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MARKETS

Traders Bolster Bets on Lower Fed Rates

Anticipation of sharper growth slowdown pushes investors to bet policy makers will keep easing

By Amrith Ramkumar

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Traders are increasing wagers that the Federal Reserve will continue to cut interest rates to stave off a recession following a volatile stretch for markets.

The S&P 500 fell to its lowest point since late August earlier in the week on growing fears that weakness in the manufacturing sector is spreading to other segments of the economy. Global stocks and commodities such as oil and copper tied to global growth have also slid, as have Treasury yields, with investors seeking safety from the volatility. Bond yields fall as prices rise.

Anticipation of a sharper-than-feared growth slowdown is pushing investors to bet that the Fed will continue lowering borrowing costs after rate cuts in July and September. While there are some signs that lower rates are helping the housing sector stabilize, many analysts still project weaker economic activity without a U.S.-China cease-fire on tariffs.

Shifting expectations for interest rates and trade talks have swung markets for months, including on Thursday, when stocks erased an early selloff. Stocks extended their rally Friday after the latest hiring figures showed stability in the labor market last month. Still, the recent turbulence has some anticipating more fluctuations.

Federal-funds futures, used to wager on the path of monetary policy, on Friday showed traders pricing in a roughly 90% chance of at least one more rate cut in 2019, up from 66% on Monday, according to CME Group data.

Driving those bets: a spate of tepid growth figures around the globe. While Friday figures showed steady activity in the U.S. labor market, surveys of purchasing managers in Europe and Asia released earlier in the week pointed to deepening manufacturing declines in September.

Perhaps more worrisome, Institute for Supply Management data then showed U.S. factory activity contracted for the second straight month in September and hit a 10-year low. And the ISM said Thursday that activity in the services sector slowed more than expected last month, a concern for investors who had hoped steady activity in that area and resilient consumer spending could continue to buoy stocks.

"Our data in the U.S. had been fairly insulated over the course of the last month, so these two prints were a little bit surprising," said Michael Hans, chief investment officer at Clarfeld Citizens Private Wealth. "It does seem like this is something related to the uncertainty that's plagued the economic environment."

While hiring has softened this year, the labor market has still been relatively stable. **PHOTO:** LM OTERO/ASSOCIATED PRESS

Friday's data showed employers continued to hire at a slower but steady pace, while the unemployment rate fell to a nearly 50-year low at 3.5% and wages grew less than expected from a year earlier.

While those figures don't signal an imminent recession, they add to evidence that the trade war is denting growth. The U.S. has averaged 161,000 new jobs so far this year, down from 190,000 in the eight years since employment started rising after the last recession.

Adding to the uncertainty buffeting markets: The Fed's projections for future interest-rate policy and economic growth last month showed differing opinions among central bankers. Fed officials have said they want to stay on a flexible path with rates based on data, but too many rate cuts could leave them without sufficient ammunition to respond if a recession does hit, analysts say.

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