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Investors keep close eye on Federal Reserve

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NEW YORK • A wobbly U.S. stock market will take its cues in the coming week from a Federal Reserve meeting set to shed light on the path for interest rates, and from a packed slate of corporate earnings led by technology companies and heavyweights in artificial intelligence.

Major equity indexes posted weekly declines, dragged down on the week by steep slides in Alphabet and Tesla following their quarterly reports.

The fallout for Google parent Alphabet, sparked in part by an increase in its already massive AI spending plans, set a negative tone ahead of results next week from other AI "hyperscalers": Microsoft, Amazon and Meta Platforms.

AI-related stocks have been at the heart of equity market gains this year, helping drive the bull market near to its fourth year. Despite this week's stumble, the benchmark S&P 500 is still up over 8% in 2026, while the market "feels very frothy," said Kristina Hooper, chief market strategist at Man Group.

"Investors are, to a certain extent, walking on eggshells," Hooper said. "And they're more likely to react negatively to any signs of imperfection."

Will fed hold rates steady?

Meanwhile, the Fed meeting comes as oil prices have shot up due to escalating tensions in the Middle East. Brent crude hit $100 a barrel on Thursday.

That has fanned fears that policymakers will need to be more aggressive in raising rates to control inflation, which consistently has run well above the Fed's 2% annual target.

The central bank was expected to hold rates steady when it gives its monetary policy statement on Wednesday, with Fed funds futures late on Friday pricing in a 38% chance of a quarter-percentage-point rate increase, according to LSEG data.

But there was still some uncertainty on Wall Street over whether the Fed, whose new chair, Kevin Warsh, is overhauling monetary policy communication, might surprise markets.

"The possibility of a shock rate hike cannot be ruled out entirely," BNP Paribas economists said in a note this week.

The meeting will be the second under Warsh, who has shunned forward guidance while vowing to bring inflation down to target.

"He's really not showing the Fed's cards," said Paul Nolte, senior wealth advisor and market strategist at Murphy & Sylvest Wealth Management.

Investors seek signs of fed rate hikes

Even if the central bank holds rates steady on Wednesday, investors will look for hints about the future path of rates in the policy statement and Warsh's ensuing press conference. Fed funds futures are factoring in two quarter-point rate hikes by the January 2027 meeting.

"If you get the feeling that there are more committee members that are moving towards these multi-hike scenarios over the balance of the year, then I think that's going to be a problem for the market," said Scott Wren, senior global market strategist at the Wells Fargo Investment Institute.

Higher interest rates raise borrowing costs for consumers and companies, slowing the economy and often weighing on stocks.

They can also translate into higher Treasury yields, which already have been rising in recent weeks, creating competition for equities. The benchmark 10-year Treasury yield topped 4.7% on Thursday, reaching its highest level since early 2025. Yields move opposite to the price of bonds.

Investors also get a series of updates on the U.S. economy next week, with reports due on second-quarter gross domestic product, monthly inflation and consumer sentiment.

Big earnings week, including big AI spenders

About one-third of S&P 500 companies are expected to post results, making it the busiest week of the second-quarter reporting season, including Apple, Visa, Chevron and Coca-Cola.

With more than 80 companies already having reported, S&P 500 second-quarter earnings were on track to post a 26.5% increase on last year, according to LSEG IBES data as of Wednesday — a huge profit boost that Wall Street had been anticipating and incorporating into stock prices ahead of earnings.

AI spending has been a central driver of stock prices in 2026, boosting semiconductor firms and companies involved in building data centers and other infrastructure.

But there have also been increasing investor concerns about whether the big spenders will recoup their massive investments. That issue arose with Alphabet's report and could play into how investors react next week to quarterly reports from Microsoft, Amazon and Meta.

The companies could easily meet earnings expectations and give strong guidance for the next quarter, but still be punished by the market as investors' perspective on the AI spending shifts, Man Group's Hooper said.

"Where they saw opportunities, now they're more likely to see risks," she added.