Investors barreled into stocks around the world Tuesday, fueling a third day of gains, on hopes European officials would adopt aggressive measures to end the region’s debt crisis.

But, in what has become a commonplace occurrence in recent weeks, the reports of progress in Europe were soon followed by other reports suggesting officials remained far from consensus.

Major European markets saw their biggest one-day gains in more than a year as traders and investors zeroed in on reports of a potential expansion of the European bailout fund and plans for the European Union to aggressively recapitalize its banks. In the U.S., the Dow Jones Industrial Average rose almost 3% before finishing up 146.83 points, or 1.3%, at 11190.69.

Several developments in Europe contributed to the rally. Greece took a major step toward securing its next tranche of international aid late Tuesday after its parliament introduced a property tax.

German Chancellor Angela Merkel, meanwhile, reiterated Berlin’s support for Athens’s efforts during a meeting with Greek Prime Minister George Papandreou in Berlin. “Germany is prepared to provide every assistance that is needed,” Ms. Merkel said as Mr. Papandreou looked on. "We want a strong Greece in the euro zone."

Mr. Papandreou said Greece is "committed to do what it takes to return to stability."

The hopeful rhetoric bolstered investor optimism that Europe will pursue more dramatic action to stem the crisis. The U.S. and other major economies had used the annual meeting of the International Monetary Fund last weekend to push Europe to boost the firepower of its €440 billion ($594 billion) rescue fund by borrowing against it.

But the proposals have run into powerful resistance both in Germany and at the European Central Bank.

On Tuesday, German Finance Minister Wolfgang Schäuble, the principle architect of Berlin’s crisis response, called the leveraging plan “silly,” adding that pouring more money into the euro zone’s rescue fund "makes no sense."

Earlier in the day, Spanish Finance Minister Elena Salgado also dismissed an expansion of the fund. "It’s not on the table," she said.

Germany, which would carry much of the financial risk if the
Germany’s Wolfgang Schäuble, the World Bank’s Robert Zoellick and Spain’s Elena Salgado at an IMF meeting in Washington Sept. 24.

The fund were “leveraged,” is concerned that such a move could cost the country its triple-A credit rating.

The ECB, which would likely be asked to lend to the fund, wants to avoid bankrolling euro-zone governments, a violation of its charter. ECB officials fear that investor confidence in the euro would collapse if the central bank were seen to be propping up the region’s struggling governments.

The reports of a split among European officials helped cut about 175 points off the Dow’s earlier gains.

“We’ve had these rallies in the past, and they haven’t stuck,” said David Waddell, president and chief investment strategist at Waddell & Associates. "Investors aren’t just falling into this euphoria about the salvation of Europe, which has been a seductive story line in the past. People did the calculation that even if the plan is drafted, it probably won’t be as quick as the market likes it.”

In Europe, the Stoxx Europe 600 index closed up 4.4% at 229.91. The U.K.’s FTSE 100 index added 4% to 5294.05; France’s CAC-40 index ended up 5.7% at 3023.38; and Germany’s DAX advanced 5.3% to 5628.44.

Banks were among the top performers. BNP Paribas SA rose 14% and Société Générale SA gained 17%. The two have been among those hit the hardest in recent months amid worries over their exposure to troubled European countries and their ability to raise funds.

The impending end of the third quarter could be one of the factors lifting stocks.

Michael Marralle, head of U.S. sales trading at RBC Capital Markets, said investors are taking money out of winning bets on Treasurys and buying more stocks, as they rebalance their portfolios.

Commodities tied to the global economy also rose. Crude-oil futures prices jumped 5.3%. Copper futures, considered an economic indicator because of the metal’s many industrial uses, rose 4.7%.

In the U.S., economic data continued to look weak. The Conference Board, a private research group, said its index of consumer confidence barely changed in September, edging up to 45.4 from a dismal 45.2 in August.

There were signs in the Treasurys market that not everyone was embracing the rally in so-called risky assets such as stocks and commodities.

Investors bid aggressively at an auction of Treasury bills Tuesday morning, resulting in the U.S. Treasury selling its debt for a yield of 0%. An afternoon auction of $35 billion of two-year notes also saw strong demand. The notes yielded 0.249%, lower than the market had been expecting.

Overall, U.S. Treasury prices fell on Tuesday, pushing yields—which move in the opposite direction of prices—higher, consistent with a stock rally. The yield on the benchmark 10-year Treasury note crept back above 2%, to 2.013%, and the yield on the 30-year Treasury bond also rose to 3.115%.

With Europe remaining center stage, investors will soon tire of anything that falls short of a more comprehensive solution for Greece, said Jeremy Batstone-Carr, director of private-client research at London-based brokerage Charles Stanley.

"We want to see the plan, not hear the rumor, he said. "It won’t be long before equity markets wake up to the absence of hard news."

In his remarks on Tuesday, Mr. Schäuble, Germany’s finance minister, rejected Washington’s criticism of Europe’s crisis management. "I don’t think that the problems of Europe are the only reason for the problems in the United States,” he said.

His comments were echoed by Ms. Merkel, who criticized suggestions that industrialized nations follow the U.S.’s lead in trying to jump start growth with further economic stimulus.

"The idea that growth can only take place with ever more debt is a wrong idea,” she said.

—Steven Russolillo
and Tom Lauricella contributed to this article.