

Markets Discount Fed Move, Close at New February Highs

U.S. and European financial markets shrugged off an early case of the jitters over a surprise Federal Reserve move to hike its seldom-used discount rate to close the week in positive territory.

The major U.S. indices finished at highs for the month, although still below their highest 2010 levels, reached on January 19. At the close, the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) stood at 10,402.35, up 9.45 points on the day. The NASDAQ Composite (an unmanaged index of common stocks listed on the NASDAQ National Stock Market) finished at 2,243.87, up 2.16 points over Thursday's close and the S&P 500 (an unmanaged index of 500 widely held stocks) stood at 1,109.17, up 2.42 points for the day.

It may have been the unexpected timing of the Fed's Thursday afternoon announcement that it was raising the "discount" rate a quarter point – to 0.75% from 0.50% – that caused Asian markets to stumble. This is the rate the Fed charges banks for emergency loans. It is seldom accessed and Fed Chairman Ben Bernanke had previously indicated it would be raised "before long," says Raymond James' Chief Economist Scott Brown. Economists generally dismissed the action as a technical move that need not have shaken the markets. It is the so-called fed funds overnight lending rate that is used as a base for interest and credit rates – and it remains unchanged at a range between 0% and 0.25%.

As the week ended, investors heard mildly positive reports. Consumer prices rose less than expected in January, and core prices, which exclude energy and food costs, actually fell for the first times since 1982, indicating an absence of inflation pressures. The Mortgage Bankers Association reported that fewer borrowers fell behind on their mortgage payments in the October-December quarter of 2009 – this at a time of year when delinquencies usually rise.

Markets so far in 2010 have been generally positive, a boost for most portfolios. If you would like to discuss new investment ideas or portfolio adjustments, just call me.

Regards,

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