TEPID ECONOMY ROILS MARKETS

Euro rallies, but U.S., European stocks tumble

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A disappointing GDP report and non-committal Federal Reserve statement sent ripples through the financial markets Wednesday as investors tried to make sense of an unexpectedly sluggish economy.

The Commerce Department reported that gross domestic product, the broadest estimate of goods and services produced in the country, turned in a puny 0.2% gain the first quarter vs. a much sturdier 2.2% a year earlier. Economists had expected 1% growth.

Adding to the sense of lackluster growth: The Fed's policy statement later Wednesday indicated that the central bank is in no hurry to raise interest rates.

Both reports were a body blow to investors betting on stronger growth in the U.S. and Europe, as well as higher interest rates and a stronger dollar. The sluggish U.S. economy sent the dollar lower on international currency markets — and the euro to an eight-week high of $1.127.

A stronger euro means goods made in Europe are more expensive abroad — and that sent European stocks plunging. Germany's DAX 30 index fell 3.2%, its worst performance since February 2011.

U.S. stocks reacted badly as well. The Standard and Poor's 500 stock index closed down 7.9 points, or 0.37% Wednesday. It had fallen as many as 17.35 points, or 0.82%, in afternoon trading. Consumer discretionary stocks — stocks that profit when consumers are feeling prosperous — fell 0.91%, according to FactSet.

Gold, widely seen as an inflation hedge, fell $9.70 an ounce to $1,204.20, or 0.8%. The danger of inflation falls when the economy sags. The GDP report contains the Fed's favorite measure, the price index for personal consumption expenditures. It fell at a 2% annual rate.

The puzzler: The yield on the 10-year Treasury note rose to 2.04%. Bond yields usually rise when inflation is in the air. But that's not the picture painted by either release Wednesday.

"It was kind of a surprise to a lot of people," says Greg Whiteley, government securities portfolio manager at DoubleLine. "I did a double-take." One suggestion: A number of companies in Europe and the U.S. floated large bond offerings.