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What to watch

Fed to walk 'tightrope' at meeting's end

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When the Federal Reserve breaks the huddle from its last policy meeting of the year today, it will be a "tightrope moment" for the Janet Yellen-led Fed, whose job is to "condition" markets for a coming rate hike next year without "freaking out the markets," says Greg McBride, chief financial analyst at Bankrate.com.

McBride expects the Fed to finally jettison from its post-meeting statement the phrase "considerable period of time," which refers to how long interest rates will be maintained at the current, near 0% levels. Since this is Yellen's last press conference before March, now is an "opportune time" for the Fed "to start conditioning markets" for the eventuality of interest rate hikes in 2015, McBride says.

But, he warns, this will be a "tightrope moment" for Yellen and the Fed. "If they misstep in any way — either by freaking out the markets now or surprising them later — we'd see a potentially destabilizing amount of volatility in both the bond and stock markets," says McBride.

So what might that misstep be? "A misstep by the Fed would be unnerving markets now by being more hawkish on interest rates than expected (or signal earlier rate hikes)," says McBride. "Or conversely, if the Fed is too dovish now and has to ramp up the rhetoric later in order to prepare markets for an interest rate increase. In either event, (long-term bonds) could spike and stock markets would go into convulsions."

Fed to be 'patient' about a rate hike

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WASHINGTON — The Federal Reserve is edging closer to raising interest rates from record lows given a strengthening U.S. economy. But it will be "patient" in deciding when to do so.

That was the message sent Wednesday as the Fed ended a meeting amid heightened expectation about a forthcoming rate increase. At a news conference afterward, Chair Janet Yellen said she foresaw no rate hike in the first quarter of 2015.

The Fed said in a statement that a "patient" approach to raising rates is consistent with its previous guidance that it would keep its key rate near zero for a "considerable time."

Yellen said the strength of U.S. economic data and the level of inflation, not a calendar date, will dictate when it raises rates. At a time of global economic turmoil and collapsing oil prices, she stressed that the Fed was making no policy changes.

"The Fed is sending the message that the broader U.S. economy is on the path toward healing," said Steven Ricchiuto, chief economist at Mizuho Securities. "They don't know how fast it will heal, but it's on the mend."

The Fed chair said she's prepared to let the U.S. unemployment rate fall from its current 5.8 percent to exceptionally low levels because doing so could help cause inflation to rise closer to the Fed's 2 percent target.

Uncertainty about when the economy will fully heal from the ravages of the Great Recession, which officially ended 5½ years ago, is why the Fed's policy statements remain vague, Ricchiuto added.