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Fed Leaves U.S. Investors Sitting Tight

Stocks and longterm bond yields edge higher after rate decision

BY SAM GOLDFARB

The Federal Reserve is in a holding pattern. And so are markets.

U.S. stocks and longer-term bond yields ticked higher after the Fed held interest rates steady as expected, and Fed Chairman Kevin Warsh made comments that investors interpreted as slightly dovish— indicating that the central bank likely won't embark on a rapid series of rate increases in the coming months.

Warsh said at Wednesday's news conference that financial and credit conditions had tightened since the Fed raised rates last month—a sign, he suggested, that the central bank's policies were starting to work by moving toward "a longer, more durable period of economic growth and price stability."

Stock investors were generally cheered by the tone of Warsh's comments, with the Dow Jones Industrial Average ticking up 0.2%, or roughly 98 points, and the S&P 500 and Nasdaq composite both rising 0.3%. Bonds were more mixed, with longer-term yield rising even as short-term yields fell— a sign of some modest concern that the Fed might be too complacent in fighting inflation.

"All in all, I would say the market is taking this as less likelihood of aggressive hiking," said Anders Persson, chief investment officer and head of global fixed income at Nuveen. There was, he added, "nothing scary coming out of the conversation here today."

Heading into Wednesday, stocks had effectively treaded water in the six weeks since the Fed's previous meeting, with the S&P 500 inching up 0.7% over that span. That broad performance masked significant turmoil beneath the surface, as investors went hot and cold on the all-important AI trade, alternatively sapping and boosting demand for stocks in other sectors.

Worries about rising borrowing costs and the future demand for artificial-intelligence models have dragged on tech shares for much of October. Still, many of them rebounded this week after An thropic unveiled paperwork for an initial public offering,

showcasing data about its revenue growth, profitability and breadth of customers. The details helped reassure investors that demand for AI tools can keep pace with technology companies' outsize spending on the infrastructure needed to power them.

Results from tech giants **Alphabet** and **Microsoft** after the market close on Wednesday were expected to shed further light on those trends. Alphabet shares fell in after--hours trading after the Google parent reported advertising revenues that fell short of expectations. Microsoft rose in late trading after the software giant reported revenue that beat Wall Street estimates.

Many investors see the Fed as one of the biggest threats to stocks right now. Expectations that the Fed will keep raising rates have driven up yields on U.S. government bonds. Higher yields have put pressure on stocks by lifting borrowing costs across the economy and boosting the appeal of Treasurys as an alter---native to riskier assets.

Stocks and bonds now appear to be in an uneasy equilibrium. After the yield on the 10-year note reached a 24year high above 5.3% earlier this month, investors quickly started selling tech stocks and buying bonds in a flight to safety. That pulled the 10-year yield back below 5%, providing some relief to stocks. But analysts say yields could easily rise again if tech stocks continue to rebound and inflation remains elevated—a development that could undermine that rally, as it did before.

The 10-year yield was hovering just above 5% in late-afternoon trading Wednesday, according to Tradeweb, up from 4.992% Tuesday.

Overall, the historic spending by tech companies is a major reason why the economy is proving so resilient and why the Fed is likely to raise rates further, said Jason Granet, chief investment officer at BNY.

At some point, rising rates will slow the economy, but it could take time to get there because "there's no one who's calling for a massive ratchetup in rates," Granet said.

Data to be released on Thursday are expected to show that the core personal expenditures price index, a favored inflation gauge of the Fed, rose a little over 3% in September from a year earlier, well above the Fed's 2% target.

Some investors remain optimistic that inflation can gradually fall back to 2% without further rate increases, arguing that price increases are being driven by temporary factors such as President Trump's tariff increases and rising energy costs spurred by the U.S.-Iran conflict.

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