Markets post small changes



RICHARD DREWS / The Associated Press

Traders crowd the post that handles Berkshire Hathaway on the floor of the New York Stock Exchange on Friday.

Bank stocks soar on overhaul deal

Agreement in Congress removes uncertainty over financial industry

By Tim Paradis
THE ASSOCIATED PRESS

NEW YORK — Bank stocks shot higher Friday after an agreement on a financial regulation bill reassured investors that new rules won't devastate financial companies' profits.

Bank stocks outdistanced the rest of the market after congressional negotiators agreed on a banking overhaul bill that regulates the complex investments known as derivates but much less strictly than investors feared. The agreement also alleviated another investor concern.

A plan that would have had banks paying for the costs of unwinding mortgage giants Fannie Mae and Freddie Mac was not included in the bill that will now go to the House and Senate for final approval.

Analysts said the deal removes a huge cloud that has hovered over the financial industry for much of this year.

Investors have feared that intense regulation would devastate bank profits. Now, the market seems to believe that financial companies would do well even with the new limits on their business.

"They come out of this big-time winners," Bob Froehlich, senior managing director at Hartford Financial Services, said of financial companies. "Two years later, people will look back and say 'My gosh, nothing really changed.'"

Banks were the market's big performers on a day when the Dow Jones industrial average fell almost 9 points and the other major indexes had only slim gains.

Goldman Sachs Group Inc. rose 3.5 percent,

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while JPMorgan Chase & Co. gained 3.7 percent. Bank of America rose 2.7 percent and Citigroup Inc. rose 4.2 percent.

Regional banks also scored big gains. Suntrust Banks Inc. rose 4.6 percent and Synovus Financial Corp. gained 5.3 percent.

Investors had feared that the financial regulation bill would sharply curtail bank profits by limiting financial companies' ability to trade in derivatives. Companies and investors often use derivatives to hedge against losses. But some derivatives are purely speculative investments, and some of these derivatives have been blamed for contributing heavily to the collapse of the housing market and the 2008 financial crisis.

The legislation calls for most derivatives to be traded on regulated exchanges. But provisions of the bill that were investors' worst-case scenario, for example, an outright ban on banks' trading derivatives, were not included in the final agreement. Banks can still trade derivatives related to interest rates, foreign exchanges, gold and silver, investments that have contributed to their big profits. They would have to use subsidiaries with their own funds in order to trade in riskier derivatives. But the parent bank could still keep the profits from those trades.

"The bill could have been a lot worse," said Alan Valdes, vice president at Hilliard Lyons in New York. "It's a bill we can live with."

The legislation also allows banks to invest only up to 3 percent of their capital in private equity and hedge funds.

One reason why investors are so relieved is that they know banks will continue to lobby in Washington for looser regulations. In other words: The market doesn't believe that the bill, when it becomes law, will be in stone.

Froehlich also suggested that banks, now having a greater understanding of the regulatory environment, might be more willing to lend. That would help the economic recovery pick up more momentum, he said.

"It was the biggest uncertainty that's out there," Froehlich said. "Now that we know what financial reform is all about, I really do believe that they are going to start lending again."

The stock market's overall gains were limited by the government's final report on the gross domestic product for the first quarter.

The Commerce Department said the GDP, the broadest measure of the economy's health, rose at a 2.7 percent annual pace rather than the 3 percent previously estimated.

The report follows a string of weaker-than-expected economic numbers in the past week and raised investors concerns about the recovery.

The Dow fell 8.99, or 0.1 percent, to 10,143.81. The broader Standard & Poor's 500 index rose 3.07, or 0.3 percent, to 1,076.76, and the Nasdaq composite index rose 6.06, or 0.3 percent, to 2,223.48.

The indexes fluctuated for much of the day, in part because of the annual reshuffling of stocks in the Russell indexes. That forces investors to buy and sell certain stocks if they have portfolios that follow the indexes.

The Russell 2000 index of smaller companies rose 11.94, or 1.9 percent, to 645.11.

Treasury prices rose, driving down interest rates. The 10-year Treasury note's yield fell to 3.11 percent from 3.14 percent late Thursday.