Commodity, Tech Shares Lead Market Lower

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By Kristina Cooke (Reuters)

NEW YORK, Sept 2 - U.S. stocks fell on Tuesday, as a steep decline in the price of oil and other commodities hammered energy and materials companies while tech shares fell amid jitters a global economic slowdown would crimp technology spending.

The market reversed sharp gains notched at the beginning of the day, as commodity-related shares sold off. Analysts said the drop in those shares was likely further fueled by the closure of a hedge fund announced after the bell.

The market had initially soared more than 1 percent as oil prices fell to a five-month low on relief that damage to energy infrastructure from Hurricane Gustav appeared to be limited. The lower oil prices also had buoyed hopes of a recovery in consumer and business spending.

But as fears faded that Gustav would cause a prolonged disruption to energy supplies, the focus shifted to one of the reasons for oil's decline since its record peak in July: fears of slowing world energy demand.

After the closing bell another potential reason for the market's reversal emerged, when Ospraie Management told investors it would close down a fund that lost 27 percent in August amid a sell-off in energy, mining and resource equity holdings.

"I definitely think that this helped turn the market around," said Peter Holst, managing director at Delta Global Advisors in Southern California.

"Someone was just selling stock, selling stock in those names (that Ospraie had positions in) regardless of the market. It had looked to us like there may have been a fund that was about to be liquidated," said Holst.

Lehman Brothers Holdings Inc (LEH) took a 20 percent stake in Ospraie in 2005. Lehman's shares were down more than 4 percent in after-hours trading.

The Dow Jones industrial average .DJI dropped 26.63 points, or 0.23 percent, to 11,516.92. The Standard & Poor's 500 Index .SPX dropped 5.26 points, or 0.41 percent, to 1,277.57. The Nasdaq Composite Index .IXIC dropped 18.28 points, or 0.77 percent, to 2,349.24.

In addition, worries that tech companies will suffer as the global economy slows, which sent markets tumbling on Friday after computer maker Dell Inc (DELL) warned that companies worldwide are cutting back on technology spending, continued on Tuesday, analysts said. "This theme will continue to be very front and center for a number of months ahead, because any global slowdown is going to deliver a direct hit to technology spending," said Peter Kenny, managing director at Knight Equity Markets in Jersey City, New Jersey.

Even during the market's sharp gains earlier in the session, technology shares did not gain as much.

Concerns a sharp slowdown in global economies could dent demand also hurt commodity-related companies such as miner Freeport McMoRan Copper & Gold Inc (FCX) and energy company Exxon Mobil Corp (XOM.N: Quote, Profile, Research, Stock Buzz), which led the S&P 500 lower.

U.S. crude CLc1 settled down $5.75 to $109.71 a barrel, below the 200-day moving average of around $111.

"The market just couldn't hold its gains from the oil drop," said Bobby Harrington, head of block trading at UBS in Stamford, Connecticut. Apart from the selling in technology and commodity-related shares, he said there are nagging "concerns that credit problems at financial firms are still not straightened out."

In a sign of more fallout from the credit crisis, Fitch Ratings cut its ratings on the preferred stock of housing finance companies Fannie Mae (FNM) on concern a lack of access to fresh capital could lead the companies to suspend dividend payments.

On the economic front, U.S. factory activity unexpectedly shrank slightly in August according a report by the Institute for Supply Management. The report suggests the factory sector is still struggling, along with the rest of the economy, to overcome the effects of the worst U.S. housing slump since the Great Depression of the 1930s.

Freeport-McMoRan shares fell 7 percent to $83.05, while Exxon slid 3.4 percent to $72.32.

On the Nasdaq, Apple (AAPL) fell 2 percent to $166.19, while Research In Motion (RIM) dropped 2.7 percent to $118.35. Dell's shares fell 4.1 percent to $20.83.

The lower price of oil did help airline and retail stocks. The airline index .XAL rose 6.6 percent and the S&P retail index .RLX gained 3 percent.

Trading was tepid on the New York Stock Exchange, with about 1.1 billion shares changing hands, well below last year's estimated daily average of roughly 1.9 billion, while on Nasdaq about 2 billion shares traded, also below last year's daily average of 2.17 billion.

Advancing stocks outnumbered declining ones on the NYSE by 17 to 14 while decliners just edged out advancers on the Nasdaq by 14.2 to 13.8.