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US Stocks Down On Retailers, Technology, Europe

By Jonathan Cheng

U.S. stocks saw their morning gains erased as investors weighed earnings from some high-profile retailers against signs of rising input costs and continued dissatisfaction over efforts to find a solution to Europe's debt woes.

The Dow Jones Industrial Average shed nine points, or 0.1%, at 11397 in midday trading, after being up 124 points earlier in the session. The Standard & Poor's 500-stock index edged up one point, or 0.1%, to 1194 while the Nasdaq Composite fell 15 points, or 0.6%, to 2509.

Leading the decliners were technology and consumer-discretionary stocks. Hewlett-Packard fell 4.5% to lead the Dow laggards, after rival Dell tumbled 10%. Investors dumped shares in the computer-maker, which reported slowing sales and lowered its full-year revenue target.

Dell said it expected revenue to climb 1% to 5% for the year, lower than its previous range of 5% to 9%, as it faces a challenging sales environment. Chief Financial Officer Brian Gladden said consumers were a particular challenge for the company.

Pulling on the upside were stocks in the defensive telecommunications and utilities sectors. Verizon gained 1.2% and AT&T added 1%.

The strength in utilities stocks "is a sign of people looking for yield and safety," added Russell Croft, co-manager of the Croft Value Fund.

Underscoring that point, Treasurys found a strong bid, with the yield on the benchmark 10-year note falling to 2.1782%. "The 2008 and 2009 sell-off is still fresh in people's heads, and a week like last week didn't make people feel any better," Croft said.

A decline on Wednesday would extend the Dow's losing streak to two days, coming after declines in many of the major overseas markets. Japan's Nikkei Stock Average slipped 0.6% while Germany's DAX index finished down 0.8%. Investors were disappointed after a meeting between two key European leaders failed to assuage debt concerns stemming from the euro zone.

"If you expect the markets to go higher, it doesn't seem like the smart money would be flowing to utilities," said Christian Wagner, chief investment officer of Longview Capital Management. "We believe there's a higher likelihood that we'll retest the lows we saw last week. There's still a great deal of bad news to come out of Europe. The first of the bad news is never the worst of it."

Retail stocks were in focus Wednesday, after a batch of high-profile names reported earnings.

Target rose 2.4% after its quarterly earnings report topped estimates, driven by same-store sales growth. The retailer's full-year earnings forecast was also stronger than expectations.

Staples reversed a morning gain to fall 0.7% after it reported second-quarter profit that topped forecasts, boosted by an increase in international sales and a rosy full-year forecast.

Abercrombie & Fitch fell 8.3% as rising costs from increased raw-material costs cut into profit margins, though fiscal second-quarter earnings rose 64% amid rising sales at the teen-apparel retailer.

"Costing pressures will be greater in the second half of the year, and macroeconomic uncertainty has increased," its chairman and chief executive, Mike Jeffries, said.

Deere slipped 1.3% after fiscal third-quarter earnings rose 15% on an increase in farm-equipment sales, sharply lower than in recent quarters but still above expectations.

In economic news, U.S. producer prices climbed last month even as energy prices fell, potentially leaving less room for the Federal Reserve to ease credit. The index of producer prices rose 0.2% in July, driven by higher costs for food, trucks and pharmaceuticals. Core prices, which strip out volatile food and energy components, jumped 0.4% last month for their eighth consecutive gain.

The readings were higher than expectations for a 0.1% rise in overall producer prices and a 0.2% increase in the core index, and could constrain the Fed from taking further action if inflation stays above its informal target of close to 2.0%.

Gold futures rose to below $1,790 an ounce, while crude oil futures rose to $87.30 a barrel. The U.S. dollar lost ground against both the euro and the yen.