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NEW YORK (AP) — Stocks fell sharply Monday as investors feared that Europe's debt crisis would spread.

The Dow Jones industrial average fell 150 points, or 1.2 percent, to 12,508, in afternoon trading. The Standard & Poor's 500 index fell 22, or 1.6 percent, to 1,322. Every industry group in the S&P 500 fell.

The Nasdaq composite fell 51, or 1.8 percent, to 2,809.

Greece is expected to receive a second financial rescue package that will help the country avoid a default. But concerns are growing that Europe's debt crisis is spreading to larger countries like Italy and Spain. Spain is Europe's fourth largest economy. Bond yields for Italy and Spain have risen sharply, a sign that investors are becoming less willing to hold the debt of those countries.

Italy's largest banks, UniCredit SpA and Intesa, fell sharply. That led to fears that the aid from international lenders may not be enough to stop a broad deterioration of the European economy.

"What the European Union is trying to do is keep the problem contained at a sovereign level and not have the infection spread to the banking system," said Jack Ablin, chief investment officer at Harris Private Bank. "To see a bank drop that much that fast suggests there may be a breach."

Some investors believe some of Italy and Spain's financial institutions might not pass a stress-test for European banks scheduled for Friday.

The euro fell against the dollar and U.S. government bond prices rose as investors became more skittish about Europe's debt problems. The euro fell below \$1.40 for the first time since May 23 and hit a record low against the Swiss franc. The yield on the 10-year Treasury note fell to 2.95 percent from 3.02 percent late Friday. Bond yields fall when their prices rise.

The worsening of Europe's debt troubles follows disappointing U.S. employment news and a setback in negotiations over the country's borrowing limit.

The government reported Friday that employers pulled back sharply on hiring in June, compounding fears that the U.S. economy was in even worse shape than previously thought. The unemployment rate rose to 9.2 percent.

Weekend budget talks between Republicans and Democrats also stalled, raising the

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possibility that lawmakers might not reach an agreement on raising the country's debt limit before an Aug. 2 deadline. President Barack Obama said he wouldn't sign a short-term extension to the limit.

News Corp. fell 7 percent, the most of any company in the S&P 500, as its phone hacking scandal threatened the approval of its proposed takeover of British Sky Broadcasting, a highly profitable satellite TV company in Britain. The deal will now be reviewed by British competition authorities, which will put off a final decision for several months.

Wells Fargo fell 2.5 percent after the bank offered to settle for \$125 million with pension funds that accused it of not warning investors about risky mortgage-backed securities.

Insurer American International Group Inc. fell nearly 3 percent after saying it would fire one or more of the banks it used for its recent public stock offering when it sells more stock later this year.

Gulfport Energy Corp. fell 5 percent. The oil and natural gas producer plans to sell 3 million shares to repay debt and pay for acquisitions.

Aluminum maker Alcoa Inc. fell 3 percent ahead of announcing its second-quarter results. Alcoa's report marks the unofficial beginning of U.S. earnings season. Aluminum is used in everything from airplanes to beer cans, so the company's results typically offer insight into the health of the broader U.S. economy.

A few companies managed to post gains. Arch Chemicals Inc. rose 11 percent after saying it would be bought by Swiss drugmaker Lonza for \$1.2 billion. Arch makes antibacterial products. Chip maker Microsemi Corp. was up 3 percent after an Oppenheimer analyst upgraded its rating on the company.

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