USA TODAY — THE GREENVILLE NEWS
FRIDAY, MAY 27, 2016

AMERICA'S M

What to watch

Yellen could back Fed hawks on interest rates

Adam Shell
@adamshell
USA TODAY

It was quite a trial balloon the Federal Reserve embedded last week in the minutes from its April meeting. The message to investors was straightforward: A June rate hike is coming if the economic data is good heading into next month's Fed meeting.

Every Fed speaker since the May 15 minutes has confirmed the Fed is getting ready to move next month. At first, Wall Street was caught off guard, pushing stocks down. But there has been a shift in the narrative, with investors now sending out signals it no longer fears a June rate hike and thinks the economy and markets can withstand a quarter-point rise in rates to 0.75%.

"It was the minutes that did it, without a doubt," says David Blitzer, managing director and chairman of the index committee at S&P Dow Jones Indices. "Before the minutes everybody was thinking, 'They won't do anything in June.' The minutes really changed everyone's perception."

That change in the groupthink on Wall Street could take the sting out of any comments leaning toward a June hike by Fed Chair Janet Yellen on Friday at Harvard. "The minutes were the rumor, and Yellen could be the news," Blitzer says. "The Fed is backing away from the fire-fighting business (or basing policy on emergency conditions)."

With the housing market showing strength and the U.S. economy and consumer in decent shape, it's unlikely the market will be sunk by a one quarter-point hike, he says: "I don't think the sky will fall."