# MarketWatch

## Stocks slip as investors freeze up ahead of Yellen speech

Aug 25, 2016

*Health care sector leads the decline*

Getty Images
Investors are waiting for just one thing: Fed chief Janet Yellen.

By SUE CHANG and MARK DECAMBRE

U.S. stocks ended slightly lower Thursday, with investors reluctant to make big bets the day before a much-anticipated speech by Federal Reserve Chairwoman Janet Yellen that will be picked apart for clues to the central bank's next rate move.

The Dow Jones Industrial Average DJIA, -0.18% slid 33.07 points, or 0.2%, to close at 18,448.41. Shares of Cisco Systems CSCO, +0.74% rose 0.7% to lead blue-chip gainers, while Wal-Mart Stores Inc WMT, -1.40% sank 1.4% to drag on the blue-chip index.

The S&P 500 index SPX, -0.14% fell 2.97 points, or 0.1%, to close at 2,172.47, with the health-care sector leading the decline, while the Nasdaq Composite IndexCOMP, -0.11% shed 5.49 points, or 0.1%, to end at 5,212.20.

**Mark Kepner**, managing director of sales and trading at **Themis Trading**, said the market was gripped in a state of suspended animation, with trading volume weak and investors sidelined to await news out of Jackson Hole, Wyo., where Yellen will be headlining the Kansas City Fed's annual symposium. Yellen is scheduled to speak at 10 a.m. Eastern on Friday.

"I don't think people want to trade without knowing what Yellen will say tomorrow," said **Kepner**, who believes there is "no harm" in the Fed waiting until December to tighten monetary policy.

Kansas City Fed President Esther George, in an interview with Bloomberg Radio, reiterated her desire for the central bank to raise rates right away.

"When I look at where we are with the job market, when I look at inflation and our forecast for that, I think it is time to move," George said. In a separate interview with CNBC, she said hikes should be made gradually.

George is a voting member of the policy-setting Federal Open Market Committee, which is set to meet Sept. 20-21. George, in a lone dissent, called for a rate rise at the Fed's July policy meeting. Kaplan will be a voting member of the FOMC in 2017.

Later Thursday, Dallas Fed President Robert Kaplan said the case is strengtheningfor a rate increase in the not-so-distant future. He also called on lawmakers, during an interview on CNBC, to come up with fiscal policies that might boost the economy. Kaplan will be a voting member of the FOMC in 2017.

Analysts at BNP Paribas expect Yellen to "carry the torch" and set the tone for a possible rate increase as early as next month as FOMC members become increasingly hawkish in their rhetoric.

**Table 1: FOMC speakers since the 27 July FOMC m**

| | ←Dovish/hawkish[1]→ | Key quotes |
|---|---|---|
| George (Kansas City Fed) | | Time to move fed funds rate up [...] right time for a near-term hike (8 |
| | | Excessive patience is not warranted [...] gains in CPI give Fed scop |
| Dudley* (New York Fed) | | We're edging closer to the time for rate hike (8/16) |
| | | 50k-100k/month jobs probably mean a steady jobless rate (8/17) |
| Lockhart (Atlanta Fed) | | I wouldn't rule out a rate hike in September (8/16) |
| | | If the meeting were today, the data would merit serious discussion" |
| Fischer* (Vice Chair) | | We are close to our targets for the US economy (8/21) |
| | | Job market gains are an "underappreciated" achievement (8/21) |
| Kaplan (Dallas Fed) | | September is very much on the table if the data support it (8/2) |
| | | 125k new jobs a month are a sign that slack is waning (8/4) |
| Williams (San Franciso Fed) | | We could see a "rate hike sooner than later" (8/18) |
| | | "We don't need as much job growth going forward [..] somewhere a |
| Harker (Philadelphia Fed) | | We will "need slightly more aggressive policy if inflation rises" (8/4) |
| | | US economic fundamentals are sound (8/4) |
| Evans (Chicago Fed) | | "One rate hike could perhaps be appropriate this year" (8/3) |
| | | I "don't see much inflation generated by the labor market" (8/3) |
| Bullard* (St Louis Fed) | | I see one rate increase in the next two years [...] right time to move |
| | | Cyclical dynamics in the economy are basically over (8/12) |

*Source: Bloomberg, BNP Paribas*

*BNP Paribas*

Ultraloose monetary policy has been supportive of stocks' multiyear rise and investors have been worried that higher rates might result in a stock-market drop.

Paul Nolte, portfolio manager at Kingsview Asset Management, said investors are wrestling with the prospect of rate increases as much of the world is seeing anemic economic growth.

"Central banks around the world are throwing money out the window and we're going to be the lone wolf raising rates?" He said that dynamic "creates another whole set of issues with a strong dollar," which markets must contend. A stronger buck has been blamed for hurting earnings of multinational companies as they repatriate their sales in U.S. dollars.

Economic news: The Kansas City Fed's manufacturing composite index edged up to negative 4 from negative 6 in July. A reading below zero indicates contraction in the sector.

Weekly jobless benefits claims fell to 261,000, showing that fewer Americans are losing their jobs as summer nears an end. U.S. durable-goods orders jumped 4.4% in July. Nolte said that while job growth has been a bright spot in the U.S. economy, signs of stubbornly low inflation has remained the bugaboo for market participants.

Thursday’s economic reports may be read as providing some fodder for a resumption of interest rate increases by the Fed, which has been stalled since its last hike in December.