Markets

Stocks Slide as Bank Woes Add to Recession Jitters: Markets Wrap

- Dollar gauge climbs to highest level since at least 2005
- Treasury 5-to-30 year curve inverted for first time since June

Margie Patel Says Markets Reflecting Economic Reality *Source: Bloomberg*

By Rita Nazareth
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Stocks slumped as disappointing results from two Wall Street heavyweights added to recession worries, while bets the Federal Reserve will intensify its fight against inflation pushed a dollar gauge to a record.

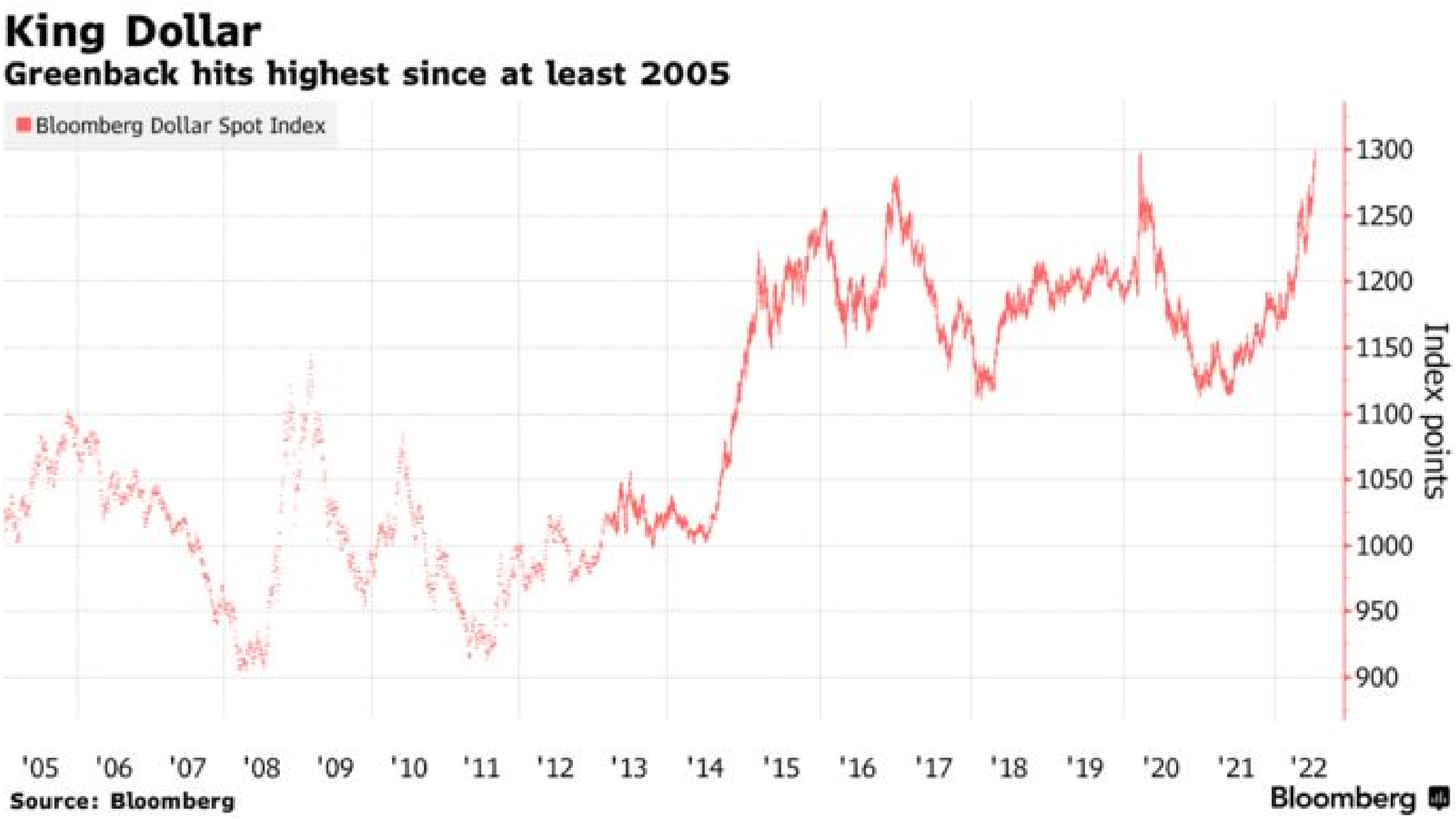
Traders got another reality check, with JPMorgan Chase & Co. temporarily halting buybacks as earnings fell short of estimates, and Morgan Stanley announcing a plunge in investment-banking revenues. Both shares sold off, dragging the S&P 500 to its fifth straight day of losses. Meantime, another hot inflation print bolstered wagers on a full-point Fed hike in July.

Read: Waller Backs 75 Basis-Point Hike; Bigger Fed Move Hangs on Data

The Bloomberg Dollar Spot Index, which tracks the greenback against a basket of developed- and emerging-market currencies, climbed to its highest since at least 2005. The three-month London interbank offered rate for dollars notched its biggest increase since 2008 as traders anticipate larger hikes by the Fed.

Yields on the longest US bond moved below the rate on five-year Treasuries -- the latest in a series of so-called curve inversions that could well herald an economic slump. The premium on the 30-year bond over the rate on the shorter-tenor note vanished for the first time since late June. The gap between 2- and 10-year yields deepened to levels last seen in 2000.

"Given the Fed has made it SUPER CLEAR that inflation fighting is goal number 1 and they are willing to take recession risk to accomplish that goal, the more persistent inflation, the higher recession risk will go," wrote Dennis DeBusschere, the founder of 22V Research. "So, yield curves are inverting or flattening aggressively."



JPMorgan's boss Jamie Dimon, who has told investors to brace for an economic "hurricane," noted he sees a "serious set of issues" clouding the economic outlook. Meantime, Morgan Stanley's chief James Gorman said a deep or dramatic recession in the US is unlikely, and the bank is "long the US" in most of its businesses.

Read: Banks Likely Shrink Post-Earnings Bond Sales as Cheap Money Ends

Mortgage rates in the US rose, resuming an upward climb that threatens to further cool the housing market. The average for a 30-year loan jumped to 5.51% from 5.3% last week, Freddie Mac said in a statement Thursday. It's up from 3.11% at the end of last year.

Shrinking the Fed's $8.9 trillion balance sheet will have an effect over time equivalent to no more than three quarter-point interest-rate hikes, according to a new study by a Fed Bank of Atlanta economist. That suggests the asset reductions will have a relative modest effect compared to rate hikes to counter inflation.

"We remain skeptical that the Fed can pull off simultaneously normalizing its balance sheet, controlling inflation, and avoiding severe market disruptions," said Richard Saperstein, chief investment officer at Treasury Partners. "We're increasingly concerned that investors may be forced to endure more downside volatility in this tricky environment."

Elsewhere, oil dropped to levels not seen since before Russia's invasion of Ukraine. Cryptocurrency lender Celsius Network Ltd. filed for Chapter 11 bankruptcy, but Bitcoin took the news in stride. The digital token may be regaining its long-touted appeal as an inflation hedge.

Read: Recession Fears Crash Strongest-Looking Oil Market in Years

What to watch this week:

- China GDP, Friday
- US business inventories, industrial production, University of Michigan consumer sentiment, Empire manufacturing, retail sales, Friday
- G-20 finance ministers, central bankers meet in Bali, from Friday
- Atlanta Fed President Raphael Bostic speaks, Friday

Will the eurozone avoid a recession or a debt crisis? How will the euro and stocks perform in the next six months? Share your views and participate in the latest MLIV Pulse survey. It only takes a minute, so please click here anonymously.

Some of the main moves in markets:

Stocks

- The S&P 500 fell 1.7% as of 11:02 a.m. New York time
- The Nasdaq 100 fell 1.4%
- The Dow Jones Industrial Average fell 1.8%
- The Stoxx Europe 600 fell 1.7%

- The MSCI World index fell 1.8%

Currencies

- The Bloomberg Dollar Spot Index rose 0.9%
- The euro fell 0.6% to $0.9995
- The British pound fell 0.9% to $1.1782
- The Japanese yen fell 1.4% to 139.26 per dollar

Bonds

- The yield on 10-year Treasuries advanced six basis points to 2.99%
- Germany’s 10-year yield advanced six basis points to 1.21%
- Britain’s 10-year yield advanced four basis points to 2.10%

Commodities

- West Texas Intermediate crude fell 3% to $93.40 a barrel
- Gold futures fell 1.8% to $1,704 an ounce

– With assistance by Sunil Jagtiani, Andreea Papuc, Cecile Gutscher, Robert Brand, Isabelle Lee, and Vildana Hajric

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