

US STOCKS-Market advances on Fed rate cut hopes

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By Ellis Mnyandu

NEW YORK, Jan 28 (Reuters) - U.S. stocks rose on Monday on hopes the Federal Reserve would keep slashing interest rates to prevent the housing slump from tipping the economy into a recession.

Trading was volatile, with the stock market initially struggling to advance after the market opened.

But with Fed policy-makers due to decide on interest rates on Wednesday, investors pushed stocks higher after Friday's slide, counting on lowered borrowing costs for businesses and consumers to stimulate economic activity. Fed Chairman Ben Bernanke and top officials are scheduled to meet Tuesday and Wednesday to decide rate policy.

Shares of General Electric Co (GE.N: [Quote](#), [Profile](#), [Research](#)), seen as a proxy for the economy because of its diversified businesses, rose as did interest-rate sensitive companies, such as credit card provider American Express Co (AXP.N: [Quote](#), [Profile](#), [Research](#)).

GE was up 1.3 percent to \$34.45 while American Express gained 2 percent to \$46.41.

Responding to a global stock market rout early last week, the U.S. central bank chopped rates by three-quarters of a percentage point, bringing the federal funds rate down to 3.5 percent.

"There's hope that Ben Bernanke will do more on Wednesday," said Alan Lantz, president of Alan B. Lantz & Associates Inc., an investment advisory firm in Toledo, Ohio. "Last week's 75 basis-points cut was a nice turnaround, and some kind of follow-through will be good too."

The Dow Jones industrial average .DJI was up 96.33 points, or 0.79 percent, at 12,303.50. The Standard & Poor's 500 Index .SPX was up 13.26 points, or 1.00 percent, at 1,343.87. The Nasdaq Composite Index .IXIC was up 13.79 points, or 0.59 percent, at 2,339.99.

Earnings news was mixed. Fast-food restaurant McDonald's Corp (MCD.N: [Quote](#), [Profile](#), [Research](#)) fell 7 percent to \$50.29 after posting flat sales in December, but specialty glass maker Corning Inc (GLW.N: [Quote](#), [Profile](#), [Research](#)) rose 3 percent to \$23.16 after reporting higher profit, boosted by strength in its display business.

Government data showing a bigger-than-expected drop in new-home sales last month strengthened the argument for Fed rate cut, analysts said. Lower rates could ease the strain on mortgage borrowers.

Shares of insurer American International Group Inc (AIG.N: [Quote](#), [Profile](#), [Research](#)) climbed 2.7 percent to \$54.67, while Bank of America Corp (BAC.N: [Quote](#), [Profile](#), [Research](#)), the No. 1 U.S. bank by market value, jumped 2.7 percent to \$40.55 on the NYSE.

On the Nasdaq, shares of Apple Inc (AAPL.O: [Quote](#), [Profile](#), [Research](#)) led advancers with a gain of nearly 1 percent to \$131.20. Last week the maker of the iPhone and the iPod had rattled investors with a quarterly profit outlook below Wall Street's estimates, sending its stock into a tailspin.

According to Reuters data, the S&P 500 index starts the week at its most oversold condition since October 2002, as measured by the relative strength index.

U.S. short-term interest rate futures FFG8 showed perceived chances that the Fed would approve a half-percentage point rate cut on Wednesday rose to 90 percent.

Investors are hoping rate cuts, together with a fiscal economic stimulus package worth at least \$150 billion, will help revive growth and avoid a recession. (Editing by Kenneth Barry)