The Washington Post

Business

Global sell-off turns to rally in rocky day for financial markets

By Drew Harwell August 24 at 12:30 PM

A worldwide sell-off and sharp rebound led to a rocky day for global markets, as worries over China's crumbling economy gave way to an investor rally that could signal a potential end to last week's meltdown.

The Dow Jones industrial average opened down more than 1,000 points, its worst start since the financial crisis, before surging back by 1:30 p.m. to a 260-point loss. The biggest drop for the Dow, an index of 30 large companies, was 777 points in September 2008.

The Standard & Poor's 500, a broader look at the market, and the Nasdaq Composite, a tech-heavy index, posted similarly dismal starts before recovering to a loss of less than 2 percent.

The global whiplash underscored investors' shaken confidence in China's slowing economy and central bank. The world's second-largest economy is now reeling over what China's state media is calling "Black Monday," during which its markets just recorded their biggest one-day nosedive in eight years.

[*What regular investors should do about the market downturn*]

But the mid-morning bounce off deep trading lows led some analysts to question whether financial markets had already finished their fall. Tech giant Apple, which begun the morning down 13 percent and dipping below $100, was trading 2 percent higher by the afternoon, at about $107.

"This is all about fears of a hard landing in China," said Campbell Harvey, an economist and business professor at Duke University. The morning's panicked opening, he added, "is bare-faced evidence of a market overreaction."

The dismal opening marked a worrying continuation of last week's free fall. The Dow's blue-chip index plunged more than 500 points on Friday, capping its worst week since 2011 and entering what Wall Street calls a correction, having tumbled 10 percent from its May peak.

The sell-off bruised every industry, wiping out gains in rapid order after a year of mostly steady trading. Some of America's biggest companies shed tens of billions of dollars in market value in only a few days, and the markets' early gains have yet to restore those losses.

S&P 500 companies lost more than $1 trillion in market value last week, and the Dow and other indices are on track to record their dreariest month since February 2009. Though the investor rally has helped, the Dow is still down more than 8 percent from the start of the year.

On Friday, China reported its worst manufacturing results since the global financial crisis, following shortly after Beijing earlier this month surprised investors by announcing it would devalue the nation's currency.

China's benchmark Shanghai Composite index has fallen by nearly 40 percent since June, after soaring more than 140 percent last year. Markets in Europe also plummeted, and Asian shares on Monday hit a three-year low.

[World markets lose ground amid 'Black Monday' for Shanghai index]

"There's no doubt the Chinese economy is slowing," said Jim Dunigan, chief investment officer at PNC Wealth Management. "But the question now is: How much is it slowing, and what will the government step up to do about it?"

China's woes stoked fears over commodities and forced oil prices further down. Brent crude oil, the global benchmark, dropped to about $43.61 a barrel, sinking below the $45 mark for the first time since 2009. U.S. light crude fell 4 percent, to $38.82 a barrel.

Demand for U.S. Treasury bonds also heated up as investors flocked to safety. Yields for the 10-year bonds dropped below 2 percent for the first time since April.

[Stock market plunge wipes out this year's gains]

The turmoil could further dent workers' 401(k) retirement accounts and could affect the Federal Reserve's plans to raise interest rates for the first time in a decade.

The weakness overseas comes at a time when the U.S. economy is relatively strong, fueled by encouraging signs in the job market and better-than-expected corporate results.

Drew Harwell is a national business reporter at The Washington Post.
