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U.S. MARKETS

Stocks Close Sharply Higher as Fed Hints at Possible Rate Cut

Dow climbs 512 points in best day for the blue-chip index in five months

By Amrith Ramkumar

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U.S. stocks posted their best day in five months on Tuesday, a mark of resilience for a market rally that has recently faced one of its biggest challenges since the financial crisis.

Stocks rose steadily through the day, with a late-session surge putting the Dow Jones Industrial Average up more than 500 points on the day.

After anxiety about higher tariffs and slowing economic growth sent stocks and bond yields tumbling in recent weeks, Federal Reserve officials hinted the central bank could lower interest rates if needed to keep the U.S. economy on solid footing, fueling investors' bets on companies.

Combined with measures by the Chinese government to stimulate activity in the world's second-largest economy, the possibility of lower interest rates has lifted confidence in global growth even as trade tensions simmer, investors said.

"The Fed, instead of a long pause, is now looking and sounding like a slow-motion movie that everyone knows is going to manifest in a cut," said Michael Kelly, global head of multiasset at PineBridge Investments. "A month ago, it didn't look like they were even beginning to think in that direction."

The Dow industrials advanced by 512.40 points, or 2.1%, to 25332.18, two trading days after closing at their lowest level since late January. The S&P 500 climbed 58.82 points, or 2.1%, to 2803.27, standing 4.8% below its April 30 record.

Shares of technology companies also rose a day after fears about heightened regulation pushed the tech-laden Nasdaq Composite into correction territory, down more than 10% from last month's all-time high. The Nasdaq surged by 194.10 points, or 2.6%, to 7527.12 on Tuesday.

All three indexes posted their biggest one-day advances since Jan. 4.

The stock-market rally came after Federal Reserve Bank of St. Louis President James Bullard said on Monday that a lowering of rates "may be warranted soon."

Fed Chairman Jerome Powell then said in remarks on Tuesday that the central bank is monitoring the recent escalation in trade tensions and that it would respond if needed to keep the economy growing steadily.

Federal-funds futures, used by traders to bet on the path of monetary policy, show markets pricing in a roughly 98% chance of at least one rate cut this year and about an 83% chance of at least two rate decreases, CME Group data show. Both figures are up sharply from a month ago.

"If there is evidence on the growth side that there is a stifling of economic activity because of the uncertainty, I think there will be a reaction," said Alicia Levine, chief strategist at BNY Mellon Investment Management.

Following a stretch of downbeat figures showing U.S. manufacturing activity slowing, analysts are also looking ahead to Friday's jobs report for the latest update on U.S. hiring. U.S. consumer strength and recent upbeat labor-market data have also boosted confidence that the economy can withstand higher tariffs. The unemployment rate in April fell to its lowest level since December 1969.

"The consumer is healthy, the labor market is fine," Ms. Levine said. "You don't get a recession when the labor market looks like this."

Beaten-down technology and internet stocks were among the market's leaders, with shares of Netflix , Apple and Twitter each advancing 3.7% or more. The PHLX Semiconductor Index, down 14% in the past month, rebounded by 4.2%.

Treasury yields also climbed, with the benchmark 10-year U.S. Treasury yield advancing to 2.119% from 2.085% a day earlier. Bond yields rise as prices fall. They had closed on Monday at their lowest level since September 2017 with investors seeking safety in Treasurys.

The rebound in long-term Treasury yields lifted bank stocks, pushing up the S&P 500 financial sector by 2.7%. Banks borrow on short time frames and lend with longer time horizons. Citigroup shares rose 5.2%, while Bank of America added 4.6%

Traders work at the New York Stock Exchange in New York on May 31. **PHOTO:** XINHUA/ZUMA PRESS

Some traders expect stocks and bonds to continue swinging moving forward as analysts adjust their projections for economic activity based on updates on trade and central-bank policy. The U.S. and China have recently raised tariffs on the other side's imports, and senior officials said on Monday that Mexico is exploring possible retaliation to the threat of U.S. tariffs on all of its exports.

"It's data-dependent and news-dependent," said John Brady, managing director at futures brokerage R.J. O'Brien & Associates. "Who knows what goes on on the trade front?"

Despite Tuesday's gains for risky assets, many analysts are wary of a growth slowdown overseas spreading to the U.S. Figures showed eurozone inflation fell sharply in May to reach its lowest level in more than a year, taking it further away from the European Central Bank's target as economic growth faded.

Still, some analysts expect the data to push the ECB to maintain a cautious stance with interest rates. The Stoxx Europe 600 advanced by 0.6%.

Earlier, Hong Kong's Hang Seng Index fell by 0.5%, the Shanghai Composite fell by 1% and South Korea's Kospi was broadly flat. Australia's S&P ASX 200 advanced 0.2% after the Reserve Bank of Australia cut interest rates.

—Nathan Allen contributed to this article

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