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U.S. MARKETS

S&P 500 Hits Record Close After Fed Hints at Interest-Rate Cut

Dollar weakens and bond yields drop, while commodities prices jump

By Jessica Menton

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The S&P 500 surged to its first record close since April, underscoring confidence on Wall Street that the U.S. economy and global markets remain healthy despite a fresh tumble in bond yields around the world.

The yield on the 10-year U.S. Treasury note slipped below 2% Thursday for the first time since late 2016, hitting 1.99% early in the morning in Asia and touching that level several times in New York trading before closing at 2.001%. Yields remained near all-time lows in Germany and France, reflecting rising bond prices.

Traders and portfolio managers said stocks' rally, marked by a 249-point gain in the Dow Industrials and a fourth straight day of gains in the S&P, Dow and Nasdaq Composite Index, is driven by expectations that an about-face this spring by global central bankers will keep the decadelong economic expansion on track and help avoid a potential recession.

Worries about trade friction and a souring outlook for growth, particularly in Europe, have spurred the tumble in bond yields and pushed the Federal Reserve and European Central Bank toward loosening monetary policy, analysts and investors said, likely ending the Fed's multiyear effort to tighten policy.

Investors currently appear sanguine about the likelihood that the end of the Fed tightening cycle will put the economy on firm footing, offsetting any negative surprises in future economic activity that may be implicit in the recent yield decline.

The 10-year yield has dropped 0.14 percentage points in the past eight days and is down 1.23 percentage points since November, raising fears among many traders that the economy is at risk of a sharp slowdown.

"The potential rate cuts may be more about fending off danger than reacting to danger," said Michael Antonelli, market strategist at investment bank Robert W. Baird & Co. "The market is looking at what the Fed is doing and thinking that if the Fed is on our side, then this economic expansion can continue."

Bond and stock prices alike rallied Tuesday after ECB President Mario Draghi signaled officials could start new stimulus measures, and the gains accelerated Wednesday and Thursday after the Fed signaled a possible cut in the months ahead.

On Thursday, the broad index rose 27.72 points, or 0.9%, to 2954.18. The Dow Jones Industrial Average surged 0.9% to 26753.17, putting the blue-chip index within 0.3% of its October closing record. The technology-heavy Nasdaq Composite added 64.02 points, or 0.8%, to 8051.34.

Trade tensions and uncertainty over central-bank policy had rattled investors last month, with stocks posting their worst May since 2010. But the potential for thawing trade relations between Washington and Beijing has helped lift share prices this month, putting the S&P 500 on pace for its best June since 1955.

Traders at the New York Stock Exchange. **PHOTO:** DREW ANGERER/GETTY IMAGES

Investors also received some clues from the Fed Wednesday on the direction of interest rates. Fed Chairman Jerome Powell said the bank will hold interest rates steady for now, but he dropped strong hints that further easing would be necessary if global trade tensions continue to damp economic growth. Many economists expect the Fed to propose a 0.25-percentage-point cut at its July meeting.

The recent bounce in stocks comes as President Trump is set to meet with Chinese President Xi Jinping at the Group of 20 summit next week in Japan.

“The market’s reaction after the Fed meeting is kind of crazy,” said Jonathan Corpina, senior managing partner at broker-dealer Meridian Equity Partners. “I would have thought things would have quieted down and investors would [have sold shares] after the recent run-up. But investors are now really banking on the G-20 summit.”

Stocks briefly eased from session highs in early-afternoon trading as a drop in bond yields weighed on financial stocks, which had slipped midday but ended 0.5% higher. A decline in bond yields, especially for longer-dated debt, tends to hurt bank stocks because their profit margins tend to expand when there is a bigger difference between short-term deposit costs and longer-term lending rates.

“For the financial sector, there’s a big overhang with the banks now because having lower rates isn’t good for earnings growth,” said R.J. Grant, director of equity trading at KBW Inc.

Energy shares in the S&P 500 led the broader market higher Thursday, with the sector gaining 2.2%. Shares of U.S. oil producers rose, with Whiting Petroleum and Centennial Resource Development jumping 8.3% and 6%, respectively.

The gains were driven by a sharp rise in oil prices after Iran said it shot down a U.S. military drone. U.S. oil prices rose 5.4% to settle at $56.65 a barrel.

“Risk is being embraced more following the Fed meeting, which is helping stocks broadly,” said Justin Wiggs, managing director in equity trading at Stifel Nicolaus. “The pop in crude prices has forced investors to take a look back at the energy space.”

The dollar dropped broadly against major currencies. The WSJ Dollar Index, which measures the dollar against a basket of currencies, fell 0.7%. Meanwhile, gold surged 3.6% to $1,392.90 per troy ounce as the prospect of lower interest rates spurred investors to seek returns from alternative assets.

In Thursday’s action, Slack Technologies made its debut on the New York Stock Exchange, closing at $38.62 to give it a fully diluted valuation of about $23.2 billion.

—Nathan Allen contributed to this article.

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