

The Stock Market Game™



Week In Review

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Smoke on the water... The Coast Guard, EPA, and other government officials are scrambling to figure out what to do about the massive oil spill in the Gulf of Mexico that is fast approaching Louisiana's Mississippi Delta. Measures include setting the oil on fire. In other flare up news, [Greece](#) continued to give the world agita as its debt crisis continues to remain unresolved. Worries of contagion increased with debt from Spain and Portugal being downgraded by ratings agencies. European officials expect to get the mess sorted out by tomorrow, but we've heard this before. Stay tuned.

None of these ominous situations slowed down the Dow this week, although the [futures](#) suggest it will go lower today due to slower than expected GDP growth. The biggest boost to the U.S. stock markets this week was the Fed's decision to keep interest rates near zero and they also sent smoke signals indicating they plan to keep them there for the near future. This is good news for all business, especially the financials. So why are the Fed's smoke signals important?

The [Federal Reserve Bank](#) never explicitly announces what they're going to do at their next [Federal Open Market Committee](#) (FOMC) meeting. Federal Reserve Chairmen need to be very cautious about what they say about the direction of the economy or what they plan to do with interest rates because markets hang on their every word. Evidence of that occurred this week when markets reacted positively to the news that interest rates will remain low for the near future as mentioned above. An indication from a Fed Chairman or the FOMC that they might be raising interest rates would have the opposite reaction in equity markets. So Federal Reserve officials understand that whatever they say will move markets, but they try to be careful in their statements to both: a) avoid placing undue influence on markets, and b) leave themselves room to maneuver if economic conditions change.

If we flipped economic conditions and we were in a high interest rate environment, an announcement by the Fed that they were going to move interest rates lower would spur a rally in the bond market. This is because bond prices move higher as interest rates move lower. So here again, the Fed has tremendous influence.

To learn more about the Fed, visit SMG's [Teacher Support Center](#). You can locate resources about the Fed by searching in our Publications section with the keyword: Federal Reserve Bank. We have both *In the News* and *StockTalk* newsletters dedicated to the Fed. Particularly, "The Fed's Fix" and "The Fed's Prescription." Both examined actions taken by the Fed to revive the economy.