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FINANCE

Bond market swings, but U.S. stocks steady

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By Stan Choe
The Associated Press

NEW YORK — The bond market swung Wednesday, while U.S. stocks ticked higher following the Federal Reserve's decision not to raise its main interest rate to bring down high inflation. The bond market's moves indicated traders see less of a chance of hikes to rates in the future that would help ease inflation but could also hurt the economy.

The S&P 500 rose 0.3% after drifting between small gains and losses through the day, both before and after the Fed's decision. The Dow Jones Industrial Average added 97 points, or 0.2%, and the Nasdaq composite rose 0.3%.

The action was much stronger in the bond market, where the yield on the two-year Treasury initially climbed after the Fed announced it was holding the federal funds rate steady. It got above 4.79% from 4.70% late Tuesday after the Fed said two officials actually wanted to raise the fed funds rate, only to get outvoted by their peers.

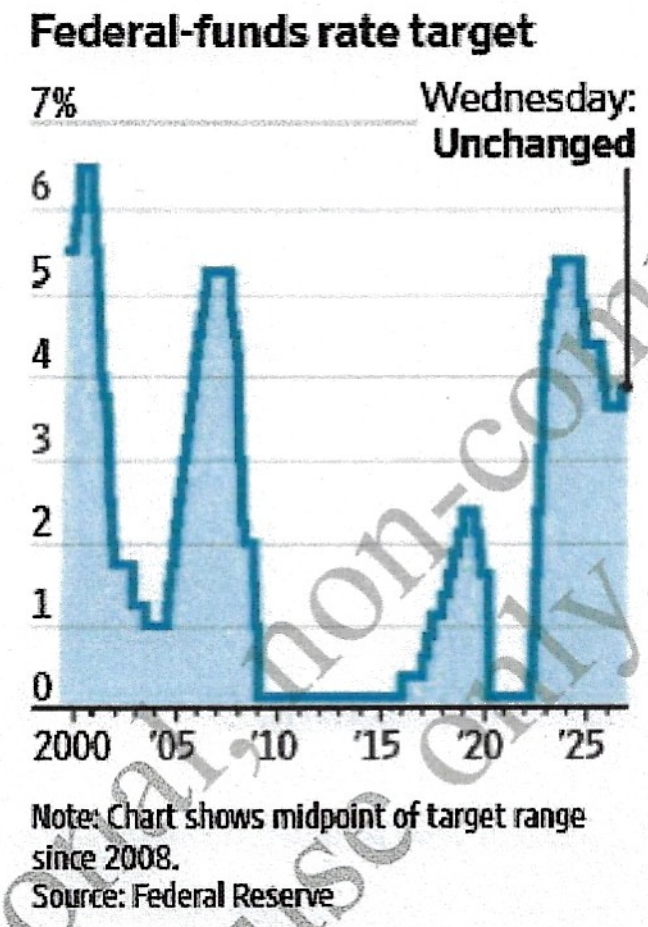
The central bank last month raised its main interest rate for the first time in three years in hopes of bringing down inflation, which has remained above the Fed's 2% target for years and has been discouraging Americans broadly. But the two-year Treasury yield, which closely tracks expectations for Fed action, quickly reversed course. It dropped as low as 4.69% after Fed Chairman Kevin Warsh said the central bank wanted to see how conditions play out before making its next move.

He pointed to how rates for loans have climbed and how lenders and investors have become "more discerning." He said the overwhelming judgment among Fed officials at their meeting was that "monetary medicine" is "starting to work some."

Along with signals that the U.S. economy continues to grow, Warsh said that "broadly, these developments go in the direction" of helping the Fed achieve its two goals of a healthy job market and relatively low inflation.

Traders on Wall Street still see further increases to rates by the Fed as likely, but they pared back bets for how many may come by next summer, according to data from CME Group. The yield on the 10-year Treasury, which moves on expectations for inflation and economic growth in upcoming years, had its own yo-yo moves following the Fed's meeting but was largely steadier. It rose to 5.02% from 4.99% late Tuesday.

Yields also got an upward nudge from rising oil prices as uncertainty continues about what will happen in the Middle East and the global energy industry. The price for a barrel of Brent crude, the international standard, climbed 2% to $111.64.



Note: Chart shows midpoint of target range since 2008.
Source: Federal Reserve

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