BloombergBusiness

- Post-Fed meeting slump pared as officials talk up hike
- S&P 500 rallies following biggest post-FOMC rout in a year

Global markets surprised by the Federal Reserve's dovish stance last week didn't have long to wait for the hawks to take flight.

Just days after the central bank's decision to hold interest rates near zero sparked a rally in bonds and the biggest post-meeting equity selloff since July 2014, four Fed officials separately said that the U.S. economy is strong enough to withstand a hike this year. Their hawkish commentary bolstered American stocks and sent Treasuries tumbling with emerging-market assets.

The efforts to adjust expectations over rates are the latest moves by a central bank that has taken care to soothe investors as the unprecedented market turbulence of the past month complicates its plans to tighten policy. The four Fed officials contended in interviews and speeches that any threat from abroad is temporary, providing a counterbalance to Chair Janet Yellen's warning last week that global turmoil could inhibit growth.

"They want to try to keep the market in line," said Curtis Holden, a senior investment officer in Houston at Tanglewood Wealth Management, which oversees about $840 million. "They want to keep things propped up enough that they still have the opportunity to raise rates later. If stocks and commodities continue to sell off, it would make it difficult for them to raise rates at some points in the future."

Three regional Fed presidents -- San Francisco's John Williams, St. Louis's James Bullard and Jeffrey Lacker of Richmond -- argued over the weekend for lifting the central bank's key interest rate before year's end. They suggested low unemployment overshadowed the concerns mentioned by Yellen. Fed Bank of Atlanta President Dennis Lockhart said Monday he remains confident the U.S. will tighten policy this year as those concerns prove temporary.

Interest-rate futures now put the chance of an increase at the Fed's October meeting at 20 percent, and 48.8 percent odds of a move by December, according to data compiled by Bloomberg.

"There are a lot of Fed people coming out and trying to be transparent following last week's selloff, but in some cases that's leading to more investor confusion," said Richard Sichel, chief investment officer at Philadelphia Trust Co., which oversees $2 billion. "There are so many brilliant people talking every day that it's difficult to sort it all out. There's still a tremendous amount of nervousness."

Stocks

The Standard & Poor's 500 Index climbed 0.5 percent by 4 p.m. in New York. The gauge sank 1.9 percent in the final two days of last week, the steepest slump following a Fed policy meeting in more than a year. The gauge trades at 16.7 times members' projected earnings, near the lowest level since October.

Among stocks moving Monday, financial shares led gains with a 1.1 percent advance. The group sank 3.2 percent in the two days after the Fed's decision to keep rates near zero. Technology companies also advanced as Apple Inc. climbed 1.6 percent.

Health-care companies were the only group of 10 in the S&P 500 to retreat, sliding 1.4 percent. The Nasdaq Biotechnology Index sank 4.4 percent after Democratic presidential candidate Hillary Clinton said in a tweet that some "price gouging" in the prescription drug market is "outrageous." She is expected to release a drug pricing proposal tomorrow.

In Europe, the Stoxx 600 Index climbed 0.9 percent following its worst drop in two weeks. All industry groups rallied except carmakers. Volkswagen AG led auto stocks lower after admitting to systematically cheating on U.S. air pollution tests for years.

Bonds

Yields on 10-year Treasuries rose seven basis points, or 0.07 percentage point, to 2.20 percent, after dropping 16 basis points in the previous two days. Yields on two-year Treasuries climbed three basis points to 0.71 percent.

For investors, the interest-rate debate now centers on whether signs of strength in the U.S. economy can outweigh anxiety over global growth that was fueled by China's shock currency devaluation last month.

A reading on sales of existing homes in the U.S. showed a steeper-than-forecast drop in August, representing a pause in momentum this year for residential real estate. Data on gross domestic product is slated for later this week. Aside from that, there will be relatively limited economic reports -- including some jobs data and one Consumer Price Index reading -- between now and the Fed's October meeting.

Euro-area government bonds also declined, with Spain's 10-year securities falling for the first time in three days as a rally that pushed the nation's yields to the lowest level in a month waned. Yields on Australian 10-year bonds slid five basis points to 2.72 percent, a second day of losses.

Emerging Markets

The MSCI Emerging Markets Index fell 1.7 percent, sliding from a one-month high as optimism surrounding the Fed's decision not to raise rates yet waned.

Lukoil PJSC paced losses among Russian oil producers amid speculation the government may raise taxes on crude to plug a budget shortfall. The country's Micex Index fell 0.7 percent. Brazilian stocks swung between gains and losses as concern that corporate earnings will be hurt by the country's recession offset an advance in exporters including meatpacker JBS SA.

Currencies

The Bloomberg Dollar Spot Index, which tracks the greenback against 10 major currencies, rose 0.5 percent as the Fed officials' comments bolstered bets on a rate hike this year.

"This dollar rally could have legs," said Matt Weller, an analyst at Gain Capital Holdings Inc.'s Forex.com unit in Grand Rapids, Michigan. "The Fed speakers are trying to guide the market back to a potential rate hike in December" after an "overreaction" to their decision to keep interest rates near zero last week, Weller said.

The euro dropped 1 percent to $1.1190. Goldman Sachs Group Inc. said the single currency may fall as much as 10 U.S. cents because the European Central Bank is set to increase stimulus that weakens the currency in order to meet its inflation target.

Commodities

Oil advanced on signs that producers are investing less in drilling, which could take a bigger bite out of falling U.S. crude production. West Texas Intermediate crude added 4.5 percent to settle at $46.68 a barrel, after sinking 4.7 percent on Friday amid concern over the global glut. Brent crude rose 3 percent to end at $48.92 in London, following a 3.3 percent drop.

Gold futures slipped 0.4 percent to settle at $1,132.80 an ounce in New York. The Fed officials' comments on raising rates this year damped demand for the metal because it doesn't pay interest, unlike competing assets.

The Bloomberg Commodity Index added 1 percent Monday, winding back some of last week's 1.4 percent retreat. Wheat futures rallied the most in a week on prospects dry weather over the next two weeks will hamper early crop growth in Russia and Ukraine.

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VW says payments won't mean consumers waive right to sue

Volkswagen AG, reeling from an expanding scandal involving diesel cars it has admitted it rigged to pass U.S. pollution tests, announced Monday that owners of the vehicles will receive $1,000 in what the company calls a “goodwill” gesture.

VW is offering owners of diesel-powered cars with 2.0-liter engines under investigation by the U.S. Environmental Protection Agency $500 on a prepaid Visa card. The owners would also get $500 in dealership credits and three years of free roadside assistance.

Volkswagen has been struggling to contain customer anger since the EPA announced the company’s smaller diesel cars since 2009 have technology installed to rig emissions tests. VW dealers have also gotten extra payments and incentives for selling gasoline-powered cars as diesel models can’t be sold.

“We are working tirelessly to develop an approved remedy for affected vehicles,” Michael Horn, Volkswagen Group of America’s president and chief executive officer, said in an e-mail. “In the meantime, we are providing this goodwill package as a first step towards regaining our customers’ trust.”

Register Online

Consumers who want to sign up for the loyalty program can verify eligibility by going to www.vwdieselinfo.com. Once registered, a goodwill package will be mailed within four weeks, and then customers can pick up payment cards at an authorized dealer.

Two Democratic U.S. senators who have been critical of Volkswagen called the payments “insultingly inadequate.” VW needs to fully cooperate with federal criminal and civil investigations that may provide more redress to taxpayers and car owners, Richard Blumenthal of Connecticut and Edward Markey of Massachusetts said in a statement.

“It should offer every owner who wants to keep her car full compensation for the loss of resale value, fuel economy and other damage caused by its purposeful deception,” the senators said. “The company needs to get serious.”

Consumers don’t need to release any legal claims in order to receive the goodwill package, VW spokeswoman Jeannine Ginivan said.

Fine Print

Robert Hilliard, an attorney representing hundreds of owners of diesel cars covered by the EPA investigation, initially cautioned that consumers signing up for payments should be mindful of any fine print that would require them to resolve any disputes in arbitration and bar them from suing. Hilliard withdrew that warning after a Volkswagen attorney wrote in an e-mail that agreeing to the bank’s terms for the prepaid cards wouldn’t affect any customer claims against Volkswagen.

New York Attorney General Eric Schneiderman said in a statement that Volkswagen’s program appears to be a goodwill gesture and nothing more. Schneiderman is leading a probe by 47 states and the District of Columbia of the Wolfsburg, Germany-based carmaker.

“It in no way diminishes the seriousness of the deceptive practices and environmental harms that are the subject of the states’ investigation, or the determination of the attorneys general of 48 jurisdictions to hold Volkswagen to account for its conduct,” Schneiderman said.

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