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Dow Drops 213.04, Back Under 11000

Rattled by Debt Downgrades, Investors Also Unload Commodities, Euro; 'The King Has No Clothes'

By PETER A. MCKAY And KEJAL VYAS

Renewed concern about debt contagion in Europe drove the Dow Jones Industrial Average back below 11000, and sent investors fleeing from the euro, commodities and emerging-market debt.

Standard & Poor's sparked the selloff by cutting Greece's debt rating to below investment grade, or "junk," and cutting Portugal's rating two notches. The move on Portugal inflamed investors' fears that Greece's woes are starting to spread.

The Dow fell 213.04 to 10991.99, its biggest decline since Feb. 4. The S&P 500 fell below 1200, sliding 2.3% at 1183.71.

Oil dropped 2.1% to $82.44 a barrel. Meanwhile, the euro plummeted to a 12-month low, dropping to $1.3176.

Asian stock markets tumbled in early trading Wednesday on renewed worries about Greece's problems, with Japan's Nikkei 225 shedding 2.8%.

For stock investors, the renewed worries about Europe come at a time when many believed the market was primed for a pullback after weeks of gains. Tuesday's downgrades provided more than enough impetus for traders to take some money off the table and reassess the relatively rosy consensus on Wall Street regarding the outlook for global recovery.

"It's one of those moments where it's like someone saying the king has no clothes," said strategist Bill King, of M. Ramsey King Securities in Burr Ridge, Ill. "People had been coming in every day, buying the market and hoping no one else noticed the problems with Greece and everything else. But for someone in a position of authority to say there are problems, that makes people take notice."

Financial stocks led the retreat amid worries that new financial regulation may curtail profits. Morgan Stanley fell 3.3%, J.P. Morgan Chase fell 3.4% and Citigroup slid 5.9%.

Goldman Sachs bucked the trend, gaining 0.7% as its executives fielded questions from a Senate committee about the bank's role in the financial crisis.

Other signs pointed toward growing investor anxiety.

The Chicago Board Options Exchange Volatility Index, which measures market participants' nervousness, leapt 30.6%.

New York Stock Exchange activity soared—composite volume of exchange listed companies hit 7.6 billion shares, the second-highest total this year.

In debt markets, investors sold risky assets such as emerging-market debt, and bought safer securities like U.S. Treasurys and German bunds.

The extra yield that investors charge on traditionally riskier emerging-market debt grew by the widest margin since October 2009. The declines came at a time when funds dedicated to the asset class continue to post record-high inflows, and investors remain keen to gain additional exposure to growth in the developing world.

That has helped draw many issuers to market, including Russia and Chile.

"Up until now the market has been willing to look at Greece as isolated," said Dan Mullineaux, head of emerging-market fixed-income trading at Knight Capital. "But now we've had so much issuance this month that we have a dangerous combination of negative headlines and excess supply."

Russia's new bonds, which priced last week above 99 cents on the dollar, traded at around 96 cents.

Prices on U.S. Treasurys surged as investors looked to park funds in low-risk securities as uncertainties over the euro zone loom. Ten-year German bund yields, the benchmark for the euro zone, slipped to 2.946%, falling below 3.00% for the first time in nearly a year.

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