The Washington Post *Democracy Dies in Darkness*

Stocks edge higher, but inflation jitters remain

Market volatility is expected to continue as investors weigh the prospect of the Federal Reserve taking more aggressive action on rate hikes.

By Taylor Telford

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Stock markets moved slightly higher at Friday's open, with the three major U.S. indexes on track to recoup some of the previous day's losses even as inflation fears continued to cast a pall over Wall Street.

After starting the week on a high note, investor mood turned dour Thursday after the Labor Department reported the largest annual hike in inflation since February 1982, fueling speculation the Federal Reserve could move more aggressively than expected to raise interest rates.

Such action is the Fed's best tool to bring down prices, but the tangle of pressures surrounding and influencing inflation — explosive demand, a supply chain in chaos, a topsy-turvy labor market — will not be immediately resolved by shifts in monetary policy. In the meantime, the raising of rates will limit business activity, which often hits stocks, especially those of highflying companies, hard.

"The market volatility from January is not over and we expect continued choppiness as investors weigh the prospect of a more aggressive Federal Reserve in the face of rising inflation," Richard Saperstein, chief investment officer of Treasury Partners, said Friday in comments emailed to The Post.

Bond yields surged as investors priced in rate hikes, with the yield on the 10-year U.S. Treasury note sailing past 2 percent to a multiyear high.

After waffling in premarket trading, the major indexes turned positive at the open, led by the tech-heavy Nasdaq, which advanced about .3 percent. Still, all three remain in negative territory for 2022: the Nasdaq, which has been hit hard as investors rotated away from pricey tech stocks, is down more than 9 percent year to date according to MarketWatch. The S&P 500 has erased more than 5.5 percent this year, and the Dow more than 3 percent.

Cboe's VIX, dubbed Wall Street's fear gauge, has jumped 30 percent in the past month.

Sentiments had been improving before the inflation report, as investors priced in the likelihood of several rate hikes and processed a string of economic data that suggested omicron cast less of a shadow over the economy than many had feared. Now, the hot inflation report has given Wall Street plenty more to worry about.

"Markets are not erring on the side of hope and are pricing in plenty more hikes in the second half of the year on the belief that the central banks will once again prove too optimistic," Craig Erlam, senior economic analyst with OANDA, said Friday in comments emailed to The Post. "While that may lead to plenty more instability in the stock markets over the next couple of months, it could become a useful tailwind in the second half of the year if inflation does fall considerably."

Investors are looking toward data on consumer sentiment for insight into how spiking prices are hurting American households. The rising cost of food, electricity and shelter helped drive inflation higher last month. Household furnishings, clothing and medical care becoming costlier, while used-car costs continued to climb, albeit at a slower pace than in prior months.

Corporate earnings have been at the center of recent swings as investors looked for signs of inflation weighing on bottoms lines, with performances from big names sparking steep sell-offs and big rallies. A disappointing earnings report from Meta Platforms last week sparked a sell-off that erased roughly $230 billion in market value, a record for a U.S. company. A day later, Amazon's value swelled by $191 billion, also a record, after it reported blockbuster fourth-quarter revenue, lifting tech and other sectors alongside it. (Amazon founder Jeff Bezos owns The Washington Post.)

Zillow's shares soared more than 12.5 percent in premarket trading, even after the company reported losing $881 million on its shuttered home-flipping business last year. Revenue in its core segment climbed 30 percent, Zillow said, boosted by the demands of a fiery housing market.

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