

# MarketWatch

## Dow ends nearly 400 points lower as Italy's political turmoil roils global markets

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Financials plunge, tracking decline in Treasury yields



*Reuters*  
*Carlo Cottarelli is expected to end up leading a caretaker government in Italy.*

U.S. stocks ended sharply lower on Tuesday, with the Dow industrials down nearly 400 points as traders reacted to fresh political drama in Italy after a three-day weekend.

Another Italian election looks likely within a few months, and investors fear it could turn into a de facto referendum on the country's membership in the euro.

### **What are the main benchmarks doing?**

The Dow Jones Industrial Average DJIA, -0.88% dropped 391.64 points, or 1.6%, to 24,361.45, once again erasing year-to-date gains.

The S&P 500 SPX, -0.45% fell 31.47 points, or 1.2%, to 2,689.86 with nine of the 11 main sectors finishing with losses. Financials led the declines, down 3.4%, tracking falling Treasury yields. Industrials and materials fell 1.6% and 1.8% respectively. Real estate and utilities shares were the only bright spot on Wall Street, suggesting a defensive posture.

Meanwhile, the Nasdaq Composite COMP, -0.02% fell 37.26 points, or 0.5%, to 7,396.59.

With two more sessions before the end of month, the three gauges are still on track for modest monthly gains in May.

### What's driving markets?

U.S. stocks traded in the red alongside European equities SXXP, -0.63% which have been whacked by worries about a fresh Italian election, potentially in September.

An election looks to be on the cards, as an attempt to form a caretaker government led by International Monetary Fund veteran Carlo Cottarelli faces resistance. Cottarelli was put into that role on Monday by Italian President Sergio Mattarella, who had essentially blocked a coalition government of two big antiestablishment parties — the 5 Star Movement and the League.

Now those parties appear to be spurning Cottarelli, making him unlikely to win a vote of confidence in parliament. Instead, he likely will lead a caretaker government as prime minister only until another general election is called.

Traders also were watching efforts to revive a June summit between President Donald Trump and North Korean leader Kim Jong Un, as well as political uncertainty in Spain, where Prime Minister Mariano Rajoy is now struggling to stay in power.

### What are strategists saying?

“Today's selling is happening on a larger volume, which is concerning. It means that investors are now worried about contagion from the fallout in Italy,” said **Joe Saluzzi**, partner and co-head of equity trading at **Themis Trading**.

“Selling can unravel pretty quickly if we find out that a hedge fund holding Italian bonds is forced to sell good assets, triggering unwinding of other funds,” **Saluzzi** said, but added that this kind of a selloff tends to be short-lived as long as the fundamentals remain strong.

### Which economic reports are on tap?

The S&P/Case-Shiller national index of home prices rose a seasonally adjusted 0.4% and was up 6.5% compared with a year ago in March, driven by high demand and low supply.

The consumer-confidence index rose near an 18-year high at 128 in May from a revised 125.6 in April, suggesting stronger growth in the months ahead.

On the Federal Reserve front, St. Louis Fed President James Bullard reportedly said early Tuesday in Japan that it was difficult for the U.S. central bank to raise interest rates by a large margin when the Bank of Japan and the European Central Bank were pursuing accommodative policy.

### What stocks are moving?

Shares of large banks were down sharply, following a drop in Treasury yields. The yield on the 10-year Treasury note fell 16 basis points to 2.772%, the largest drop since Brexit vote in June 2016.

Morgan Stanley MS, -1.58% shares dropped 5.8%, State Street Corp STT, -1.10% fell 5.4% and Prudential Financial Group Inc. PRU, -0.83% slumped 5%. Large banks such as JPMorgan Chase JPM, -1.16% Citigroup Inc. C, -0.49% Bank of America Corp. BAC, -1.17% all finished with losses of about 4%.

Alibaba Group Holding Ltd. BABA, +0.40% and its logistics arm Cainiao Network have agreed to invest \$1.38 billion in Chinese express delivery company ZTO Express (Cayman) Inc. ZTO, -0.24% Alibaba shares fell 0.6%.

Home-builder stocks found buyers, however. D.R. Horton Inc. DHI, +0.07% rose 0.9% while PulteGroup PHM, +0.12% gained 0.7%.

### **What are other markets doing?**

The pan-European Stoxx Europe 600 Index SXXP, -0.63% fell 1.4%, while Italy's FTSE MIB stock benchmark I945, -0.06% closed 2.7% lower.

The euro EURUSD, -0.0086% fell to a six-month low versus the dollar and recently changed hands at \$1.1535, down from \$1.1625 late Monday in New York, helping the ICE U.S. Dollar Index DXY, +0.09% rose 0.7% to 94.858.

Gold futures GCM8, -0.02% settled 0.4% lower at \$1,304.10 an ounce. U.S. oil futures CLN8, -1.70% fell for a fifth straight session, settling 1.7% lower at \$66.73 a barrel.