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What to watch

Reaction to Fed-talk to speak volumes

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After the two-day meeting ends today, the closely watched Federal Reserve policy statement comes first. Then Fed Chair Janet Yellen faces off with reporters, who will try to extract valuable nuggets of information from her regarding the central bank's innermost thoughts on when they will start hiking short-term interest rates next year and how quickly the hikes will come.

While it makes sense for Main Street investors to get the *Cliff's Notes* version of what the Fed and Yellen say about the outlook for economic growth, jobs and inflation, the path of interest-rate hikes, and the dialing back of its bond-buying program, what investors should really watch is how financial markets react to the onslaught of Fed-speak.

If market participants are comfortable with the Fed's message, stocks are likely to resume their upward trend. And yields on government bonds are unlikely to suffer a big spike.

The Fed will have to make sense of an economy that contracted by 1%-plus in the first quarter of the year, but which appears to be rebounding after a bleak winter.

The Fed must also grapple with the fact that consumer inflation last month suffered a bigger-than-expected rise, a trend change that could factor into its decision-making and perhaps speed up its timetable for its first rate hike.

Wall Street expects the first rate hike in June 2015. But any sign the hikes could come sooner could cause volatility to spike.