

## Fed spooks the market

Stocks and bonds tumble after the central bank holds rates steady but alters its message; dollar up.

January 28, 2004: 5:48 PM EST

By Alexandra Twin, CNN/Money Staff Writer

**NEW YORK (CNN/Money) - Stock and bond prices tumbled Wednesday after the Federal Reserve changed the language in its outlook for interest rates, sparking worry among investors about when the central bank might start raising rates.**

The Dow Jones industrial average (down 141.55 to 10468.37, [Charts](#)), which had been higher early in the session, abruptly turned lower and ended down 1.3 percent.

The Standard & Poor's 500 (down 15.57 to 1128.48, [Charts](#)) index also fell about 1.3 percent while the Nasdaq composite (down 38.67 to 2077.37, [Charts](#)) lost 1.8 percent.

Treasury bond prices tumbled while the dollar strengthened.

The central bank held its target for a key short-term interest [rate](#) at 1.0 percent, the lowest in more than 40 years.

But the Fed's policy-making committee also changed the wording of its statement on monetary policy, dropping a promise to hold rates steady for a "considerable period," and saying instead that they would be "patient" in keeping rates low.

The change worried some investors who had viewed continued low rates and a fast-growing economy as the best of all worlds for the stock market.

The change in the Fed's wording "blind-sided the markets," Ian Shepherdson, chief U.S. Economist at High Frequency Economics, wrote in an afternoon note.

Many investors had been betting the central bank would start raising rates, but much later this year. Now that process could start sooner, some market analysts said.

But others said investors overreacted.

"The Fed is still maintaining its supportive stance," said Ned Riley, chief investment strategist at State Street Global Advisors. "They are not going to raise rates until the economy begins to generate more jobs."

In its statement, the Fed painted a mixed picture of the economy, saying output was "expanding briskly" but that new hiring was "subdued" and that inflation was "muted." (For more on the Fed and rates, click [here](#).)

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Still, even the prospect of higher rates was enough to unnerve Treasury investors, who are particularly sensitive to inflation and interest rates.

[Treasury](#) prices tumbled, with the 10-year note sinking 30/32 of a point in price, boosting its yield to 4.19 percent from 4.07 percent late Tuesday. Bond prices and yields move in opposite directions.

The [dollar](#), meanwhile, made gains versus the yen and the euro. The promise of higher rates makes some U.S. assets more attractive to overseas investors, which would boost demand for dollars.

After the close, shares of both [Veritas Software](#) ([VRTS: Research, Estimates](#)) and [JDS Uniphase](#) ([JDSU: Research, Estimates](#)) fell. Veritas issued a quarterly profit after reporting a loss a year earlier, but issued a current quarter forecast that is lower than what analysts were looking for. JDSU reported a narrower loss than a year earlier and better revenue in the current quarter, but still saw its shares fall in after-hours trade, with investors seeming to take a "sell the news" attitude.

Reports are due Thursday before the bell from Dow components [Boeing](#) ([BA: Research, Estimates](#)), [Exxon Mobil](#) ([XOM: Research, Estimates](#)) and [Honeywell](#) ([HON: Research, Estimates](#)). Earnings are also expected from [Bristol-Myers Squibb](#) ([BMY: Research, Estimates](#)), [Duke Energy](#) ([DUK: Research, Estimates](#)), [Eli Lilly](#) ([LLY: Research, Estimates](#)), [UPS](#) ([UPS: Research, Estimates](#)) and [Verizon Communications](#) ([VZ: Research, Estimates](#)).

Weekly jobless claims are also due before the open Thursday and are forecast to show that 340,000 people filed new claims for unemployment last week, virtually unchanged from 341,000 the week before.

### What's moving?

The Dow and Nasdaq closed at their highest levels in more than 2-1/2 years Monday, leaving stocks vulnerable to profit-taking. That's been exacerbated by corporate earnings reports, which have been strong but have still had trouble living up to Wall Street's expectations.

"What we're looking at generally is whether the market can get past these levels," said Scotty George, chairman at du Pasquier Asset Management. "We think there's enough strong sentiment and stimulus in the pipeline for that to happen and that the earnings will ultimately lead the market, but it's a process, and it's going to take time."

The morning's movers were the companies that had recently released earnings, but selling swept Wall Street after the Fed's announcement. Of the 30 stocks in the Dow industrials, 27 closed lower.

Dow component [Altria](#) ([MO: up \\$0.65 to \\$55.65, Research, Estimates](#)) reported a profit of \$1.02 a share at midday, shy of analysts' forecasts but up from a year earlier. Shares gained 1.2 percent.

[DuPont](#) ([DD: up \\$1.09 to \\$43.67, Research, Estimates](#)) also bounced 2.5 percent. The stock was knocked lower Tuesday, even after the chemical maker announced improved fourth-quarter earnings.

But many stocks fell sharply, including techs and others that are most interest-rate sensitive.

The Dow's biggest losers on a percentage basis were [Alcoa](#) ([AA: down \\$1.48 to \\$33.78, Research, Estimates](#)), down more than 4 percent, and [Hewlett-Packard](#) ([HPQ: down \\$1.34 to \\$24.28, Research, Estimates](#)), down more than 5 percent.

Among other movers, [Tenet Healthcare](#) ([THC: down \\$2.97 to \\$13.18, Research, Estimates](#)) fell 18.4 percent in active trading after announcing it will sell more than a fourth of its hospitals and take a \$1.4 billion charge in the fourth-quarter.

[Time Warner](#) ([TWX](#): down \$0.85 to \$17.96, [Research](#), [Estimates](#)), CNN/Money's parent, shed 4.5 percent after it reported an [operating income decline](#) in the fourth quarter. Still, the company registered a net profit in the quarter, compared with the huge loss a year earlier.

[Amazon.com](#) ([AMZN](#): down \$3.78 to \$51.96, [Research](#), [Estimates](#)), which late Tuesday reported its [first profitable year](#), saw its stock tumble 6.8 percent, as investors apparently were disappointed that the company's net met but didn't exceed forecasts.

Among the few gainers, telecom gear and software maker [Avaya](#) ([AV](#): up \$2.44 to \$17.85, [Research](#), [Estimates](#)) rallied 15.8 percent after reporting a quarterly profit that topped expectations and reversed a loss from a year earlier.

Electronic equipment contract manufacturer [Flextronics](#) ([FLEX](#): up \$1.37 to \$18.44, [Research](#), [Estimates](#)) jumped 8 percent after [reporting](#) a quarterly profit, reversing a year-earlier loss, on sales that topped forecasts.

Chipmaker [Broadcom](#) ([BRCM](#): up \$1.03 to \$41.63, [Research](#), [Estimates](#)) reported earnings that topped estimates, after a loss a year earlier. The company also said its revenue in the current quarter would rise 10 percent from the last quarter. The stock climbed more than 5 percent.

Stock market breadth was negative. Losers outnumbered gainers by nearly 3 to 1 on the New York Stock Exchange, where 1.81 billion shares traded. On the Nasdaq, decliners beat advancers by a similar margin on volume of nearly 2.3 billion shares.

NYMEX light sweet crude oil [futures](#) fell 50 cents to settle at \$33.62 a barrel. COMEX [gold](#) rallied \$4.60 to settle at \$415.80 an ounce. ■

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## New week ... no relief?

The major indexes have been see-sawing for nine weeks. Get ready for a few more.

March 20, 2004: 7:50 AM EST

By Alexandra Twin, CNN/Money Staff Writer

### NEW YORK (CNN/Money) - A nine-week stock market roller coaster ride has left investors queasy. It's not over yet, analysts say.

The major indexes are currently trading below where they ended 2003 and while there will be plenty of movement in the next few weeks, it's likely to be in a see-saw pattern.

"Lately, the market has been spiking violently up and violently down," said Scotty George, chairman at du Pasquier Asset Management. "And though we'd prefer it were different, this type of violent movement is appropriate right now. The market has come a long way."

Depending on how you look at it, the bottom was either in October 2002 or March 2003. Either way, most analysts look at late January of this year as the start of the current period of consolidation.

Between the October 10, 2002 intraday low and the close on January 26, 2004, the S&P 500, for example, rallied 50 percent. Between the March 12, 2003 intraday low and the same close in January, 2004, the S&P 500 gained 46 percent.

But between January 26 of this year and Friday's close, the S&P 500 index fell close to 4 percent.

"This lateral consolidation could persist through May," George added. "But that's not a negative. The longer the market can sustain this lateral consolidation, the more of a base it can create to expand."

The focus on corporate profits and job growth and the connection between the two continue to dominate. The start of the first-quarter earnings reporting period will provide some momentum, analysts say, as it's expected to be upbeat. The current forecast from First Call is for earnings to rise around 17 percent from a year earlier.

However, earnings don't heat up in earnest until the week of April 5, when [Alcoa \(AA: Research, Estimates\)](#), [Genentech \(DNA: Research, Estimates\)](#), [Yahoo! \(YHOO: Research, Estimates\)](#) and [General Electric \(GE: Research, Estimates\)](#) are set to reveal how their quarters went.

Pre-announcements could trickle in ahead of this, but so far the early confessionals have been limited.

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Among the issues addressed in [next week's](#) economic reports are the health of the housing market, as well as consumer sentiment and spending patterns.

The March monthly payrolls report will be closely watched when it is released April 2. But ahead of that, investors are likely to remain preoccupied with the weak dollar, high oil and gas prices, and global security concerns, revived in recent weeks by terrorist attacks in Madrid and the battle between Pakistani troops and al Qaeda operatives.

However, progress on some of these issues in the short-term may not get stocks moving higher again just yet.

"The market is looking out six to eight months from now," said Paul Mendelsohn, chief investment strategist at Windham Financial Services. "People want to know what the economy is going to look like then. Will hiring have picked up? What kind of profits are we going to see? They want some kind of reassurance."

### Key events in the week ahead

- **Demand** for durable goods made in U.S. factories is expected to have risen in February by 1.2 percent, according to Briefing.com forecasts, after declining 2.3 percent in January. The government releases its report Wednesday.
- The pace of new U.S. home sales is expected to have risen to a seasonally adjusted annual rate of 1.1 million units from 1.06 million units in January, when the report is released Wednesday. Thursday brings existing home sales, forecast to have risen to a 6.20 million unit rate in February from a 6.04 million unit rate in January.
- Personal income and spending figures are due Friday. Income probably rose 0.3 percent in February after rising 0.2 percent in January, economists estimate. Spending probably rose 0.5 percent after rising 0.4 percent last month.
- Also on Friday, the final March reading on consumer sentiment from the University of Michigan is forecast to show a slight decline to 94.0 from an initial read of 94.1 and from 94.4 in February.



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