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U.S. Stocks Slide Amid Speculation on Tighter Monetary Policy

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U.S. stocks fell the most since Britain voted to leave the European Union, after a Federal Reserve official signaled more willingness to raise interest rates.

Equities were jolted out of an eight-week stretch of calm as central bankers weigh the benefits of further stimulus. Boston Fed President Eric Rosengren warned today that waiting too long to raise rates threatened to overheat the U.S. economy and could risk financial stability. Shares slipped from near-record levels Thursday after European Central Bank President Mario Draghi downplayed the need for more stimulus measures.

The S&P 500 Index fell 1.2 percent to 2,155.56 at 11:40 a.m. in New York, the steepest since June 27. The gauge sank below its average price during the past 50 days for the first time since July 6. The Dow Jones Industrial Average lost 190.82 points, or 1 percent, to 18,289.09, while the Nasdaq Composite Index declined 1.2 percent. The CBOE Volatility Index surged 17 percent, on pace for a two-month high. Trading in S&P 500 shares was 22 percent above the 30-day average for this time of the day.

“Dovish Fed members getting called up to bat for a hike is putting people on edge,” Yousef Abbasi, a global market strategist at JonesTrading Institutional Services LLC, said by phone. “It’s certainly one of those days where people are positioning for that September hike being back on the table. It’s happening as economic data lately is coming in more softly than people would like.”

The year’s strongest performing industries in the S&P 500 -- energy, phone and utility and raw-materials companies were the biggest losers in Friday’s trading, falling at least 1.6 percent. Banks were little changed, supported by speculation that higher interest rates will lift profits. Apple Inc., Exxon Mobil Corp. and General Electric Co. were the biggest drags on the benchmark, falling more than 1 percent.

Real-estate companies weighed on the broader financial group, while lenders and insurers curbed the decline. MetLife Inc. added 2 percent and Bank of America Corp. increased 0.5 percent. Simon Property Group Inc. and American Tower Corp. lost more than 2.5 percent.

Following Rosengren’s comments, traders had pushed bets for a rate increase this month to 38 percent, though they’ve since moderated to 30 percent. Odds fell to 22 percent on Wednesday following a string of weaker-than-forecast gauges on hiring, manufacturing and services activity. December is the first month with at least an even chance for a move. Next week’s reports on retail sales, consumer sentiment and industrial production are among the last major economic releases before the central bank meets Sept. 20-21.

Fed Governor Lael Brainard, seen as a leading opponent of rate increases for much of the past year, is scheduled to deliver a speech in Chicago Monday outlining her views on the economy and monetary policy. The yield on 10-year U.S. Treasuries rose Friday toward a more than two-month high.

“This is a big move in yields the last couple days,” **Mark Kepner**, managing director and equity trader at **Themis Trading LLC** in Chatham, New Jersey, said by phone. “If you’re going to get a big move in the bond market, equities can only be under pressure and we’re seeing it already. Equities may sell off as well just because investors do not like a move like this so fast.”

The S&P 500 is poised for its first move of at least 1 percent since July 8, a streak of 43 consecutive days, as it broke below a roughly 30-point range it’s held for about two months. The gauge had hovered near a record reached on Aug. 15 amid mixed economic data and speculation about the Fed’s policy on rates. It closed Thursday up 19 percent from a 22-month low in February, and was less than half a percent from its all-time high.

“It’s really difficult to be an investor in U.S. equities right now because benchmarks are just glued to those all-time highs,” said Steven Santos, a broker at Banco de Investimento Global SA in Lisbon. “There isn’t much conviction to really push stocks higher, but you also don’t want to completely give up on stocks when returns elsewhere look miserable.”