

WILL FED CALL TIME-OUT ON RATE HIKES?

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Fed meeting Wednesday could clear up uncertainty over its summer timetable

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Message to investors: This might not be the best time to slip away to the beach and take your mind off stocks, bonds and the world's most powerful central banker.

Wall Street kicks off the new week on the defensive, with once-calm financial markets suddenly behaving erratically as a bout of fresh turbulence has sent global investors scurrying to the perceived safety of government bonds, despite the fact they provide little, if any, income.

Adding to the uncertainty, stock and bond investors are bracing for Wednesday's key Federal Reserve meeting focusing on interest rates.

And while the weak May jobs report has put the kibosh on a rate hike this week, Wall Street will still be seeking clues from Fed Chair Janet Yellen as to what the U.S. central bank's next move will be and when.

(Investors are placing just a 2% chance of a hike Wednesday and 21% odds at the July meeting, so any sign the Fed might move next month could roil markets.)

ODDS OF A RATE HIKE

It appears a June rate hike is off the table, and Wall Street isn't placing big odds on a hike anytime soon. Odds of a rate hike at upcoming Fed meetings:

June	2%
July	21%
September	35%
November	36%
December	54%

Source CME Group

Yellen could change the temperature of the market if the Fed's stance strikes the right balance, investment pros say.

"This is really about the mood music which the Fed sets," Luke Bartholomew, an investment manager at Aberdeen Asset Management, told USA TODAY in an e-mail.

U.S. stocks ended last week in retreat after flirting with record highs. Global bond markets will remain in focus after yields on government debt in Germany, Japan and the U.K. all plunged to record lows last week.



GETTY IMAGES
Janet Yellen

The U.S. 10-year Treasury dipped to 1.64%, its lowest closing yield since May 2, 2013.

The drop in yields was driven by a major bout of risk aversion sparked by global growth fears and a new poll from a U.K. newspaper that showed 55% of British voters are in favor of leaving the European Union, vs. 45% that want to stay.

The rising odds of a so-called "Brexit" vote on June 23 have stoked angst on Wall Street because a British exit from the EU was once viewed as a longshot and is likely to undermine investor confidence and cause financial market tumult.

"Brexit is a risk," says Paul Eitelman, investment strategist at Russell Investments. "It would create uncertainty in the near term for investors and business leaders. It could also lead to a retrenchment of economic growth not only in Europe but in the U.S. as well."

The Fed meeting will be closely watched. Investors will analyze the central bank's policy statement, its updated economic projections (a downgrade of the outlook is expected), as well as the so-called "dot plots" in which the Fed estimates how many rate hikes they see coming this year and next.

The other potential stress point for Wall Street is Yellen's press conference and what indications she gives on whether one bad jobs report is enough to derail the Fed's plans to hike rates at least two times in 2016.

Yellen, in a speech last week, was fairly upbeat and said focusing on one data point is not a good way to make policy decisions.

After two weak U.S. employment reports in a row, investors will be keen on whether Yellen thinks the soft patch is the start of something worse or a short-term blip, says Luke Tilley, chief economist at Wilmington Trust.

"At the Fed meeting I'll be trying to figure out what Yellen thinks is going on in the labor market," says Tilley.

Wall Street will be watching whether one bad jobs report is enough to derail the Fed's plans to hike rates at least two times in 2016.