Associated Press

July 15, 2008

STOCKS TURN MIXED AS OIL PRICES RETREAT

NEW YORK (AP) — Wall Street recouped its steep early losses and traded mixed today as oil dropped by more than $7 a barrel, giving investors hope that lower energy prices could help revive the flagging economy.

Fears of escalating instability in the financial sector have kept the market trading erratically, however. The market opened sharply lower on investors' increasing uneasiness about the ongoing mortgage criss. Sobering comments from Federal Reserve Chairman Ben Bernanke, who told Congress the U.S. economy is faced with "numerous difficulties," took stocks down further.

Bernanke's comments come only days after the Fed and the Treasury said they would lend financial support to mortgage financiers Fannie Mae and Freddie Mac if necessary. Shares of Fannie and Freddie — which together hold or back nearly half of all the nation's mortgages — tumbled again today.

But as oil retreated from its near-record levels, bargain hunters entered the market and the Dow Jones industrial average, down more than 200 points in early trading, rebounded. If oil prices stabilize or retreat, consumers might feel more comfortable spending on discretionary items, and in turn help the economy.

A barrel of light, sweet crude dropped $7.30 at $137.88 on the New York Mercantile Exchange as traders bet that the weak economy in the United States and elsewhere will take its toll on global demand. Several of the market's most battered bank stocks — including Washington Mutual Inc., Lehman Brothers Holdings Inc., and regional bank First Horizon National Corp. — rebounded sharply.

"These stocks have dropped to such significantly low levels; there is some value out there, and people are looking for that value. Especially as oil prices are declining sharply today, they're getting some reason to put their toes back in the water," said Scott Fullman, director of derivatives investment strategy for WJB Capital Group in New York.

In early afternoon trading, the Dow fell 0.32, or less than 0.01 percent, to 11,054.87, after falling more than 200 points and then surging into positive territory. Broader stock indicators were mixed. The Standard & Poor's 500 index fell 1.66, or 0.14 percent, to 1,226.64, and the Nasdaq composite index rose 13.96, or 0.63 percent, to 2,226.83.

Ryan Larson, senior equity trader at Voyageur Asset Management, said he believes some of the rebound might be from hedge funds and other institutional investors sweeping into stocks considered undervalued.

"You get to a point where you see so much red that it is hard to not pay attention and find value," Larson said. "The market at one point was down over 200 points, and when that happens, some of this stuff gets washed out and you see some bottom feeding."

Treasury prices traded higher, but pared earlier gains as money returned to the stock market. The yield on the benchmark 10-year Treasury note, which moves opposite its price, fell to 3.83 percent from 3.86 percent late Monday.

The high price of oil is one of the major reasons the Dow has been trading at nearly two-year lows. The Labor Department said today that core inflation at the wholesale level, which excludes energy and food prices, ticked up by just 0.2 percent, but that overall wholesale prices jumped by a larger-than-expected 1.8 percent — the biggest gain since November. For the past 12 months, wholesale prices including food and energy showed an increase of 9.2 percent, the largest increase since June 1981.

U.S. consumers have been monitoring their budgets more carefully in the face of higher energy prices, falling home values and an uncertain jobs climate. The Commerce Department reported today that retail sales edged up by 0.1 percent — a weaker amount than the 0.4 percent increase analysts expected in June. Total sales were dampened especially by plummeting sales at car dealerships.

“The bottom line is, eventually, oil as a commodity is going to react to the overall economy,” said Dan Alpert, managing director at the investment bank Westwood Capital. Fannie Mae fell 1.01, or 14.2 percent, to $6.10, and Freddie Mac fell $1.61, or 16.6 percent, to $8.12. Treasury Secretary Henry Paulson said that if the government extends financial backing to the two institutions, it will be done “under terms and conditions that protect the U.S. taxpayer.”

“This is a bit of a marketing effort to sell the plan to Congress and the American people,” said Fullman. Lehman rose $1.45, or 11.7 percent, to $13.85; WaMu rose 89 cents, or 27.6 percent, to $4.12; and First Horizon rose $1.70, or 33.7 percent, to $6.74. First Horizon named a new CEO today. In other corporate news, General Motors Corp. announced plans to lay off salaried workers, reduce truck production, suspend its dividend and borrow $2 billion to $3 billion as it adjusts to a declining U.S. market. GM shares rose 55 cents, or 5.9 percent, to $9.93.

Johnson & Johnson said its second-quarter earnings rose 8 percent as sales increased for consumer health items and surgical and diabetes products. Johnson & Johnson shares rose $1.33, or 2 percent, to $67.74. The Russell 2000 index of smaller companies rose 1.90, or 0.29 percent, to 666.40.

Declining issues outnumbered advancers by more than 2 to 1 on the New York Stock Exchange, where volume came to 1.09 billion shares.

Overseas, Japan’s Nikkei stock average fell 1.96 percent. Britain’s FTSE 100 fell 2.42 percent, Germany’s DAX index fell 1.91 percent, and France’s CAC-40 fell 1.96 percent.