



Wall Street seemed complacent last week when there was time to spare. But with less than a week before a possible U.S. default, investors are getting jittery.

By **Jenny Ivy** | July 27, 2011 at 12:22 PM | Originally published on **Benefitspro.Com**

Wall Street seemed complacent last week when there was time to spare. But with less than a week before a possible U.S. default, investors are getting jittery.

The first warning sign: they're dumping small company stocks.

Associated Press business writer Chip Cutter explains, "[Small company] stocks usually fall much more than large-company stocks if the economy slows down or the stock market turns volatile. With the deadline for a debt deal less than a week away, the stocks that investors consider to be the riskiest are falling the most."

Though officials from credit ratings agencies **told Congress** Wednesday that a default probably won't happen, Cutter notes the market has been sinking since last Friday, and investors are still worried about the U.S.'s credit rating.

President Obama assures debt ceiling negotiations have been settled several times before, but this latest spending binge has put the country's borrowing credibility on the line. A default is a worst-case scenario, but **a credit rating downgrade is likely.** Either event, Cutter writes, could "raise interest rates across the board and slow down the already weak U.S. economy."

Should investors worry? Previous reports indicated a definite downgrade unless Congress can hit the $4 trillion mark in budget cuts, but S&P hints that current negotiations should be sufficient to keep a triple-A credit rating. And even with a moderate downgrade, a **Fitch Ratings report** shows that a lower rating could shake up Treasuries and broader markets, but, "Over the near-to-medium term, in a moderate downgrade scenario (e.g., to AA), U.S. Treasuries would likely retain their standing as the benchmark security that anchors global fixed-income markets, given their unparalleled liquidity, unique role in the financial system, strong credit profile, and lack of a viable alternative."

So how will you know if there's panic on Wall Street? Here are **5 indicators to watch for in the coming days** (source: Associated Press)


1. **Treasurys:** How will you know if China, the largest foreign holder of Treasurys, loses faith in the U.S. government? Bond yields will leap. The main Treasury to watch is the 10-year note. Its yield acts as a floor for mortgages and other lending rates throughout the economy.

2. **Gold:** Investors are piling into gold on fears of a U.S. default, pushing the metal on Monday to $1,612 per troy ounce. But unlike a lot of metals, including silver and copper, there are few commercial uses for gold. That makes it difficult to guess just how much it really is worth, and whether the price rally will continue. But its high price is a good indicator of how scared people are.

3. **Stocks:** Concerns about the debt ceiling haven't hampered the stock market yet. The Dow Jones industrial average twice jumped by more than 100 points over the last week thanks to strong corporate earnings from Microsoft, IBM and Coca-Cola. But most market analysts think a deal will be reached and haven't laid out a strategy in case it's not.

4. **Mutual funds:** Everyday investors don't appear to be making drastic changes to portfolios. In the week of July 13, the last week of data available, investors pulled $4.1 billion out of funds that invest in U.S. stocks, according to the Investment Company Institute.

5. **Currencies:** Monty Guild, head of Guild Investment Management in Los Angeles, says he's trying to protect clients by buying currencies issued by countries that have been more prudent with spending. His top choices: Singapore dollars, Canadian dollars, Brazilian reals and Australian dollars. The bet is that as the U.S. struggles to pay its debts, more investors will put money in these countries, lifting the value of the currencies.

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