

NEWS RELEASE

02.26.08

CITI ASIDE, DOW JUMPS 189.20 ON LIFT FROM BOND INSURERS

By Peter A. McKay · The Wall Street Journal

Financial stocks continue to drive the market.

After wavering through much of the day, hurt in part by an analyst's forecast of big credit-related losses at Citigroup, stocks surged in the afternoon after Standard & Poor's announced it is maintaining the top credit ratings of bond insurers Ambac Financial Group and MBIA.

The Dow Jones Industrial Average jumped more than 200 points on the S&P announcement, to end the day up 189.20 points, or 1.5%, at 12570.22. It is still down 6.7% this year.

It was similar to Friday's session, when the market languished until the last hour of trading, and then jumped on reports of a possible agreement on a cash infusion for Ambac.

Wall Street professionals welcomed the last two sessions' gains as a boost for investors' skittish mood. But they were also quick to warn that even increased stability for bond insurers won't solve the credit crisis. Even if the companies that guarantee debt instruments are increasingly sound, the firms that bought the underlying loans and packaged them into complex securities can still rack up losses.

"Psychology is an important part of the market from day to day," said Denis Amato, chief investment officer at asset-management firm Ancora Advisors, referring to the S&P moves. **"But we ultimately need to see the fundamentals change."**

Dow component Citigroup fell 1.5% after Meredith Whitney of Oppenheimer & Co. said illiquid credit markets could force the giant bank to sell up to \$100 billion in assets. It was the only of the 30 Dow stocks to end in the red.

The Standard & Poor's 500-stock index gained 1.4%, or 18.69 points, to 1371.80, including gains in all its sectors. An exchange-traded fund tracking the broad measure's financial components ended up 0.3%, after trading down more than 2% at its intraday low. The S&P is down 6.6% this year.

In its ratings announcement, S&P cited Ambac's capital-raising plans and MBIA's "success in accessing \$2.6 billion of additional claimspaying resources...a strong statement of management's ability to address the concerns relating to the capital adequacy of the company." MBIA shares soared 20% and Ambac shares leapt 16%. But MBIA shares edged down 0.8% in after-hours trading. The company announced after the market close that it was eliminating its quarterly dividend to preserve \$174 million

annually and retain and strengthen its triple-A credit rating.

The National Association of Realtors reported that sales of existing homes fell at an annual rate of 0.4% in January and the median home price was down 4.6%, hardly good news, but the data beat economists' more dismal expectations.

Videogame maker Electronic Arts' unsolicited \$2 billion offer for Take-Two Interactive Software sent Take-Two shares soaring 55% and provided a boost for the broader tech sector. The Composite Index rose 1%.

"There is a debate right now about whether we've successfully priced in all the bad news that's likely to come" regarding economy and bad credit bets on Wall Street, said Art Hogan, chief market analyst at Jefferies & Co.

As investors moved into stocks, prices of Treasury securities fell and yields rose. The dollar rose against the euro yen. Crude-oil futures rose 42 cents a barrel to \$99.23 on the New York Mercantile Exchange, but gold fell \$7.10 ounce to \$937.60.

As earnings season draws to a close, a clearer picture is emerging of the damage credit losses have caused for financial companies. With more than 90% of S&P 500 companies' quarterly reports in hand, aggregate profits for the index about 21%.

If financial companies were removed from the calculation, the S&P's aggregate earnings would show a 12.4% year year gain for the fourth quarter, according to Thomson Financial. Other sectors are likely to see a ripple effect in few quarters of 2008, perhaps even after the financial sector's earnings begin to improve, said Mike Thompson, research director at Thomson.