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S& P 500 Falls on Rate-Hike Fears

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The Standard & Poor's 500-stock index slipped last week after the Federal Reserve signaled that it may raise interest rates and Lehman Brothers' $2.8 billion loss renewed speculation that banks face more write-downs.

The retreat was limited by a 1.5 percent rally on Friday as lower oil prices tempered concern that inflation will accelerate.

J.P. Morgan Chase and Wachovia fell during the week after Fed Chairman Ben S. Bernanke said he would "strongly resist" any surge in inflation expectations. Lehman lost 20 percent after raising $6 billion and replacing two top executives.

The S&P 500 fell 0.05 percent for the week, to 1360.03. The Nasdaq composite index lost 0.8 percent, to 2454.50, dragged down by a plunge in Yahoo shares after the Internet company ended buyout talks with Microsoft. The Dow Jones industrial average added 0.8 percent, to 12,307.35, as McDonald's shares jumped on better-than-expected May sales.

"The Fed is finished" cutting interest rates, said George Feiger, chief executive of Contango Capital Advisors. "There's not going to be a rapid recovery. Expectations of a turnaround in earnings are a pipe dream."

The S&P 500 fell 3.1 percent in the past month as investors speculated that central banks would raise borrowing costs to fight surging food and energy prices.

Yields on two-year Treasury notes shot up, and the dollar posted its biggest weekly gain versus the euro since 2005 as traders bet that the Fed would raise its benchmark lending rate as early as this month.

Two-year Treasury yields rose 0.68 percentage point, to 3.05 percent. The dollar climbed 2.6 percent against the euro. Oil slid 2.7 percent as the dollar's advance reduced the appeal of the commodity as a hedge.

Lehman reported $3.7 billion of write-downs on its portfolio of mortgage-related assets and leveraged loans during its second quarter, resulting in its first quarterly loss since the company went public in 1994.

Lehman, the fourth-largest securities firm, replaced Chief Financial Officer Erin Callan and President Joseph Gregory.

The Treasury will auction $24 billion of three-month bills and $23 billion of six-month bills on Monday. They yielded 2.03 percent and 2.30 percent, respectively, in when-issued trading. The Treasury will sell one-month bills Tuesday.

-- Bloomberg News