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Markets Fall on Drumbeat of Grim Reports

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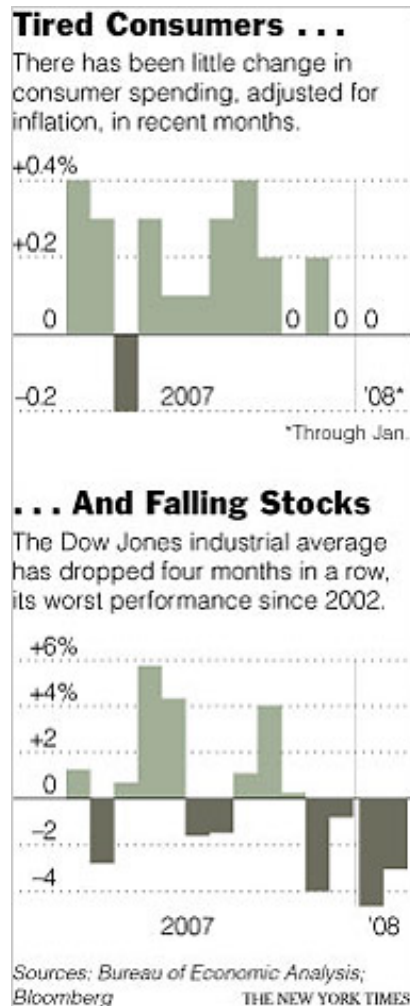


By [VIKAS BAJAJ](#) and [MICHAEL M. GRYNBAUM](#)

Published: March 1, 2008

An outpouring of negative economic and financial reports soured the mood on Wall Street Friday as banks and other lenders further tightened credit in their struggle to contain damage from losses on mortgages, business loans and related debt.

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Shares sank, and investors fled to the safety of Treasuries as the Standard & Poor's 500-stock index fell 2.71 percent and the Dow Jones industrial average dropped 315.79 points, or 2.51 percent, to 12,266.39. Both indexes capped their worst four months since 2002.

Prices of municipal bonds, bank loans and high-yield debt all fell as well.

The markets for ultrasafe debt backed by the federal government and other nations were alone in posting gains. Some commodities, including gold, were also up.

“The drumbeat of economic news has been unrelentingly bad,” said [Edward Yardeni](#), a normally upbeat investment strategist. “The recession scenario is looking more and more credible.”

Like so many days since the credit troubles erupted in August, Friday dawned on the East Coast with ominous financial signals. A.I.G., the large insurer, had reported its worst loss ever the evening before. Reports out of London overnight suggested that a large hedge fund, Peloton Partners, was being forced to sell nearly \$2 billion in mortgage-related securities after it lost the backing of its lenders.

By the time traders in New York were at their desks, economic reports issued in Washington showed consumer spending was flat in January after adjusting for inflation. Then a bellwether report on Midwestern business activity unexpectedly fell to its lowest level in more than six years, and a survey showed consumer confidence declined to a 16-year low.

If that was not pessimistic enough, Wall Street's attention was soon riveted by a report from analysts at [UBS](#) that estimated losses to the financial system from securities backed by mortgages and other debts would total \$600 billion. Until recently, many analysts had been forecasting losses in the neighborhood of \$400 billion — a figure that the dwindling band of optimists in the financial markets once dismissed as vastly overblown.

“There is not any one news item that I can point to,” said Douglas Peta, chief investment strategist at J. W. Seligman & Company in New York. “We know that there is paper out there that we can't trust. We don't know exactly who owns it and how much. And we don't know how they are valuing it.”

The S. & P. fell 37.05 points, to 1,330.63, and the Nasdaq composite index declined 60.09 points, or 2.58 percent, to 2,271.48.

For Mr. Peta and many others, the current turmoil in the financial system is at its core a crisis of faith and confidence.

Problems are now appearing even in markets that were considered to be safe and staid like municipal bonds.

Adding to the worries, hedge funds that borrowed billions of dollars through complicated transactions to invest in tax-exempt debt have been forced in the last few days to sell securities to meet margin calls from their banks, said Douglas A. Dachille, chief executive of First Principles Capital Management, a bond firm based in New York.

An index that tracks the municipal bond market fell sharply in February. The yield, which moves in the opposite direction of the price, has jumped to 5.42 percent, from 4.81 percent at the start of February, according to The Bond Buyer, which compiles an index of 40 municipal bonds.

“I have never seen anything like this in the 15 to 20 years that I have been involved in muni investing,” said Mr. Dachille, who said he was encouraging clients to buy at these prices.

The problems in the municipal bond market highlight the increasing reluctance of banks to lend. Burned by their laxity during the housing boom and large losses from securities that were backed by subprime mortgages, lenders are tightening up and shutting out any borrower with a taint, real or perceived.

For their part, lenders and investors are reluctant to stake their dwindling capital on new ventures or to roll over debts that are coming due because they are unsure if they will get their money back. Defaults and losses continue to rise in many corners of the credit market.

In January, 23.4 percent of outstanding subprime mortgages were either 60 days' delinquent, in foreclosure or had already had the home repossessed, up 9 percent from December, according to Rod Dubitsky and other analysts at [Credit Suisse](#).

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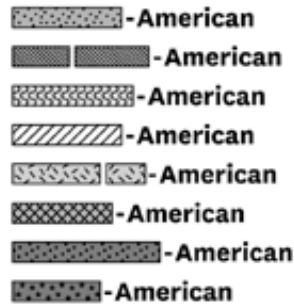
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