Fed comments rescue Wall Street from deeper Japan selloff
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By Ryan Vlastelica

NEW YORK (Reuters) - Stocks fell 1 percent but ended far from session lows on Tuesday on the Federal Reserve's more upbeat economic view and growing sentiment that Japan's nuclear crisis would only temporarily depress shares.

In a second straight day of losses tied to Japan, the S&P 500 fell to within four points of support at 1,257, its 2010 close. The benchmark index fell more than 2 percent in early trading and the Nasdaq briefly turned negative for the year.

Equities nearly halved their losses after the Fed stuck with its ultra-loose monetary policy and said the economy was gaining traction.

The Dow Jones industrial average was down 137.74 points, or 1.15 percent, at 11,855.42. The Standard & Poor's 500 Index was down 14.52 points, or 1.12 percent, at 1,281.87. The Nasdaq Composite Index was down 33.64 points, or 1.25 percent, at 2,667.33.

Volume was high, with about 10.05 billion shares traded on the New York Stock Exchange, the American Stock Exchange and Nasdaq, above last year's daily average of 8.47 billion.

Options activity on the iShares MSCI Japan Index fund suggested that some investors believe the selloff since Japan's worst recorded earthquake was overdone. The investors closed out recent long put positions or opened bullish bets.

The fund, which has a market cap of about $5.58 billion, ended 0.2 percent lower on record high volume and was the most actively traded ETF.

NUCLEAR ACCIDENTS

"While the outlook of nuclear accidents is justifiably scary, other nuclear issues have had small impacts on U.S. stocks and that's the most likely scenario here," said Jim McDonald, chief investment strategist at Chicago-based Northern Trust Global Investments, which has about $650 billion in assets under management.

"It is our view at this stage that there shouldn't be sustained disruptions, and this shouldn't be more than a short-term drag on the United States."

A Japanese nuclear power plant caused low levels of radiation to drift into Tokyo, prompting people to flee the capital.

Officials and markets were still trying to assess the full extent of destruction from Japan's earthquake and tsunami, with more than 10,000 people feared dead.

The Global X Uranium exchange traded fund fell 7.8 percent to $14.50. Shaw Group, an engineering and construction company that is part of a consortium that builds reactors, dropped 2.1 percent to $34.14 on more than five times its 10-day average trading volume.

Shares of Dow component General Electric Co, which has combined nuclear ventures with Japan's Hitachi Ltd, dropped 1.6 percent to $19.61 on more than twice its 50-day average volume.

"This will clearly change the risk assessment over the next one- to two-year period for the attractiveness of nuclear power," McDonald said. "This will give people pause."

Almost four stocks fell for every one that rose on the New York Stock Exchange while on the Nasdaq more than three stocks fell for every riser.

At its session low, the S&P 500 had given back more than half the gains of the latest leg of the stock market rally, from December 1 to the year's high on February 18. The S&P 500 is still up 21 percent since September.

The CBOE VIX volatility index rose 15 percent to 24.32.

Dollar-denominated Nikkei futures fell 4.9 percent and are down more than 10 percent for the year.

Among U.S. stocks affected by Japan, insurer American International Group Inc slid 1.9 percent at $36.78, while aluminum producer Alcoa Inc lost 0.5 percent at $16.04.

(Additional reporting by Doris Frankel and Rodrigo Campos; Editing by Kenneth Barry)