

Stocks slide as inflation dims hopes for rate cuts

BY STAN CHOE

THE ASSOCIATED PRESS

NEW YORK>> Most U.S. stocks fell Wednesday after a report showed inflation is unexpectedly worsening for Americans.

The S&P 500 dropped 0.3%, though it had been on track for a much worse loss of 1.1% at the start of trading. The Dow Jones Industrial Average sank 225 points, or 0.5%, while the Nasdaq composite edged higher by less than 0.1%.

Stocks pared their losses through the day as the price of oil eased. A barrel of benchmark U.S. crude fell 2.7% below \$72 after President Donald Trump said he had agreed with Russia's president to begin "negotiations" on ending the war in Ukraine. Such a move could free up the global movement of crude.

Still, Wall Street's overall momentum remained downward, and the majority of stocks fell. Treasury yields also remained notably higher in the bond market, cranking up the pressure on financial markets after the morning's report said U.S. consumers had to pay higher prices for eggs, gasoline and other costs of living than economists expected.

Overall inflation was 3% for U.S. consumers in January. That was worse than the 2.9% inflation rate of December, which is what economists expected to see again.

The inflation report suggested not only that pressure on U.S. households' budgets is amplifying but also that traders on Wall Street were correct to forecast the Federal Reserve will deliver less relief for Americans through lower interest rates this year.

The Fed had cut its main interest rate sharply from September through the end of last year, intending to make borrowing cheaper, help the economy and boost prices for stocks, bonds and other investments. But the Fed warned at the end of 2024 it may not cut rates by as much in 2025 because of worries about inflation staying stubbornly high. Its goal is to keep inflation at 2%, and lower rates can give inflation more fuel.

Some investors were betting on the Fed not cutting rates at all in 2025, even before Wednesday's report on the consumer price index, or CPI.

"The hotter-than-expected CPI confirms investors' anxiety regarding too-hot inflation that will keep the Fed on the sidelines," said Sameer Samana, head of global equities and real assets at Wells Fargo Investment Institute.

And January's reading doesn't account for any of the tariffs that Trump has recently announced, with possibly more on the way, which economists expect will raise prices for imports further. Tariffs "will make their impact felt later in the year," Samana said.

Following January's discouraging inflation data, traders are betting on a 29% chance the Fed will not cut rates at all this year, according to data from CME Group. That's up from a less than 20% chance seen the day before.

Such expectations sent the yield on the 10-year Treasury up to 4.62% from 4.54% late Tuesday, which is a notable move for the bond market.



When a 10-year Treasury, which is seen as one of the safest investments possible, is paying that much in interest, investors are less likely to pay high prices for stocks, which carry a higher risk of seeing their prices go to zero. That puts downward pressure on U.S. stock prices that critics say already look too expensive after running to repeated records last year, with the latest for the S&P 500 coming last month.