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Wall Street Wallows in After-Election Gloom

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Wall Street's hopes for lighter regulation and a better rapport with the White House were hurt by President Barack Obama's win in the presidential race.

The result left bankers, traders and private-equity executives facing the prospect of higher taxes, tougher rules on their activities and more aggressive regulators. Bank-stock investors were handed their biggest single-day loss in a year.

Finance industry executives weren't necessarily expecting a victory by the Republican challenger Mitt Romney. But they had hoped that had the former private-equity chief prevailed, he might have brought a softer touch on the regulations that many blame for their companies' sagging financial performance in recent years. Among the main complaints was the Dodd-Frank financial overhaul that limits bank risk-taking and profits in areas including fee collection.

"You lost that momentum where you're softening up the political stance that appears to or tends to be antibanking," said Paul Miller, an analyst with FBR Capital Markets.

Over the past four years, the president's often-harsh rhetoric against Wall Street and its inhabitants has rankled many industry executives, including those who backed him four years ago.

Wall Street—broadly defined as securities firms, commercial banks and private investment funds—donated $29.5 million to the Romney campaign, compared with $8.7 million to the Obama campaign, according to the Center for Responsive Politics. The funds came from people or political action committees affiliated with the industry.

In 2008, Mr. Obama raised $22.7 million from the banking, securities and investment industries and Republican foe Sen. John McCain raised $13.6 million, the Center for Responsive Politics says.

The election, by ratifying the status quo in Washington of a divided Congress and a president who isn't popular among some businesspeople, also raised fears that the U.S. is nearing another financial-market crisis. Republicans and Democrats are headed for a clash over the so-called fiscal cliff, the automatic tax increases and spending cuts that will kick in without congressional action on the budget.

Both Fitch Ratings and Moody's Investors Service reiterated Wednesday that a downgrade is at least a possibility in 2013 if the U.S. fails to resolve its fiscal problems.

Investors in the biggest U.S. banks lost $37 billion in market value during Wednesday's selloff. Morgan Stanley, MS +0.15%the smallest of the giant U.S. financial companies, dropped 8.6% and Goldman Sachs Group Inc. GS -0.42%slid 6.6%. Bank of America Corp., BAC +2.72%the second-biggest bank by assets, fell 7.1%. The KBW index of large commercial banks dropped 4.6%, its biggest point decline since last Nov. 9, when Europe's debt crisis was boiling over.

Among the factors weighing on bank stocks Wednesday, analysts said, was Elizabeth Warren's Senate win in Massachusetts over incumbent Scott Brown. Some said the victory by Ms. Warren, who was the driving force behind the Obama administration's creation of the Consumer Financial Protection Bureau, was at least a sign that regulators wouldn't let up.

"If you wanted to soften up the CFPB you probably have no chance now," Mr. Miller said.

Bank stocks have been rising since June, due to factors including efforts by European policy makers to fight the region's debt crisis and slowly improving U.S. economic data.

Despite the mood on Wednesday, some say concerns about the next four years may be overblown. Mark Calabria, director of financial regulation studies at the Cato Institute, a think tank, said while regulation was a central issue in Mr. Obama's first term, he thinks the president will focus more on the budget, leaving regulatory issues to Congress, where big banks have many friends. Mr. Obama has "gotten the mileage he's wanted to get out of it," he said. "He can leave this fight to others now."