

Banks drag on stocks

By Alexandra Twin

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NEW YORK (CNNMoney.com) -- Stocks struggled Tuesday as a late-session selloff in the financial sector cut into an earlier rally that had been sparked by Apple's record quarterly results and a stronger reading on consumer confidence.

After the close, Yahoo ([YHOO](#), [Fortune 500](#)) reported a quarterly profit, reversing a year-ago loss, as the online advertising market showed some signs of life. The company also reported weaker quarterly revenue that topped estimates. Shares gained about 2.3% in after-hours trading.

The Dow Jones industrial average ([INDU](#)) lost 2 points or less than 0.1%. The S&P 500 index ([SPX](#)) shed 4 points, or 0.4%. The Nasdaq composite ([COMP](#)) slid 7 points, or 0.3%.

After seesawing through the early morning, stocks turned higher near midday, thanks to gains in financial and consumer shares. But the advance petered out by the end of the session.

Financials led the retreat, with the KBW Bank ([BKX](#)) index falling 2.2%.

Stocks mustered slim gains Monday as fears about the bank sector lessened, along with opposition to Federal Reserve Chairman Ben Bernanke serving for a second term.

Investors are still climbing back after last week's battering, in which the Dow, S&P and Nasdaq all plunged 5% in the last three sessions of the week.

Although Apple provided investors with some optimism throughout the session, that wasn't enough to keep stocks higher. The ongoing Fed meeting was also in focus.

Joseph Saluzzi, co-head of equity trading at **Themis Trading**, said that last week's selloff showed a change in market character. "We've had a lot of little selloffs in the last nine months, but last week was different," he said.

That difference was reflected in the pace of the selling last week and the spike in the VIX - Wall Street's so-called fear gauge - to a six-month high, he said. The VIX has dropped about 11% since late Friday.

He said that the selling in the broad stock market may not quite be over and the risk of another 5% to 7% correction in the short term remains.

Federal Reserve: The central bank began its two-day policy setting meeting amid ongoing questions about whether the Fed chairman's term will be renewed.

The central bankers are widely expected to hold interest rates steady at historic lows near zero and to signal that they will continue to do so for the time being. A statement is expected Wednesday at around 2:15 p.m. ET.

However, investors will still scour the statement for hints about when the Fed may start to raise interest rates or withdraw some of the trillions of dollars of stimulus it had put into the economy over the last few years.

The combination of sustained low interest rates and more money in the system played a major role in boosting the stock market last year and stopping the recession from becoming a Depression.

With his term set to expire on Jan. 31, questions remain about whether Fed Chairman Bernanke has enough votes in the Senate to force a confirmation vote. However, those worries have lessened this week.

"There's an easing of people's minds this week with respect to Bernanke and that's helping, although some people would still like to get rid of him," said Jack Reutemann, founder of Research Financial Strategies.

Apple: After the close of trading Monday, Apple ([AAPL](#), [Fortune 500](#)) reported quarterly earnings and revenue that topped estimates, thanks to strong sales of iPhones and Macintosh computers. Quarterly revenue surged to a record \$15.7 billion. The company is on track to debut its greatly-anticipated new tablet computer on Wednesday.

Corporate results: Four Dow components reported results Tuesday.

Travelers Companies ([TRV](#), [Fortune 500](#)), the U.S. property-casualty insurer, reported higher quarterly earnings and revenue that beat estimates thanks to strong gains in underwriting and investment. Shares rose 2.7%.

Chemical maker DuPont ([DD](#), [Fortune 500](#)) reported a profit versus a year-ago loss and a rise in revenue, thanks to improving market trends and cost cutting. Results topped analysts' estimates.

DuPont also boosted its 2010 earnings forecast due in part to an improving economy. Shares of the Dow component were little changed.

Consumer products maker Johnson & Johnson (JNJ, [Fortune 500](#)) reported weaker earnings and stronger revenue versus a year ago, both of which topped forecasts.

The company also forecast a full-year 2010 profit of \$4.85 to \$4.95 per share versus analysts' expectations for a profit of \$4.94 per share, sending the stock a little lower in afternoon trading.

Verizon Communications (VZ, [Fortune 500](#)) reported a fourth-quarter loss due to layoff charges. Excluding items, the profit was in line with estimates. The telecom also reported higher revenue that missed estimates. Verizon said it added 2.2 million mobile subscribers, topping forecasts for adds of 1.5 million.

Looking forward, the company said it is seeing a slower-than-expected economic recovery and that it expects to cut 6% of its workforce this year, or around 13,000 jobs.

Verizon shares lost 1.7%.

Confidence: The Consumer Confidence index, from the Conference Board, rose to 55.9 in January from 53.6 in the previous month, versus forecasts for a reading of 53.5.

Housing: A key [report](#) that showed prices fell for the first time in seven months. The S&P/Case-Shiller 20-city home price index fell 0.2% in November from October and fell 5.3% from a year ago, in a bigger-than-expected drop.

World markets: Global stocks were under pressure after Standard & Poor's [warned](#) it could cut its debt rating on Japan and China implemented some of the bank curbs that had been hinted at last week.

China is one of the big drivers of the global economy and any indication that it is slowing down has an impact on world markets.

Asian markets ended lower, with the Japanese Nikkei tumbling 1.8%. European markets shook off earlier gains to stand flat to higher.

Commodities and the dollar: The [dollar](#) gained versus the euro and fell against the yen.

COMEX [gold](#) for February delivery rose \$2.60 to settle at \$1,098.30 an ounce. Gold closed at an all-time high of \$1,218.30 an ounce last month.

U.S. light crude [oil](#) for February delivery fell 55 cents to settle at \$74.71 a barrel on the New York Mercantile Exchange.

Bonds: Treasury [prices](#) rose, lowering the yield on the 10-year note to 3.60% from 3.61% late Monday. Treasury prices and yields move in opposite directions.

Market breadth was negative. On the New York Stock Exchange, losers beat winners three to two on volume of 1.12 billion shares. On the Nasdaq, decliners topped advancers by two to one on volume of 2.41 billion shares.