

Stocks plunge around globe

U.S. economic crisis spreads out; big drop on Wall Street likely

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WASHINGTON -- Stock markets worldwide plummeted yesterday, as a financial crisis that began in the market for U.S. home mortgages spread to almost all corners of the global economy.

U.S. markets were closed for the Martin Luther King Jr. holiday, but all of the world's other major economies experienced a sell-off. Stock prices fell 7 percent in France and Germany, 5 percent in China and Great Britain, and 4 percent in Japan.

Stocks lost value in 42 of the 43 nations with widely followed markets; the only exception was Sri Lanka.

And if U.S. markets' futures contracts are any indication, markets will be in for a major decline today amid concerns about bond insurers and the health of financial institutions.

The Dow Jones industrial average futures contract at one point yesterday was off 520 points at 11,586. Futures contracts don't move in complete lockstep to the underlying indexes but are viewed as indicators.

"It was all about blood on the wall" yesterday, said Georges Ugeux, chairman of Galileo Global Advisors. He was visiting the Indian stock exchange, which fell 7.4 percent, the equivalent of a 900-point drop in the Dow Jones industrial average.

"For them, this is a Black Monday," he said.

Behind it all: Investors worldwide grew fearful that problems from massive losses on loans made to U.S. home buyers will cascade through the world financial system.

For example, the Bank of China is now forecast to record a multibillion-dollar loss on U.S. mortgage investments.

And companies that insure bonds are incurring such massive losses on exotic securities based on mortgages that one is in receivership and others have had their credit ratings cut.

That could cause financial institutions worldwide to mark down the value of assets guaranteed by these insurance companies.

Add to that the slowing U.S. economy, and it was too much for investors worldwide.

"We're in a global economy," said Randy Bateman, chief investment officer of Huntington Asset Advisors. "This is just the result of a perfect storm of problems that have surfaced here in the last two weeks that have manifested in the stock markets -- all of them."

Although the European stock markets have avoided most of the volatility of the U.S. stock exchanges in recent weeks, European Union officials voiced anxiety yesterday that the U.S. economic slowdown might begin having a stronger impact on Europe.

"We are all concerned," said Finance Minister Andrej Bajuk of Slovenia, whose country holds the EU's rotating presidency. "We are following the events on a daily basis. We hope things will not be as bad as they may look."

Other European officials said they hope the strong European economy, driven by declining unemployment and a strong euro, will outweigh the emotional response to the economic slowdown in the United States.

"It seems that the markets are considering the possibility of a more pronounced slowdown, even a recession in the U.S.," EU Monetary Affairs Commissioner Joaquin Almunia said yesterday.

"I hope they will pay attention also to the real information about the economy, in particular in Europe, because, at least in Europe, the economic fundamentals of our economies are sound."

Information from MarketWatch was included in this story.

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