

## Banking stocks lead Wall Street lower

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US stocks fell on Monday, giving back almost all the gains made on Friday in the wake of the government's stress test results.

Investors remained focused on financial stocks after three companies said they would issue shares to raise capital to pay off government bail-out funds.

The results of last week's stress tests had revealed that Capital One, BB&T and US Bancorp would not need new capital to survive the government's adverse economic scenario. But the companies said on Monday that they would raise money to free themselves from government restrictions.

Capital One said it would sell 56m common shares and its stock fell 13.5 per cent to \$27.10. US Bancorp said it wanted \$2.5bn from its issuance, sending its shares 9.9 per cent lower to \$18.50.

BB&T said it would use the additional \$1.5bn it planned to raise also to boost tier one capital, an effort supported by a deep cut in its dividend. The company fell 7.6 per cent to \$24.34.

Other banking stocks also lost ground after last week's impressive gains, even though reports over the weekend indicated the banks may need less capital than estimated if their earnings remain strong.

Wells Fargo lost ground after it said it could fill its remaining \$13.7bn deficit with earnings alone by November, having taken \$7.5bn from a public offering on Friday. Its shares avoided the worst of the selling but slipped 5.9 per cent to \$26.53.

Even Morgan Stanley, which also successfully raised capital from a stock offering on Friday and which was upgraded by Bank of America-Merrill Lynch on Monday, lost ground. Its shares fell 7.6 per cent to \$26.07, even though Bank of America said its shares would do well on "long-term earnings power".

Prudential, the life insurer, was a particularly heavy faller after Goldman Sachs downgraded the company to "neutral", slashing its price target. Goldman upgraded the

company just over two weeks ago, triggering a 10.8 per cent rise in its shares. They lost 12.3 per cent to \$40.33 on Monday.

Principal Financial, Prudential's rival, also slumped after saying it would offer 42.3m shares, valued at over \$1bn, in order to bolster its capital position. The shares lost 14.1 per cent to \$20.34.

Huntington Bancshares was one of the few financial companies to find gains as Bank of America said the company would start posting a profit in 2011. Its shares jumped 9.8 per cent to \$5.71.

The S&P500 fell 2.2 per cent to 909.24, while the Dow Jones Industrial Average lost 1.8 per cent to 8,418.77.

**“If the S&P can get through the first half of this week without breaking through 900 it will be a win for the bulls,” said David Kreinces, portfolio manager at ETF PM.**

The Nasdaq Composite index fell a relatively modest 0.5 per cent to 1,731.24, however, amid resilience from technology stocks.

Microsoft lost 0.5 per cent to \$19.32 after the company said it would sell debt in order to take advantage of its rare triple-A credit rating. It has resisted taking on debt for years.

“The fact that Microsoft is issuing debt suggests they must think the environment is pretty good and rates are going to be going up because the economy will improve,” said Phil Orlando, chief equity market strategist at Federated Investors.

Intel rallied ahead of the European Union's decision on whether to approve action against the company on allegations that it abused its dominant market position. Lawyers forecast that any potential fine could be one of the heaviest implemented in Europe but the stock edged 0.5 per cent higher to \$15.37.

Energy producers lost ground as the price of oil fell following its recent rally, during which it reached new highs for the year. Chevron lost 3.4 per cent to \$68 and ExxonMobil dropped 1.6 per cent to \$69.27.

CB Richard Ellis, the real estate services company, was one of the S&P's biggest fallers after the company was downgraded by Goldman Sachs to “sell”. Its shares dropped 10.6 per cent to \$8.38.

General Motors was another heavy faller as Fritz Henderson, chief executive, said it was “more probable” that the company would file for bankruptcy by June 1 in his latest update on the car company's restructuring efforts. Its stock gave up 10.6 per cent to \$1.44.