



US stocks fall as d-day looms

Failure to raise debt ceiling would hurt Wall Street

BY KEN SWEET

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NEW YORK - Stocks sank Monday as Wall Street worried that a budget fight in Washington could lead to something much worse for the economy. It has become all but certain that the federal government will partially shut down for the first time in 17 years Tuesday because Congress and the White House have failed to reach an agreement to fund federal spending.

But investors are looking beyond that first impasse because any hit the economy and markets should be temporary if the shutdown is short. The bigger worry is the problem with the debt ceiling, they say.

Treasury Secretary Jack Lew

said last week that the government would run out of borrowing authority by roughly Oct. 17. The last time the debt ceiling issue came up in August 2011, it led to Standard & Poor's downgrading the U.S.' credit rating and the Dow Jones industrial average went through nearly three weeks of triple-digits moves almost daily.

There is a simple reason why the budget battle — and, more importantly, the fight over the debt ceiling — are so important: the credit of the United States is the bedrock that nearly every other investment is built upon, due largely on the assumption that the nation will always pay its debts.

The benchmark U.S. 10-year Treasury note is used to value mortgages, corporate bonds, and even stock

dividends. If domestic and foreign investors begin to question whether the U.S. will pay its debts, it could throw every other investment out of alignment.

"It's a threat to the center of the global financial system that even a small worry can have very large ramifications to all," said Jake Lowery, fixed income portfolio manager at ING U.S. Investment Management.

On Monday, a partial shutdown appeared imminent. With just hours before a midnight deadline to reach a deal on federal funding, Congress and the White House appeared no closer to an agreement. A short shutdown isn't a worry for investors, but the threat of a longer one is a big concern for Wall Street.