BUSINESS

Stocks rally on hope of rescue

Investors, sensing the Fed will take steps to stimulate job growth, push Dow up 162 points

By Pallavi Gogoi
The Associated Press

NEW YORK — Stocks staged one of their strongest rallies of the year Tuesday, erasing a big decline from the day before, after a Federal Reserve official said he supported more measures to stimulate the economy.

The Dow Jones industrial average shot up 162 points, and every major category of stock in the U.S. market closed higher.

Charles Evans, president of the Fed's Chicago bank, told Bloomberg News that he supported action to produce faster job growth, including having the Fed commit to super-low interest rates until unemployment falls significantly.

Last week, Fed Chairman Ben Bernanke told a committee of Congress that he was ready to act if the economy needs it, but he laid out no immediate steps.

Investors have been worried about an escalating crisis in Europe over government debt and the health of banks, and job growth in the United States has been slower over the past three months than it was earlier in the year.

"If there's really bad news, it creates a heightened sense of anticipation that the Fed is going to ride to the rescue," said Jeff Lancaster, a prinicpal at the wealth advisory firm Bingham, Osborn & Scarborough in San Francisco.

"It's almost like you've crashed your car and you've got a $500 deductible, and you take the car to the body shop and you just have this perverse desire for the damage to be well over $500," he said.

Rob Lutts, president and chief investment officer of Cabot Money Management, said investors were looking for an excuse to buy.

"The question for Bernanke is should he add more medicine when he's already doped up the patient enough already," he said.

Materials companies, industrial companies and banks rose the most, but each of the 10 major categories of stock in the Standard & Poor's 500 climbed. Energy stocks also had an impressive day after the price of oil rose from an eight-month low.

Over the weekend, European countries committed to lend Spain up to $125 billion to save its failing banks. But on Monday the Dow fell 142 points. Investors fretted that they did not know enough about the details.

The big rally in U.S. stocks on

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Tuesday came despite more discouraging signs from Europe.

Spain's borrowing costs jumped for a second day, to the highest level since Spain adopted the euro currency.

The interest rate, or yield, on Spain's 10-year bond rose 0.20 percentage point to 6.67 percent.

It rose as high as 6.81 percent earlier in the day. At 7 percent, economists say, countries generally can no longer finance their own debt.

The rescue loan will be funneled through the government of Spain, and investors are also worried about whether Spain will have to repay that loan before it pays its other debt.

That makes bondholders less willing to buy Spain's debt, and makes them demand a higher interest rate to compensate for the added risk that they will not be paid back first if Spain is unable to pay all its debt.

"The market needs some confidence and foreign buyers won't buy Spanish debt if they won't get paid first," said William O'Donnell, head of U.S. treasury strategy at Royal Bank of Scotland.

Borrowing costs for Italy, which analysts fear will be the next European country to seek some kind of rescue, rose even more. They jumped 0.47 percentage point to 6.02 percent.

Investors are also nervous ahead of an election in Greece this weekend that may determine whether that country cuts itself free from the euro.

Stocks slipped early in Madrid, then turned positive and were up 0.1 percent after U.S. markets opened. France's CAC-40 rose 0.1 percent, and Germany's DAX gained 0.3 percent.

In the U.S., the Dow rose 162.57 points, or 1.3 percent, to close at 12,573.80.

The Standard & Poor's 500 index gained 15.25 points to 1,324.18, and the Nasdaq composite rose 33.34 to 2,843.07.