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What to watch

As Fed meeting nears, thoughts turn to rates

Adam Shell
@adamshell
USA TODAY

Sure, civil war in Iraq poses a new risk to the stock market. So does rising investor optimism. Above-average valuations are also a worry, as is the fact the market hasn't suffered a 10% drop in almost three years.

But the big fear is that the Federal Reserve will hike short-term interest rates sooner than expected next year.

"The (big) risk is that the first rate hike could come sooner than mid-2015," Paul Ashworth of Capital Economics told clients Friday.

The Fed kicks off a two-day meeting Tuesday that will end with its policy statement, followed by Fed Chair Janet Yellen's press conference. Investors expect the Fed to continue winding down its bond-buying program. The Fed will likely reduce its monthly asset purchases by $10 billion a month, reducing monthly buys to $35 billion.

Wall Street will be looking for any signs the Fed might need to hike rates sooner rather than later. Investors fear Fed "tightening," as stock market pullbacks and more serious corrections of 10% or more are often triggered by the start of Fed rate hikes.

Wall Street will analyze any changes to the Fed's economic outlook for clues to changes in the timing of rate hikes. "We suspect that Fed officials will put a lot more weight on the signs of improving labor market conditions and will spend very little time worrying that the economy might only expand at a 1% annualized pace over the first half of this year," Ashworth told clients.