiment and investors sought safety in U.S. Treasurys, pushing yields lower.

The downward move was especially confounding given recent strength in the economy. While traders have grown more worried in recent days about rising inflation that could cause the Federal Reserve to raise rates more vigorously, there wasn't an obvious catalyst for the market's jarring move.

"I put in some orders last Friday and I entered some orders today," said Robert Pavlik, senior portfolio manager at SlateStone Wealth. "Nothing has changed on the economic front from last Monday to today."

The Dow is now down 1.5% for the year and off 8.5% from its Jan. 26 high, approaching the 10% fall that would mark a correction.

The sharp drop, coming just six trading days after the S&P 500 and Nasdaq Composite also surged to all-time highs, marked a stunning turnaround. Global stocks in January posted one of their best-ever starts to a year, buoyed by hopes for faster economic growth around the world and the just-enacted U.S. tax-code overhaul.

Enthusiasm for stocks led investors to pour a record $102 billion in January into mutual funds and exchange-traded funds that invest in equities globally.

But cracks emerged last week when government bond yields jumped to four-year highs, raising fears among some investors of a faster-than-expected pickup in inflation. The selling that resulted was broad, sending everything from shares of energy companies to banks to technology giants lower.

The S&P 500 fell 4.1% Monday and the Nasdaq Composite dropped 3.8%. The Dow and S&P 500 are at their lowest levels since early December. Meanwhile, the yield on the 10 year U.S. Treasury fell to 2.794%, down from a four-year high of 2.852% Friday. The fall marked the steepest one-day yield decline in five months.

As investors grasped for reasons behind the moves, some traders said they appeared to be caused in part by algorithmic trading. As evidence, they noted how quickly the selling accelerated, only to abate a bit in the last half-hour of the session.
“The interesting action today is probably being caused by computer models that literally need to balance their risk,” said Yousef Abbasi, a global market strategist at JonesTrading, who noted the selloff accelerated as the S&P 500 broke through 2700. “That inherently creates a ton of selling,” he said. “Getting back to flat on the year created that inflection point.”

A trader looks at a television screen early in the session Monday. PHOTO: BRENDAN MCDERMID/REUTERS

Others said broad selling of exchange-traded funds contributed to the declines.
Chris Hempstead, head of U.S. ETF sales at Deutsche Bank Securities, noticed trading in exchange-traded funds exploding Monday afternoon.
A little after 3:30 p.m. ET, trading of U.S. listed ETFs during the day equaled 40% of total stock-market value. That is well above the typical 25%, Mr. Hempstead said.
“We saw an explosion of ETF volume. That’s highly unusual,” he said. “People are

making big decisions today."
Despite the upheaval, some investors say the stock rally is merely pausing after a strong run whose scale and pace has taken many by surprise. "This is a healthy pullback," said Jason Draho, head of tactical asset allocation Americas at UBS Wealth Management. Until economic data points to a meaningful pickup in inflation that could push rates higher, "we're not concerned," he said.
Other investors have welcomed the declines, saying they used it as an opportunity to pick up suddenly cheaper stocks. Jason Ware, chief investment officer at Albion Financial Group, said that when the Dow lost 800 points, he and his traders started buying.
"There are good companies out there that were on sale today," he said, although the swift moves "made for a tricky and volatile experience in buying."
Monday's selling was broad-based, with all 11 sectors in the S&P 500 posting declines. Bank shares slid, sending the KBW Nasdaq Bank Index of large U.S. lenders down 4.9% and extending declines after posting its steepest loss of the year Friday.
Declines in shares of oil-and-gas companies also dragged on major indexes. The S&P 500 energy sector shed 4.4%, while U.S. crude oil declined 2% to $64.15 a barrel.
Meanwhile, a measure of expected swings in the S&P 500, the Cboe Volatility Index, shot higher, jumping 116%—its largest one-day percentage gain ever.
"You're getting a bit of a rotation into safer assets, which is why the Treasury market is doing better," said Tony Roth, chief investment officer of Wilmington Trust.
"The concern is the Fed is going to fall behind the curve and raise rates more quickly" than the three increases it had forecast in December, and has little to do with the economy, outside of inflation concerns.
"This is a natural and, frankly, healthy condition," he added.
—Corrie Driebusch, Riva Gold, Amrith Ramkumar and Daniel Kruger contributed to this article. **Write to** Akane Otani at akane.otani@wsj.com