U.S. MARKETS

Fed Forecasts Send Ripples Through Global Markets

Stocks fall sharply in Europe and Asia, while oil tumbles

By David Hodari

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The dollar sank while European and Asian stocks dropped Thursday as investors reacted harshly to the Federal Reserve's latest interest-rate increase and its guidance on the path of future policy.

Futures put the S&P 500 and the Dow Jones Industrial Average on course to tick 0.2% higher at the New York open, with tech stocks projected to lead gains. That would recoup only a fraction of late Wednesday's heavy losses: Both indexes lost around 1.5% after the Fed's announcement.

The Stoxx Europe 600 was down 0.8% in midday trading, paring early losses but remaining weighed down by sectors exposed to investor anxieties about the health of global growth. The index's tech constituents dropped 1.3%, while the basic-resources sector tumbled 2.6%.

The U.S. dollar fell 0.8% against the euro in the wake of the Fed announcement and in response to easing European political worries, with the WSJ Dollar Index down 0.6%.

"The dollar's taken a double whammy, with the Fed striking a more dovish tone and becoming less confident on the need for more rate hikes next year," said Lee Hardman, currency analyst at MUFG. "You've also had the EU and the Italian government bring a cease-fire to tensions over Italy's budget, lowering downside risk for the European economy next year."

Italy said earlier this week it had agreed on a compromise with the European Union over the country's budget deficit, clearing up a dispute that has for months weighed on financial markets.

Oil prices resumed their slide, with strategists citing the broader market malaise. Global benchmark Brent crude fell 3.3% to $55.33 a barrel, a fresh 14-month low. West Texas Intermediate futures were down 3.5% at $46.50 a barrel.

Selling in Europe came after the impact of the Fed's policy statement rippled across Asia, where the Japanese Nikkei 225 dropped 2.8%, closing at a 14-month low. Technology blue chips led declines there too, with SoftBank Group and Panasonic both down more than 4.7%. Losses in Taiwan and Hong Kong were more subdued.

The Fed's interest-rate increase Wednesday was widely expected and Chairman Jerome Powell firmly embraced central bank officials' projection of two more raises in 2019, down from three. But Mr. Powell cited strong U.S. economic data as justification for letting Fed holdings of bonds run off as planned.

A man walks past an electronic stock board showing Japan's Nikkei 225 index at a securities firm in Tokyo, last month. **PHOTO:** EUGENE HOSHIKO/ASSOCIATED PRESS

That did little to narrow the divergence in views between the central bank and equity markets on whether global economic growth is slowing. Investors were less certain of the central bank delivering an increase this time around than before previous decisions, according to federal-funds futures.

The yield on 10-year U.S. Treasurys pared some of their early-Thursday losses, and were last at 2.773% down from 2.782% hit late Wednesday—a seven-month low. Yields move inversely to prices.

Equities investors also took a dim view of the Fed chairman's guidance, with sharp selling coming against a backdrop of growing investor concerns that the Fed's current bond-selling process is fanning volatility.

"Underlying volatility has moved higher in the last six months," said Robert Buckland, managing director and chief global equity strategist at Citi. "I suspect the market has become addicted to cheap money in this cycle and it's throwing a tantrum as that's getting taken away."

Easy monetary policy, including ultralow interest rates and massive bond-buying from the world's biggest central banks, has been credited with fueling the yearslong rally in global stocks and dampening volatility.

This year has been different, however. Stocks have tumbled around the world, fueled by trade tensions between the U.S. and China and a slowdown in Chinese growth. Investors have punished Asian markets more than others, given the region's dependence on trade. The Shanghai Composite has swooned 23%, the S&P 500 is down 6.2% and the Stoxx Europe 600 is down 13%.

"Equity markets are starting to think about the likelihood of a slowdown," said Citi's Mr. Buckland. "But, it's not Powell's job to make the stock market go up. It's his job to run monetary policy on a mandate of growth and inflation, and the macroeconomic data is pretty robust."

Meanwhile, the Bank of Japan left interest rates unchanged and investors were also awaiting a monetary policy statement from the Bank of England.

Losses in equities and oil markets echoed across other commodities baskets, with copper sliding 0.6% to $6,027 a metric ton, and gold prices up 0.3% at $1,260.10 a troy ounce amid the dollar's slip.

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