Stocks drop further on recession worry

Each of the major indexes at times were down more than 2 percent

NEW YORK - Wall Street moved perilously closer to a bear market Wednesday, falling sharply yet again as dejected investors bet that a recession in the United States is inevitable. Each of the major indexes at times were down more than 2 percent, including the Dow Jones industrials, which fell more than 320 points before regaining some ground.

In early afternoon trading, the Dow Jones industrial average was down 172.33, or 1.44 percent, at 11,798.86 after being down as much as 323.29. At its lows of the session, the Dow sat little more than 2 percent away from the 20 percent decline from its October high that would mark a bear market.

Broader stock indicators also skidded. The Standard & Poor's 500 index fell 22.74, or 1.74 percent, to 1,287.76, and the Nasdaq composite index slid 64.28, or 2.80 percent, to 2,227.99.

Some investors seeking safety turned to Treasury bonds, often a haven as the stock market plunges.

The emergency interest rate cut Tuesday by the Federal Reserve appeared to have little salutary effect on the stock market, and Wall Street's latest flare-up of concern about where the economy is headed followed disappointing reports from big names like Motorola Inc. and Apple Inc.

Although the Fed's decision Tuesday to lower its federal funds rate by a steep 0.75 percentage point, or 75 basis points, to 3.5 percent prevented heavier losses Tuesday, with the Dow falling a relatively mild 128 points, it remains clear that investors have doubts about the potency of the Fed action. Rate cuts typically take months to work their way into the economy.

"You continue to see a handful of buyers come in, but they're quickly overwhelmed by the sellers," said Todd Salamone, vice president of research at Schaeffer's Investment Research in Cincinnati.

Bond prices jumped as more investors sought the safety of government debt. The yield on the bench-mark 10-year Treasury note, which moves opposite its price, fell to 3.32 percent from 3.41 percent late Tuesday. The dollar was mixed against other major currencies, while gold prices rose.

Crude oil briefly fell below $87 a barrel in early afternoon trading on the New York Mercantile Exchange. Lower oil prices help debt-burdened, cash-strapped consumers, but they dampen oil company profits. Chevron Corp., ConocoPhillips and ExxonMobil Corp. shares fell sharply Wednesday.

Moreover, oil investors' view that a recession would curtail demand for energy only reinforced Wall Street's increasingly pessimistic tone.

In Europe, investors held onto economic worries and grew concerned the European Central Bank wouldn't cut interest rates despite concerns the economy there is slowing. Britain's FTSE 100 closed down 2.28 percent, Germany's DAX index fell 4.88 percent, and France's CAC-40 fell 4.25 percent.

In earlier Asian trading, Japan's Nikkei stock average closed up 2.04 percent after falling 5.7 percent Tuesday. Similarly, Hong Kong's Hang Seng index surged 10.72 percent — its biggest gain in 10 years — after falling 13.7 percent in the previous two sessions.

The volatility that has become a hallmark of Wall Street's performance in recent months likely will continue as investors take a further look at the most worrisome areas of the economy such as the housing sector, said Alan B. Lancz, director at investment research firm LanczGlobal.

"You're going to get the volatility because investors will see we're not out of the woods with the 75 basis point cut. I expect continued volatility and continued difficult times for the market to make significant progress," he said.

Meanwhile, the market's reaction to a disappointing forecast from Apple showed how fragile investor sentiment remains.

The maker of the iPod issued a forecast for its fiscal second quarter that said sales would likely grow by 29 percent. The figure would represent faster growth than in earlier years but fell short of what Wall Street had expected.

Apple's expectations appeared to confirm worries about consumer spending. As consumers account for more than two-thirds of the economy, investors are keen on learning whether retailers and other companies will have a harder time prying open wallets. Apple fell $28.80, or 18.5 percent, to $126.84.

Lancz contends the markets are going through a necessary but often messy process of reassessing where risks might be hiding and how some investments should be valued.

"There is too much uncertainty out there for stock valuations to march back toward new highs. So when you get some strength I think you're going to have people pruning back, that's what is causing the volatility," he said.

John Merrill, chief investment officer at Tanglewood Capital Management in Houston, said investors remain unnerved by the notion of slowing growth worldwide — a prospect that could dent profits of the many U.S. companies that do business overseas — as well as tightness in the credit markets and a potential slowdown by consumers.