

Stocks Fluctuate Sharply on Oil News, Fed's Lower Economic Projections

Stocks fell broadly before recovering in late trading Thursday as investors reacted to negative news on a number of fronts. On Wednesday came a downbeat assessment of the U.S. economy by Fed Chairman Ben Bernanke, and on Thursday a surprise announcement that the U.S. would tap into its Strategic Petroleum Reserve as part of an international effort to counteract oil shortages stemming from the ongoing conflict in Libya and unrest elsewhere in the Middle East. The Dow Jones Industrials, which had been down almost 235 points during midday trading, finished 59.67 points lower at 12,050. Other major averages traced similar moves.

Positive news has been in short supply lately, with equities in a generally declining trend since the end of April. Stocks sold off somewhat yesterday after Bernanke said the Fed was making what he characterized as "fairly significant" reductions in its economic growth forecasts for 2011 and 2012. The central bank now expects growth this year of up to 2.9%, down from its April projection of up to 3.3% and its January forecast of up to 3.9%. In other words, the Fed has lowered its 2011 forecast a full percentage point since the first of the year.

For 2012, the Fed reduced its growth forecast to 3.7%, down from 4% previously. Bernanke also said the U.S. economy is "still years away" from full employment, which is generally defined as an unemployment rate of about 5%, well below the current rate of 9.1%. The Labor Department also said Thursday that initial claims for unemployment insurance were up 9,000 to 429,000 last week, higher than most analysts had anticipated.

Bernanke's views added to the anxieties of investors already concerned about the end of the Fed's QE2 stimulus program, stresses in the eurozone surrounding Greece's severe financial problems, and the ongoing impasse in Washington over cutting the nation's budget deficit and raising the debt ceiling. News of the oil initiative, while welcome in terms of reducing supply strains and immediately lowering prices, also served as a stark reminder of the world's reliance on an unstable region for this critical commodity. However, equity investors came back in after a late-session report that Greece had agreed with the International Monetary Fund and the European Union on a five-year austerity plan.

Although economic and geopolitical uncertainties are obviously weighing on investors, it's also true that corporate profits remain strong, interest rates are low and the U.S. economy is growing, albeit slowly. Second-quarter earnings reports, which are about to commence, may provide more clarity on how companies are actually faring.