No rate hike, no stock spike: Here's why

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The big fear on Wall Street was a Fed rate hike. But the Fed kept rates at 0%. But instead of stocks going up in a relief rally, the stock market is falling hard. Here's why.

It turns out Wall Street is focusing on all the negatives the Federal Reserve outlined in explaining why the Fed opted not to hike rates. The Fed noted that international developments, including economic weakness in China and emerging markets, gave them pause, as did the recent volatility and turbulence in financial markets.

The Fed message on the global economy wasn't exactly confidence-inspiring. Uncertainty still reigns supreme, and there is a lack of clarity in the Fed's message.

So instead of rallying, stocks turned sharply lower Friday. The Dow Jones industrial average tumbled about 200 points in early trading.

"Markets seem to have focused on the weaker growth message," Ethan Harris, global economist for Bank of America Merrill Lynch, explained in a research note.

Bespoke Investment Group cited three reasons for the stock market's negative reaction to the Fed's decision not to hike rates and its post-meeting commentary:

"The Fed is walking a fine line between calming the markets with dovishness and igniting more global concerns."

Hans Mikkelsen, credit strategist at Bank of America Merrill Lynch

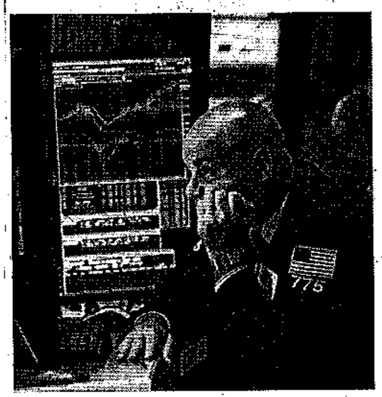
1. An almost unbelievably pessimistic outlook for U.S. growth and inflation in the Fed statement of economic projections.

2. A strongly negative view of world growth from the Fed.

3. Further uncertainty about the path of policy.

Another possible explanation for the stock sell-off today: Investors were split on what the Fed was going to do.

So the 50% of the market that bet wrong has had to undo those trades today. The risk is that the Fed's cautious commentary could spook markets, even though holding off on rate hikes suggests they are still willing to support markets through this turbulent time. "The Fed is walking a fine line between calming the markets with dovishness and igniting more global concerns," Hans Mikkelsen, credit strategist at Bank of America Merrill Lynch, warned in a research note.



The Fed's cautiousness could cause more market volatility.