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Stocks Open Lower, Face Biggest Weekly Losses Since 2008

By Avantika Chilkoti and Chong Koh Ping Updated Feb. 28, 2020 9:31 am ET

A market storm gathered pace Friday as stock markets around the world sold off and investors struggled to calculate the economic fallout from the coronavirus epidemic.
The S&P 500 fell 1.8%, a day after the biggest percentage drop in U.S. markets since August 2011. The Dow Jones Industrial Average dropped 466 points, or 2%, putting it about 14% below its Feb. 12 record close. The tech-heavy Nasdaq Composite declined 1.9%.
Stock markets in parts of the world worst affected by the virus shed substantial ground. The Stoxx Europe 600 was down 3.5%. In Asia, Japan's Nikkei 225, South Korea's Kospi and Australia's S&P/ASX 200 all ended the day down more than 3%.

"We're drinking from a fireman's hose this morning," said Patrick Spencer, managing director at U.S. investment firm Baird. "It wasn't a good close last night and certainly panic ensued."

The Stoxx 600 and S&P 500 benchmarks are now on track for their largest one-week drops since October 2008, in the depths of the global financial crisis.

As stocks fell, investors sought shelter in the safety of government bonds, sending U.S. 10-year Treasury yields to all-time lows, trading below 1.2% early Friday. In Europe, investors preferred the safety of government bonds despite rates falling deeper into negative territory. German 10-year bunds yielded minus 0.608%, down from minus 0.540% Thursday.

Other haven assets also rallied, with the Japanese yen gaining 1.4% against the dollar.

Some investors, like Mr. Spencer, see a buying opportunity in sectors like automotives, luxury retail and airlines, that have led markets lower in the past week.

Others are refusing to join the selloff and are holding on, bracing for volatility ahead of the weekend break.

"I don't think Friday would be a good day to do much because we have been selling off all week and investors are a bit jittery," said Paul Brain, head of fixed income at Newton Investment Management, the BNY Mellon subsidiary. "You don't know if you'll get capitulation selling coming through with people who have been holding on all week panicking and sell into Friday afternoon."

More than 82,000 people have been infected with the coronavirusglobally and more than 2,800 have died. It has spread to at least 46 countries, according to the latest tally by the World Health Organization. On Friday, China reported 327 new cases—the lowest since Jan. 23—and 44 deaths.
"With cases now spreading even faster outside China and U.S. companies starting to issue profit warnings over this outbreak, the market is repricing due to the severity of this outbreak," said Paul Chew, head of research at Phillip Securities in Singapore.

Following months of marked calm in markets, volatility has picked up sharply this week. The Cboe Volatility Index, or VIX, jumped to 41.93 on Friday, the highest level since October 2011. The VIX, which is based on options on the S&P 500, tends to rise when stocks are falling and decline as markets rise.

Some investors are beginning to compare this week's rout to past stock market crashes. For some, like Peter Dixon, an economist atCommerzbank, the drop has been more like the 2000 crash than the 2008-09 global financial crisis, which was triggered by the failure of Lehman Brothers.

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“It’s a different kind of an event because we’re reacting to what might happen, whereas in the crisis we were reacting to what was actually going on in real time,” said Mr. Dixon. “It’s almost impossible for investors and analysts to make any sensible predictions as to what might happen—we’re very much flying blind,” he added.

In equities, travel and leisure stocks were among the biggest losers in the European market as governments took fresh measures to contain the outbreak and people continued to cancel travel. International Consolidated Airlines Group, the owner of British Airways, lost 5.7%. U.K. leisure and travel company TUI dropped 6.3% and Aeroports de Paris lost 7.1%.
The financial sector sold off too, with the Stoxx Europe 600 Bank Index down 3.6%. Leading the benchmark lower, Germany’s Commerzbank dropped 5.5% and Credit Suisse Group fell 5.4%.

Italian assets suffered in particular, as the country has become the epicenter for the outbreak in Europe, sparking fresh concerns around political instability and economic recession in one of the eurozone’s largest economies. The yield on 10-year Italian government bonds jumped to 1.131%, from 1.080% Thursday.

The travel sector has led the selloff in the U.S. this week too, with shares inRoyal Caribbean Cruisesdown 20% this week,American Airlines Groupdown 19% and Norweigan Cruise Line Holdings dropping 18% for the period.
Worries that the virus will prove a drag on global economic growth also continued to weigh on commodities. Brent crude, the global benchmark, was down 2.8% to $50.26 a barrel, reaching the lowest level since December 2018.

Governments across the globe are taking action to stem the spread of the virus and support the economy. But some analysts warn that central banks, which have cut rates and launched massive asset-purchase programs in recent years, might not be able to stem losses in the face of an outbreak that has a jittery public canceling travel plans and potentially curbing spending.

“I personally can’t see why cheap money will stop this rout because this is the type of uncertainty that isn’t economic. It isn’t about Trump and trade uncertainty. This is about you and I deciding that we are going to change our behaviors for a while,” said Neil Dwane, global strategist at Allianz Global Investors.