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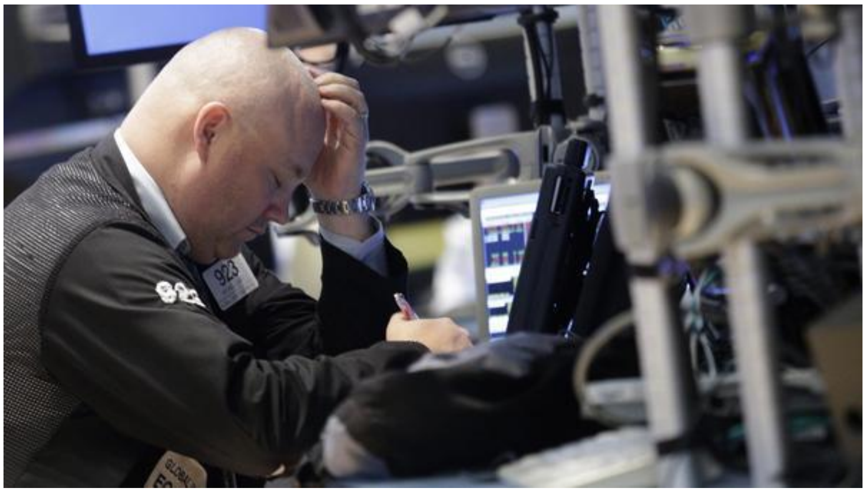
Stocks fall worldwide amid fears over China's growth and U.S. interest rates



The global rout started in Asia and spread through Europe and the U.S. Above, a trader at the New York Stock Exchange on Thursday. (Andrew Gombert / EPA)

By JAMES F. PELTZ ***contact the reporter***

Stocks tumbled worldwide Thursday and major U.S. indexes suffered their worst day in 18 months as investors fretted about China's slowing growth and the muddled outlook for U.S. interest rates.

The Dow Jones industrial average came under added pressure from a 6% drop in component stock Walt Disney Co. on renewed concerns about Disney's television business.

The global rout started in China and Japan and spread through Germany, France, Britain and into the U.S. Nearly every major index worldwide ended up in the red.

The blue-chip Dow and the broader Standard & Poor's 500 index both fell 2.1%, making it their worst day since Feb. 3, 2014.

The Dow tumbled 358.04 points to 16,990.69, its lowest level since Oct. 27. It has lost 4.7% so far this year. The S&P dropped 43.88 points to 2,035.73 and is now down 1.1% for the year.

The tech-heavy Nasdaq composite index lost 141.56 points, or 2.8%, to 4,877.49, but it's still up 3% for the year.

As stocks fell, traders moved cash into bonds, sending Treasury bond prices up and yields down. The yield on the U.S. 10-year Treasury note dropped to 2.07% from 2.12%.

Investors found no shortage of reasons to avoid stocks, starting with ongoing concerns about the cooling of China's huge economy.

China devalued its currency, the yuan, last week, and its stock market has suffered a massive sell-off in the last two months despite government attempts to stem the drop. Its key stock index, the Shanghai composite index, fell 3.4% on Thursday, setting off the chain of market declines.

Investors also are grappling with uncertainty about whether the Federal Reserve will raise its benchmark interest rate next month from the current rock-bottom levels.

The central bank hasn't raised rates in nearly a decade, which has helped propel the economy and stock prices since the depths of the Great Recession seven years ago.

Energy stocks also are under pressure from the recent sharp drop in crude-oil prices to near six-year lows. And stock markets still are wary about potential fallout from Greece's debt crisis.

Greek Prime Minister Alexis Tsipras resigned Thursday and called for quick elections in hopes of returning to power with stronger support. That came after Greece narrowly avoided defaulting on its debt by using funds from its latest bailout package to make a crucial payment to the European Central Bank.

But the "overarching concern" for the markets "is just how much China's economy is going to slow down," said Art Hogan, chief market strategist in New York for Wunderlich Securities.

"That's the heaviest brick in the wall of worry," he said.

Reduced growth in China could negatively affect both multinational companies that do business in China and companies that export to China.

Indeed, China is one of the factors being weighed by the Federal Reserve in its deliberations about lifting lending rates.

The central bank had signaled that it plans to start raising short-term rates sometime this year. But minutes, released Wednesday, of the Fed's meeting three weeks ago gave no clear indication that the rate hike would come at its next policy meeting in mid-September.

"The market is really waiting for that guidance" on rates, said Jerry Braakman, chief investment officer of First American Trust in Santa Ana, which manages about $1.1 billion of assets.

For his part, Braakman said, "we don't really think there's urgency for the Fed to start tightening [rates]."

Analysts said the Fed is in a tough spot. Raising rates could crimp the economic growth now underway. But if the Fed further delays lifting rates, that could signal to the markets that the global economy remains exceptionally weak.

The Fed's decision "depends on how the economy fares leading up to the [September] meeting," Ryan Sweet, senior economist at Moody's Analytics, said in a note to clients. "We expect the Fed to raise rates in September, but it's a close call."

Disney fell $6.43 to $100.02 a share after the stock was downgraded by Bernstein Research analyst Todd Juenger, who cited declines in the industry's pay-TV subscriptions and TV advertising revenues.

Similar concerns about declining pay-TV subscriptions erupted two weeks ago when Disney warned that profit from ESPN and other cable channels would not be as robust as earlier thought.

The comments sparked a wide decline among media stocks — including Time Warner Inc., Viacom Inc. and CBS Corp. — that wiped out more than $50 billion in their total market value in two days.

Juenger also downgraded Time Warner, owner of such cable networks as CNN, TBS and TNT, and the company's stock fell $3.92, or 5%, to $73.90 a share.

The threat to Disney, Time Warner and other media companies partly is coming from viewers switching to program-streaming providers such as Netflix Inc. But Netflix's stock also fell sharply Thursday, losing $9.57, or nearly 8%, to $112.49 a share.

Oil prices rose slightly despite a U.S. Energy Information Administration report Wednesday that showed an unexpected increase in weekly U.S. stockpiles.

Light crude for near-term delivery rose 34 cents to $41.14 a barrel on the New York Mercantile Exchange, although speculation mounted that prices might sink closer to the $30-a-barrel level in coming weeks.

The euro edged higher against the dollar to $1.12.

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