Stocks Walloped on Miserable Monday, but Gold Provides Refuge

Chris Nichols
Breakout
August 8, 2011

The stock market once again proved it can be an incredibly unforgiving and swiftly punishing place, as a two-week long downturn was given new fuel by Standard & Poor's decision last Friday to downgrade the U.S. credit rating.

Gold rose Monday, as did Treasury prices, but the equity market was a horror show across the board. The Dow Jones Industrial Average slumped 634.76 points, or 5.6%, to put it below 11,000 at 10,809.85. Since its recent high of 12,810.54, right at 2,000 points ago on April 29, the Dow has surrendered more than 15%. In terms of points, the session was the sixth-worst in the index's history, and viewed in dollars, over $190 billion of market cap was erased.

The S&P 500, to most people the truest indicator of the U.S. market, was lower by 79.92 points, or 6.7%, to 1119.46. It's now 18% below its 52-week high of 1363.61. Here's another way of looking at how unnerved traders were: The CBOE Volatility Index (^VIX), often viewed as a measure of trepidation, rocketed up 50% and closed above 40 for the first time in more than a year.

New York stocks were weaker throughout the day, but the selling worsened as the hours passed. An afternoon speech from President Obama, in which he tried to offer calming words about the ratings cut, did nothing to stem the pullback. The president said political gridlock was responsible for S&P's move, and he insisted the markets still consider the U.S. a "triple-A country." (For more on the market day and the president's speech, see this discussion with Breakout's Jeff Macke and Matt Nesto and The Daily Ticker's Aaron Task.)

David Krein, Dow Jones Indexes' senior director of product development and analytics, said in prepared remarks that "the financial markets are clearly stating the macroeconomic environment is poor, despite President Obama's protestations. And, while there are few places for investors to hide, gold is once again proving its 'safe haven' status in the riskiest of times, jumping to a nominal record as market players rapidly pivot to preserving capital in this highly uncertain investment climate."

Semiconductor stocks were down 5.4% on average, major oil stocks slid 8.5%, and utilities lost 5.7%. Computer hardware shares and retailers fell more than 5%, and telecom names roughly the same amount. The meltdown was seen virtually everywhere investors looked. Financials, as measured by the Dow Jones U.S. Banks Index, dove 11.7%.

As was the case last Thursday when the Dow sank 513 points, all 30 of its components were lower again. Bank of America (BAC), one of the aforementioned banks, had the misfortune of being the hardest hit, dropping 20.3% to $6.51. Alcoa (AA) was the next worst performer, giving back 11.4% to $11.33.

While the Nasdaq is historically known for being heavy on technology stocks, a number of large-cap tech issues held up fairly well, considering the size of the decline. The Nasdaq was down 174.72 points, or 6.9%, to 2357.69, but its biggest component, Apple (AAPL), lost 5.5%. Intel (INTC), another Nasdaq (and Dow) member, was lower by only 3.3%. Google (GOOG) was off 5.7%.

Traders early on noted the heavy nature of the trading volume for the day. Combined with the point declines in the major averages, the level of shares changing hands would be considered committed selling by any observer. All told, 94% of stocks on the New York Stock Exchange and Nasdaq finished down.

On the upside, gold prices jumped $62.10, or 3.8%, to $1,710. As an aside, according to the opinion of a Breakout guest this very day, the metal is heading to $2,500 an ounce. Meanwhile, silver was up more than 2% to $39 an ounce. In the Treasury market, seen as a place of safety in times of larger-than-normal uncertainty, the 10-year note was climbing 1-24/32, lowering the yield to 2.36%, and the 30-year bond was bolting up 3-7/32 to take the yield down to 3.67%. Both are gigantic moves, the size of which is seldom seen.

The recent sell-off in stocks, not just the latest decline, has been driven by a combination of factors that aren't likely to evaporate overnight, including a series of disappointing economic reports in the U.S. before the S&P downgrade, worries about European debt and political fighting in Washington.

A research report from PNC Financial Services Group makes the case. "Our view is the market volatility continues to revolve around concerns regarding the global economic recovery and the possibilities of a double-dip recession," the report reads. "These fears have been exacerbated by the anemic first-half economic growth in the United States and the continuing fears that the Eurozone sovereign debt crisis might cause financial contagion affecting the global economy."

But the bottom line is that professional traders go where the opportunity is the best and where the trade makes the most sense. On any given day or at any moment, that could be up or down. For now, it's down. When that will change is anybody's guess.

ORIGINAL LINK: https://finance.yahoo.com/blogs/breakout/stocks-walloped-miserable-monday-gold-provides-refuge-200140287.html