

# THE WALL STREET JOURNAL

DOW JONES  
A NEWS CORPORATION COMPANY

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DJIA 10809.85 ▼ 634.76 5.5% NASDAQ 2357.69 ▼ 6.9% NIKKEI 9097.56 ▼ 2.2% STOXX 600 228.98 ▼ 4.1% 10-YRTREAS ▲ 1 30/32, yield 2.339% OIL \$81.31 ▼ \$5.57 GOLD \$1,710.20 ▲ \$61.40 EURO \$1.4179

## WSJ 8-9-11 Downgrade Ignites a Global Selloff

### Dow's 634.76-Point Plunge Is Worst Since '08, as Worries Rise About U.S. Debt Rating, Economy; Treasuries Jump

By E.S. BROWNING

The downgrade of the U.S.'s credit rating sparked a global selloff on Monday, pushing the Dow Jones Industrial Average to its sharpest one-day decline since the financial crisis in 2008.

In scenes reminiscent of three years ago, selling accelerated as the day went on, and investors were forced to sell to meet margin calls from lenders demanding more collateral. The Dow ended the day down 634.76 points, or 5.5%, at 10809.85, its lowest close since last October. Trading volume of stocks listed on the New York Stock Exchange hit the fourth-highest level in history.

It was the Dow's biggest percentage drop since December 2008 and its sixth-largest point decline ever. Other major stock indexes also fell heavily. Traders also dumped corporate bonds and industrial commodities.

Investors fled to the traditional refuges: gold, currencies of safe-seeming countries such as Switzerland, and, ironically, the very securities that Standard

#### Markets in Turmoil

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& Poor's downgraded on Friday, U.S. Treasury bonds. For most investors, Treasuries seemed a lot safer than stocks.

Tuesday morning in Asia, Tokyo shares opened lower, falling 3.4% in the first minutes of trading.

The Financial Stability Oversight Council, a group of U.S. regulators led by Treasury Secretary Timothy Geithner, held an emergency conference call Mon-

day afternoon to discuss the financial-market volatility, a person familiar with the call said.

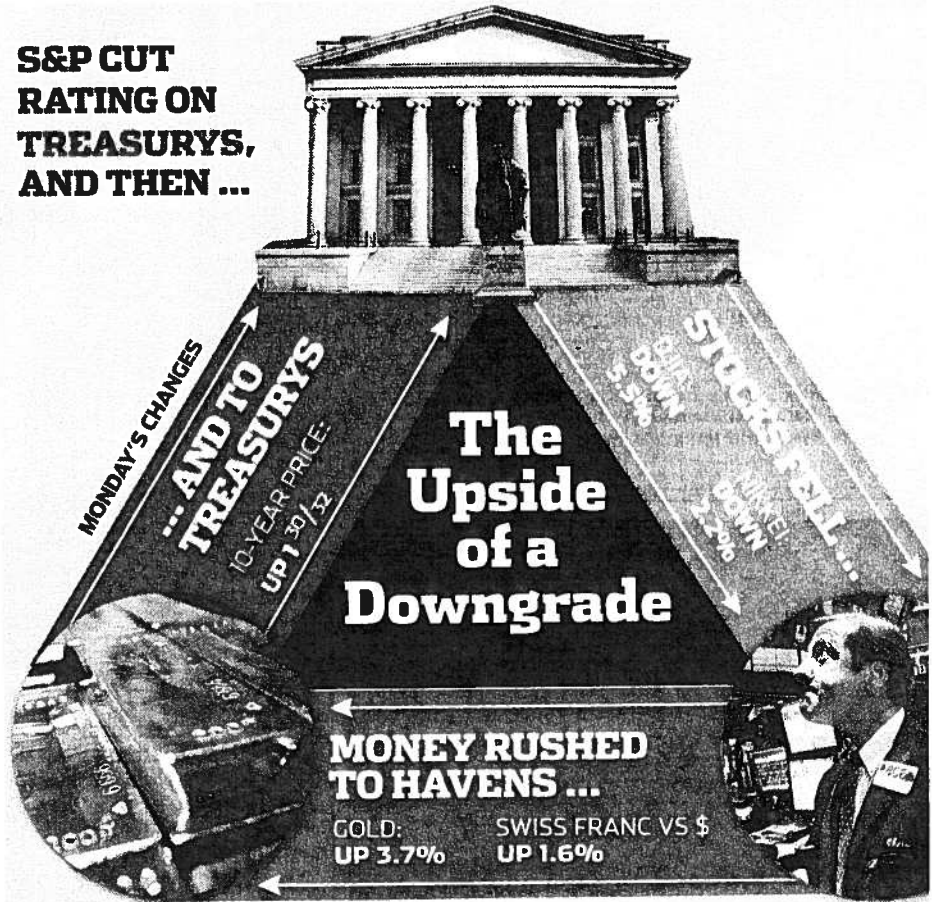
"There's probably as much uncertainty as we've seen since 2008," said Eric Pellicciaro of asset manager BlackRock's Fundamental Fixed Income division, which has \$612.5 billion in assets under management. "There's a general feeling that policy options are few and far between. There's a feeling that fiscal austerity is coming at the worst possible time."

While there are no indications that the Federal Reserve intends to launch a new bond-buying program to support financial markets, investors are already speculating that the Fed may act in some way. Central-bank officials are set to meet Tuesday to discuss monetary policy.

During the afternoon, President Barack Obama spoke on television, and said the ratings downgrade should add a "renewed sense of urgency" for both political parties to tackle the debt and deficit. His remarks didn't quell the selling.

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### S&P CUT RATING ON TREASURYS, AND THEN ...



Source: WSJ Market Data Group; Photos: Bloomberg News (2); AFP/Getty Images (gold)

# Downgrade Raises Treasurys' Appeal

By MATT PHILLIPS  
AND MIN ZENG

After the first-ever downgrade of the U.S.'s sovereign-debt rating, investors worldwide poured their money into—not out of—U.S. Treasurys.

Prices for Treasury notes and bonds rose Monday, pushing yields—which fall as prices rise—to lows not seen since January 2009, one of the darkest months of the recession.

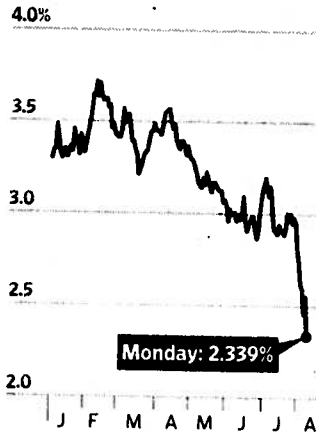
Traders said worries about the U.S. economy and the European debt crisis trumped any concerns tied to Standard & Poor's decision late Friday to strip the U.S. of its triple-A credit rating. As Treasurys tend to outperform other assets during times of slow economic growth or recession, their prices tend to rise along with pessimism about the economy.

"The least-risky asset out there continues to be U.S. Treasurys," said Ashish Shah, head of global credit at investment manager AllianceBernstein. "Even if it's more risky than it used to be, it's still the least-risky of all assets."

The rise in the benchmark 10-year Treasury note pushed down the yield to 2.339%. Dominated by demand from long-term investors such as insurance companies and pension funds, 30-year Treasurys leapt and the yield fell to 3.666%. Yields on the two-year note hit fresh lows as investors also piled into shorter-maturity Treasury debt. The two-year yield at times fell below the top end of the zero-0.25% range for the Federal

## Safety Dance | Wary investors seek a haven

### Yield on 10-year Treasurys



Source: Ryan ALM via WSJ Market Data Group

Many investors bought Treasurys on Monday as stocks tumbled, pushing up the price and pushing down yields.

■ The 10-year Treasury rose 1 30/32 points to 106 27/32, to push down the yield to 2.339%.

■ Lowest yield since Jan. 16, 2009.

■ The two-year Treasury gained 2/32 to 100 8/32, yielding 0.256%.

■ Lowest yield based on available history for the two-year Treasury (since 1973).

Source: WSJ Market Data Group

Reserve's key policy rate, suggesting investors expect the Fed to be on hold at least that long. The two-year ended the day at about 0.256%.

After S&P first put the U.S. on

## Investors spooked by the American and European economies are drawn to the safety of U.S. debt.

watch for a downgrade in July, many market observers predicted that a downgrade could drive U.S. Treasury prices higher. Their rationale: S&P's credit-rating cut would weigh heavier on other assets that are traditionally seen as riskier, such

as stocks and commodities, and would drive investors back to the safety of U.S. debt.

That seems to be how things are playing out. Stocks tumbled again Monday, with the Dow Jones Industrial Average dropping 5.55%. Prices of crude oil and copper, seen as barometers of global growth, also slumped.

Fears about the U.S. economy faltering and the euro zone's debt crisis spinning out of control spooked investors. Many worry that the downgrade could further undermine the confidence of U.S. consumers and businesses.

Investors are speculating that the deterioration of the markets could prompt the Federal Reserve to act, perhaps as soon as at Tuesday's monetary-policy meeting.

One option, they say, is for the Fed to alter the make-up of its securities portfolio, by reinvesting its money in longer-term Treasurys. For some, that explains why longer-term U.S. Treasurys, such as the 30-year bond, which many had expected to get hit on a downgrade, have performed relatively well.

"The market's trying to get in front of the Fed," said Alan Mittelman, head of global U.S. dollar rates trading in New York for French investment bank Société Générale SA.

Short-term Treasury rates continued to stay low Monday. In late-afternoon New York trading, rates on one-month Treasury bills were yielding a scant 0.02 percentage point, as were three-month bills.

In the important repurchase, or repo, markets—where investors make short-term loans using safe securities such as Treasurys for collateral—rates were up slightly to 0.08 percentage point early Monday from 0.02 percentage point on Friday.

The repo market had been an area of concern related to the S&P downgrade, as the repo market relies heavily on Treasury collateral.

The worry had been that if credit-rating firms followed through on threats to downgrade the U.S., lenders might demand additional compensation for the risk of holding that collateral. But there was little sign that the repo-market lenders were demanding an extra margin of safety—known in the repo market as a haircut—on that collateral.

WSJ 8-9-11

# Fear Returns for U.S. Banks

BY DAN FITZPATRICK

Fears about the health of the U.S. banking system are back in a big way.

Bank stocks plunged 11% Monday in their biggest one-day drop since April 2009, as investors questioned how well giant financial firms will weather a slowing economy and tumultuous markets after an unprecedented downgrade of U.S. debt.

Hardest hit was Bank of America Corp., which saw its stock tumble 20% and the cost of insuring its bonds against default surge 50%. Earlier this year, the bank was dangling a higher dividend before investors, but it has since dropped plans for a 2011 increase, people familiar with the matter said.

Also swooning were shares of Citigroup Inc., off 16%, and Morgan Stanley, down 14%.

The selloff sent regulators scurrying to reach out to bankers and investors, seeking to make sure markets continue to function smoothly. Plunging bank stocks can unnerve policy makers, because banks serve as a crucial link between savers and borrowers. Any pullback in bank lending could undermine what is already a weak recovery, raising the possibility of another recession.

"This is not Lehman II," said James Bianco, president of Bianco Research LLC, referring to the 2008 collapse of Lehman Brothers Holdings that sent markets into a tailspin. But "if banks' function is to facilitate credit, this makes it harder for them," he said.

For now, the damage appears confined to financial markets. Falling stock prices don't affect  
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## Bank Shares Dive as Investors Question Financial Firms' Health

*Continued from Page One*  
Bank customers, and there are no imminent worries about big banks' access to funds. BofA, for instance, has the second-biggest U.S. branch network—which pays off by giving the bank ample, low-cost funding via its \$730 billion in federally insured consumer deposits.

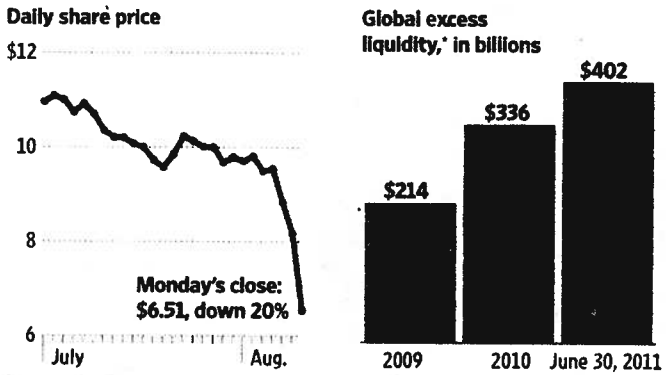
What's more, the biggest banks—including BofA; Citi; Morgan Stanley; J.P. Morgan Chase & Co.; Wells Fargo & Co., with the biggest U.S. branch network; and Goldman Sachs Group Inc.—have more liquidity and capital than they had when the financial crisis erupted in 2008. They didn't report any problems obtaining funding Monday.

But doubts about their health weighed heavily on stocks, with the Dow Jones Industrial Average sliding 5.5% to 10809.85.

In Washington, D.C., bank supervisors reached out to large financial companies Monday to ensure the U.S. debt downgrade didn't upset financing markets. Officials also closely watched the retail repurchase, or "repo," market, where banks, companies and money-market mutual funds lend cash overnight in exchange for securities and other securities

### Blindsided | Drop in BofA, a Dow stock, contributed to historic move

Bank of America's stock has plunged despite its growing cash pool.



Funds available to the parent company and selected subsidiaries in the form of cash and high-quality, liquid, unencumbered securities.  
Sources: WSJ Market Data Group (share price); the company

Monday's drop in the Dow Jones Industrial Average is No. 6 all-time in points but only 47th in percentage terms.

| Date     | Point change | Percentage change |
|----------|--------------|-------------------|
| 9/29/08  | -777.68      | -6.98%            |
| 10/15/08 | -733.08      | -7.87             |
| 9/17/01  | -684.81      | -7.13             |
| 12/1/08  | -679.95      | -7.70             |
| 10/9/08  | -678.91      | -7.33             |
| 8/8/11   | -634.76      | -5.55             |
| 4/14/00  | -617.78      | -5.66             |
| 10/27/97 | -554.27      | -7.18             |
| 10/22/08 | -514.45      | -5.69             |
| 8/4/11   | -512.76      | -4.31             |

Source: WSJ Market Data Group

that are returned the next day. Several bankers in contact with government officials said the sentiment conveyed was a higher level of concern than at other times in recent weeks, but well short of the near-panic of 2008 and early 2009. At the Treasury Department, officials reached out to investors and others, domestically and internationally, to monitor mar-

kets, with Secretary Timothy Geithner receiving regular updates, an official said. The negative news hits banks at a weak point. Bank analyst Mike Mayo, of Credit Agricole Securities, predicts U.S. banks are facing their slowest revenue growth since 1938, as shareholders fret over the impact of U.S. regulatory reform, higher capital requirements from regulators

and weak loan demand. For Bank of America, its problem heading into Monday's trading was that no U.S. bank was more closely tied to the performance of an ailing U.S. economy. Particularly weighty for investors is BofA's 2008 purchase of troubled mortgage lender Countrywide Financial Corp. On Monday, investors woke up to more bad news when insurer

American International Group Inc. sued the bank for \$10 billion, seeking to recover the money it lost on poor-performing mortgage-backed securities. AIG also said it would challenge a recent \$8.5 billion bank settlement regarding mortgage bonds. More untimely disclosures haunted the bank throughout the day. Hedgefund manager David Tepper, who had been a champion of financial stocks, sold half of his shares in the bank, according to a securities filing. Mr. Mayo, the analyst, put out a note saying he had downgraded the bank, and that it "can't rule out" a new capital raise.

In echoes of 2008, rumors began to circulate about funding problems, said John McDonald, an analyst with Sanford C. Bernstein & Co. But Bank of America didn't have problems Monday attracting funding or rolling over commercial paper, said three people close to the situation. "So far, so good," one of these people said.

Banks have more capital and liquidity than they did in 2008. But many banks, including Bank of America, are restricted from returning that capital to shareholders because of lingering reg-

ulatory concerns about their strength. The Charlotte, N.C., bank recently filed a new capital plan with the Federal Reserve that doesn't ask for a dividend increase in 2011, said people familiar with the situation. The move represents another retreat for Chief Executive Brian Moynihan who earlier hinted that a second half increase was likely. A bank spokesman declined to comment about the capital plan. Despite the steep decline in Bank of America shares, Mr. Moynihan isn't in trouble with his board, nor is there any discussion among the management team about breaking up the institution or selling off some of its prized assets, said a person close to the situation. The bank this fall is expected to announce some job cuts and expense savings as a way of showing investors Mr. Moynihan is getting a handle on the company. A spokesman said there is "no change in business strategy as a result of the events of the last several days."  
—Liz Rappaport, Damian Aaron Lucchetti, contributed to this article.