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Stocks on the rise

Wall Street hangs on to gains as Fed and other world banks cut rates, lending improves and GDP shrinks at a slower pace than had been expected.

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NEW YORK (CNNMoney.com) -- Stocks held on to gains Thursday afternoon, as investors breathed a sigh of relief that the Federal Reserve and other world banks cut interest rates and that lending rates are starting to ease.

Also in play was a report showing the economy shrank at a slower pace than expected in the third quarter.

The Dow Jones Industrial average (INDU) gained 0.6% or roughly 50 points around 3 hours into the session. The blue-chip indicator had been up as much as 275 points earlier.

The Standard & Poor's 500 (SPX) index rose 0.8% and the Nasdaq composite (COMP) gained 0.7%.

All three major gauges had been higher in the early going, but the buying momentum eased up a bit as the session wore on.

Stocks seem to be in the process of putting a bottom in place, said Gary Hager, founder and chief executive of Integrated Wealth Management, citing the recent bear market lows hit on Oct. 10th.

Looking forward, he said "We're still going to see significant swings, but the volatility should start to decrease once we get past the election and get through the end of the year."

GDP: Gross Domestic Product, the broadest measure of the nation's economy, fell at an annual rate of 0.3% in the third quarter after growing at a 2.8% rate in the second quarter.

The drop was not as bad as expected, with analysts having forecast that GDP would slump 0.5%. However, the decline was still the worst performance for the economy since the last recession 7 years ago. (Full story)

Exxon Mobil and AmEx: Exxon (XOM, Fortune 500), the oil services giant reported a profit of $14.83 billion, the biggest quarterly profit in U.S. history. (Full story)

But Exxon was an exception. With roughly 59% of the S&P 500 results out, profits are currently on track to have fallen 23.8% versus a year ago, according to the latest data from tracking firm Thomson Reuters.

Hartford Financial Services (HIG, Fortune 500) tumbled 41% after the life insurer reported a massive quarterly loss and also cut its full-year profit forecast.

In other company news, American Express (AXP, Fortune 500) announced that it will cut 7,000 jobs, or more than 10% of its staff, amid the ongoing credit crisis.

Rate cuts: Stocks zigzagged Wednesday after the Federal Reserve cut interest rates, as expected, and also issued a dour assessment of the economy. The central bank cut the fed funds rate, a key bank lending rate, by half a percentage point to 1.0%. That matched an all-time low for the rate last seen in June 2004.

In its statement, the central bank painted a bleak picture of the economy, touching on the lingering impact of the financial market crisis, the lack of available credit, and the erosion in consumer and business spending. The statement indicated the Fed could cut rates again if necessary.

World markets rallied on the news, with Asian exchanges surging overnight and European markets up at midday. In addition to cutting rates, the U.S. Federal Reserve said Thursday that it was opening up new lines of credit of up to $30 billion to central banks in Brazil, Mexico, South Korea and Singapore.

Hong Kong and Taiwan cut interest rates after the U.S. Fed and China cut rates. Speculation mounted that Japan would cut its key rate at a meeting this Friday.

The Fed has cut rates for more than a year in an attempt to help the struggling economy. The central bank has also made potentially trillions available to financial institutions as part of a broader attempt to calm roiling financial markets and get banks to start lending to each other again.

Lending has been improving slowly. On Thursday, the Fed said that the market for commercial paper grew last week, the first such expansion in nearly two months. Commercial paper is a critical form of short-term funding that companies rely on for their daily operations.

Lending rates: Meanwhile, the credit market continued to improve, with Libor, the overnight bank-to-bank lending rate, falling to 0.73% from 1.14% Wednesday, according to Bloomberg.com. The 3-month Libor fell to 3.19% from 3.42% Wednesday. (Full story)

The TED spread, the difference between what banks pay to borrow from each other for three months and what the Treasury pays, narrowed to 2.68% from 2.84% Wednesday. The spread hit a record 4.65% earlier this month. The narrower the spread, the more willing banks are to lend to each other.

The yield on the 3-month Treasury bill, seen as the safest place to put money in the short term, slipped to 0.5% from 0.57% late Wednesday, with investors preferring to take a piddling return on their money than risk the stock market.

Last month, the 3-month yield reached a 68-year low around 0% as investor panic hit its highest level.

Treasury prices slipped, raising the yield on the benchmark 10-year note yield to 3.91% from 3.85% late Wednesday. Treasury prices and yields move in opposite directions.

Other markets: The dollar gained against the euro and the yen.

U.S. light crude oil for December delivery fell $2.84 to $64.66 a barrel on the New York Mercantile Exchange.

COMEX gold for December delivery fell $15.50 to $738.50 an ounce.

Gasoline prices fell another 4 cents overnight, to a national average of $2.547 a gallon, according to a survey of credit-card activity by motorist group AAA. It was the 43rd consecutive day that prices have decreased. During that time, prices have fallen by $1.31 a gallon, or nearly 34%.

A brutal month: Barring a massive rally Thursday and Friday, October will go down in the history books as one of Wall Street's worst months of all time.

By Wednesday's close, the Dow had lost 1,860 points, the Dow's worst month ever, according to *Stock Trader's Almanac* info going back to 1901. On a percentage basis, the decline of 17.1% doesn't rank in the top ten.

The S&P 500 lost nearly 236 points, or 20.3% in the month, and is currently on track to post its worst month ever on a point basis and eighth worst ever on a percentage basis, going back to 1930.

The Nasdaq dropped 425 points, or 20.4% in October, tracking it's seventh-worst month ever on a point basis and its fifth-worst month on a percentage basis, going back to its inception in 1971. ■

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