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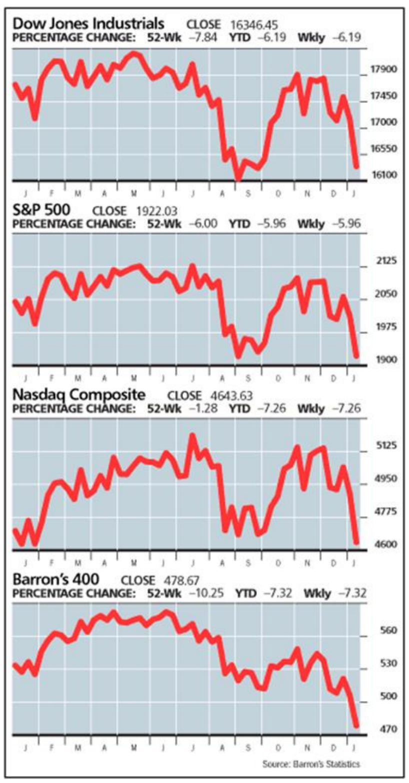
U.S. Stocks Shed 6% in Worst Year-Opening Ever

Dow, S&P 500 slid on China's troubles and couldn't recover. UPS on the mend. Chipotle in the doghouse. The outlook for stock buybacks.

By VITO J. RACANELLI
January 9, 2016

Stock markets around the world slumped 6% right off the bat in 2016, and the two major U.S. indexes—the Dow Jones Industrial Average and Standard & Poor's 500—suffered their worst opening week in history. The Dow is now in correction territory, off nearly 11% from its high, while the broader S&P 500 is a hairbreadth away, down 9.8% from highs set last May.

A 1.5% drop in the Chinese yuan and a 10% plunge in China's stock markets combined last week with sliding oil prices to knock down every big equity market on the planet. That giant whooshing sound you heard? More than $2.2 trillion sucked out of global equity markets in just the first four trading days of the year, according to Bank of America Merrill Lynch chief investment strategist Michael Hartnett.



Chinese authorities engineered the largest reduction since August in the value of the yuan, much to the markets' surprise. The move reignited concerns about China's sagging economic growth, and left investors wondering if the currency will fall further. (For more on China, see "China's Stocks Swoon, but the Yuan Is the Real Weak Spot".)

Stock-trading halts and severe volatility in China's market unnerved U.S. investors, but a panic it wasn't.

In part, that's because Friday's report on U.S. job growth was far stronger than expected. The Labor Department said nonfarm payrolls rose by a hefty 292,000 in December. The unemployment rate was flat at 5%. U.S. stocks popped on the news, but later gave up their moderate gains.

The Dow lost 6.2%, or 1,079 points, last week, to 16.346.45, and the S&P 500 dropped 6%, or 122 points, to 1922.03. The average stock in the S&P 500 index is in a bear market—that is, down 22.6%, according to Bespoke Investment Group. Meanwhile, the Nasdaq plummeted 7.3%, to 4643.63. The MSCI World Index lost 6%.

Some investors consider the turmoil in China, which authorities have been at a loss to combat, to be on par with what the U.S. experienced in 2008, says Michael Yoshikami, CEO of Destination Wealth Management. "That isn't my view," he says. The correction and a continuing improvement in employment suggest consumer stocks, such as retailers—down 9% since mid-November—could be an opportunity, he adds. "The jobs data shows the U.S. economy is on track."

Still, the uncertainty of China's currency situation is nagging at sentiment, says **Joe Saluzzi**, co-head of trading at **Themis Trading**. How long will it last? Is it going to be a drip-drip-drip drop in the yuan or a big devaluation? Does it mean China's growth continues to slow? "These are the questions being asked," he says, "and no one knows the answers."