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U.S. Stocks Tumble as Risk Flight Intensifies, Brent Oil Sinks

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(Bloomberg) -- U.S. stocks tumbled, with the Dow Jones Industrial Average plunging more than 370 points and small caps entering a bear market, as oil's failure to maintain a 4 percent rally rekindled a flight from risk assets. Treasuries surged amid signs that demand for the relative safety of bonds is rising.

The Standard & Poor's 500 Index fell past 1,900, a level it's closed below only five times in the past 14 months. The Nasdaq 100 Index had its worst day since Aug. 24, as selling was heaviest in technology and consumer shares. The Russell 2000 Index capped a 22 percent slide from its June record. Brent crude dipped below \$30 for the first time since 2004. The yield on the 10-year Treasury note fell to 2.04 percent, after an auction of \$21 billion of 10-year notes was deemed 'outstanding.' Gold traded above \$1,090 an ounce.

Oil's failure to sustain a rally of more than 3.5 percent overwhelmed the budding rebound in global equities, which have been hammered this year amid concern China is struggling to manage its slowing economy. Pain spread from market to market as the two-day recovery proved short lived. The cost to protect against defaults by North American investment-grade companies soared to a three-year high, a measure of junk bonds had the worst day in a month and last year's equities winners stumbled, with consumer staples and technology shares bearing the brunt of losses.

"We're in a perfect storm," said Yousef Abbasi, global market strategist at JonesTrading Institutional Services LLC in New York. "Even though we knew a lot of these factors in the past, they all seemed to come together at the start of 2016 to take a bite out of people. There's a combination of a buyer's strike, some disinterest, some confusion, and to be completely honest, some exasperation. Guys are frustrated."

Stocks

The S&P 500 sank 2.5 percent at 4 p.m. in New York, the lowest level since Sept. 29. Shares in consumer discretionary shares plunged 3.4 percent with losses heaviest in Amazon.com Inc. and Netflix Inc. Health-care shares sank 2.9 percent, while financial services stocks in the S&P 500 fell to the lowest level since May 2014.

The SPDR Barclays High-Yield Bond exchange-traded fund lost 1.3 percent for its biggest slide since Dec. 11, and is now at the lowest level since May 2009. Selling in junk-rated equities intensified as the continued rout in commodities threatens the solvency of some highly leveraged resource producers.

Damage was heaviest among small-cap shares, with the Russell 2000 plunging to 2 1/2 year low. The gauge is down 22 percent from its June record, meeting the common definition of a bear market.

"There's big-time negative sentiment in the market right now," said **Mark Kepner**, an equity trader at **Themis Trading LLC** in Chatham, New Jersey. "There was no specific news to send this market down. Without enough news to make it go higher, and with negative sentiment, we started selling off. We have earnings coming up, and they'll be pivotal for getting us out of this downtrend."

According to JPMorgan Chase & Co., this year's tumble is at least partly attributable to robotic selling by quantitative investors who were forced to rebalance their funds when stocks and bonds both fell in January.

“While this implies there is less risk of a sudden market crash vs. August, it is not imminent that these strategies will start buying equities,” wrote Marko Kolanovic, the JPMorgan strategist. “Moreover, if volatility keeps on rising, there could be more selling to come.”

The Chicago Board Options Exchange Volatility Index climbed 11 percent to 24.93, after posting its first back-to-back weekly gains since July to start the year.

The U.S. benchmark index opened higher by 0.6 percent and saw gains fade in morning trading before the selloff accelerated following the European close. The MSCI All-Country World Index dropped for the seventh time in eight sessions. Global equities had followed a Tuesday rally in U.S. stocks, with the MSCI Asia Pacific Index halting a seven-day drop, while the Stoxx Europe 600 Index rose 0.4 percent for a second day of gains.

Bonds

Treasuries rallied after investors flocked to a \$21 billion auction of 10-year notes at the lowest yields since October amid concern that global growth is slowing. A class of investors that includes foreign central banks and mutual funds bought 71 percent of the sale, the second-highest amount on record.

Anheuser-Busch InBev NV is poised to sell \$46 billion of bonds today, in what may be the busiest session for U.S. corporate debt sales ever. This comes even as the cost to protect against defaults by North American investment-grade companies soared to a three-year high. The risk premium on the Markit CDX North America Investment Grade Index, which is composed of 125 equally weighted credit-default swaps on investment-grade entities, rose four basis points to 102.8, according to prices compiled by Bloomberg.

Commodities

Brent oil dropped below \$30 a barrel for the first time since April 2004 on speculation Iranian shipments will soon climb. Crude fell as much as 2.9 percent in London on signs that the nuclear deal between Iran and world powers may be implemented by the time markets open on Monday, triggering sanctions relief for the Islamic Republic that paves the way for a surge in oil exports.

Currencies

The yuan strengthened in Hong Kong's offshore market, headed for the biggest five-day advance on record after China intervened to support the currency. The central bank kept its reference rate almost unchanged for the fourth day in a row, helping calm investor nerves after an eight-day run of weaker fixings.

Japan's yen, which has benefited from demand for haven assets this year, dropped 0.4 percent to 118.16 per dollar. High-yielding currencies gained, with the Australian dollar strengthening at least 0.5 percent. The rand, which tumbled to a record low at the beginning of the week, rallied 1.2 percent.

Emerging Markets

The MSCI Emerging Markets Index rebounded 1.3 percent from the lowest close since 2009, trimming the worst start to a year since 1998. Benchmarks in South Korea, the Philippines, Thailand and Turkey climbed at least 1.3 percent. Russian stocks rose for a second day, increasing 0.5 percent.

A gauge of 20 emerging-market currencies added 0.3 percent, ending an eight-day slump. The ruble gained for the first time in five days, appreciating 0.9 percent.

--With assistance from Kelly Gilblom, Mark Shenk, Michael Aneiro, Alexandra Scaggs and Cordell Eddings.