



Traders hope Fed keeps singing the same tune

By: The Associated Press | 13 Dec 2009 | 03:28 PM ET Based on Bernanke comments, markets expect rates to stay at record lows

The Associated Press | 13 Dec 2009 | 03:28 PM ET

CHARLOTTE, N.C. - Investors expect the Federal Reserve to keep a key interest rate at a historic low level. Why? Because Fed Chairman Ben Bernanke said so.

"The market has listened to him and really believes what Bernanke has said," said Daniel Penrod, senior industry analyst at the California Credit Union League.

Last week, Bernanke said that he anticipates modest economic growth next year. That should push down unemployment, "but at a pace slower than we would like," he said.

The message for investors: No rate hikes for now.

That's enough assurance for investors to hold on to for the moment, but everyone knows that the record-low interest rates that are helping to boost stock and bond returns are going to have to go away at some point as the economy recovers. The only question is when.

A number of investors see a rate hike coming within the next year as the Fed takes a pre-emptive strike to keep inflation at bay. That would help shore up the value of the dollar, but it could also trip up a huge rally that has launched stocks sharply higher over the past nine months.

One of the biggest factors behind the stock surge has been the sinking value of the dollar, which has been brought along with the near-zero interest rates in the U.S. Investors love low interest rates because it makes money easy to borrow for both market players and businesses.

Meanwhile a weaker dollar is a boon to big U.S. exporters by making their goods cheaper to overseas buyers. At the same time, the profits those companies earn overseas are worth more when they bring them home if the U.S. dollar is weak.

For the next clues about what the Fed might do with interest rates, investors will pore over every word the Fed says in its statement assessing economic conditions next week. The statement will accompany its decision on interest rates following a two-day policy meeting on Tuesday and Wednesday.

Jack Ablin, chief investment officer at Harris Private Bank in Chicago, says market participants will parse the comments closely for any nuances or changes in hopes of fine-tuning their outlook on when the inevitable interest rate rise might come.

If the Fed does make significant changes to the language — something it hasn't done in months — that could lead to another rocky day on the markets, Ablin says. That happened most recently on Dec. 4, when the government reported the fewest number of monthly job cuts since the recession began two years ago.

The news was a clear, strong signal of recovery for the economy, and got many people worrying about interest rates. Ablin said investors had to "rethink where the Fed stands" after seeing the November employment report.

Even if the Fed doesn't change its language, which most expect to be the case, investors will still be looking for any fault lines in the Fed's stance. The going assumption among economists is that the Fed may start lifting rates around the middle or the second half of next year.

Not every analyst waits with baited breath to see what the Fed says about the economy. "It's a mouthful of mush," says John Lekas, president of Leader Capital in Portland, Ore. "They actually go out of their way to say nothing."

Whatever the Fed winds up doing, most people are already expecting the Fed to indicate a slight improvement in the economy. That doesn't necessarily mean a big positive for stocks, however, says Steve Stahler, founder of The Stahler Group in Baton Rouge, La.

"It doesn't mean people who have been out of the market are going to jump into the market," Stahler said.

Copyright 2009 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

URL: <http://www.cnbc.com/id/34405537/for/cnbc/>