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 Friday, 23 November 2007

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- [News](#)
- [Wall Street Journal](#)

Home > Moneyweb > INTERNATIONAL > Wall Street Journal

## Wall Street Journal

### Investors shed stocks on fears of a slowdown

*Treasury securities favored amid unease; dow nears 'correction'*

Peter A. McKay and Lingling Wei, Wall Street Journal

23 Nov 2007 05:53

In their intensifying search for havens, investors are bidding up Treasury securities and thumbing their noses at just about everything else, from stocks to municipal bonds to government-sponsored enterprises.

Reacting to fears of a U.S. economic slowdown, investors dumped stocks on Wednesday. Not even low-risk sectors such as utilities or consumer staples were spared. Then in Asia yesterday, the Shanghai Composite Index dropped 4.4%, leaving it down 16% this month. Hong Kong's Hang Seng Index, which includes a number of China plays, lost an additional 2.3%, bringing its loss for November to 17%.

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<b>DJIA</b>	12799.04
	▼ 211.10
<b>Nasdaq</b>	2562.15
	▼ 34.66
<b>Oil/barrel</b>	\$97.29
	▼ 0.74
<b>10-year Treasury</b>	
Price	▲ 8/32
Yield	4.024%

The U.S. stock selloff on Wednesday included a 211.10-point drop in the Dow Jones Industrial Average, the third straight

drop. At 12799.04, the Dow is now up 2.7% on the year. It also is nearly 10% off its October highs -- the textbook definition of a "correction" that shakes speculative excess out of the market.

"It's no longer a need for return," said Treasury-bond strategist John Spinello at Jefferies & Co. "It's preserving your capital."

Stocks have often bounced after such corrections in the past. For now at least, investors seem to be heading somewhere else instead. The price of a benchmark 10-year Treasury note gained about \$2.50 for each \$1,000 invested Wednesday. That pushed its yield to 4.024%, its lowest level since September 2005. (Yields fall on bonds as their prices rise.)

Until the dust from the housing crackup settles, many investors look prepared to give up a great deal in their search for safety over returns. That is especially stark in the behavior of Treasury notes. With a yield of about 4%, investors can expect a paltry return of about 1.3% for a 10-year Treasury, after adjusting for inflation and taxes, according to Michael Pond, a Treasury and inflation-linked strategist at Barclays Capital, the investment-banking arm of Barclays PLC. The tax and inflation-adjusted return on a 10-year note was closer to 2.25% in June, before the credit-market turmoil got especially bad.

Yields on shorter-term Treasury securities are even lower. The two-year note, yielding about 3%, leaves investors with next to nothing after adjusting for inflation and taxes.

Whether stocks can salvage an annual gain will depend largely on whether investors see any new reason to believe Wall Street's credit crisis has finally been contained -- a hope that has been dashed repeatedly since the summer.

A dose of strong consumer spending during the holiday-shopping season wouldn't hurt, analysts said. However, fresh data on Wednesday damped expectations for such a year-end spree.

"Until the financial sector can at least stop going down, you're really going to have a nervous market and down-trending market," said Steve Wolf, managing director at the asset-management firm Source Capital Group in Westport, Conn. "Every day there's another story of another institution with credit woes."

The Standard & Poor's 500 fell 1.6%, or 22.93 points, Wednesday to 1416.77, leaving it off 0.1% on the year. The tech-stock-led Nasdaq Composite Index fell 1.3%, or 34.66 points, to 2562.15, up 6.1% on the year.

Investors favor Treasury securities over other types of haven investments.

For instance, investors tend to see bonds issued by Fannie Mae and [Freddie Mac](#) as close to the safety of Treasury notes, because Fannie and Freddie are government-sponsored businesses. Now jittery investors want much more to hold Fannie and Freddie debt because of their mortgage exposures.

Fannie and Freddie debt yields about 1.14 percentage points more than Treasury securities, according to the Lehman Brothers fixed-rate mortgage index. In June, the risk premium was 0.55 percentage point.

Investors also are demanding more to hold tax-free municipal bonds. Investors worry these bonds will be undermined by troubles among bond insurers, which back both municipal bonds and mortgage debt.

The Lehman Brothers Municipal Bond index has eased 0.01% this month while the broad Lehman Brothers Aggregate index, which tracks taxable bonds, including Treasury notes, corporates and some mortgage securities, is up 1%.

Source: Wall Street Journal

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