WASHINGTON — In suspending its previous plans to continue raising rates this year, the Federal Reserve signaled that its march toward higher interest rates may be ending sooner than expected.

The Fed’s chairman, Jerome H. Powell, said economic growth remained “solid” and the central bank expected growth to continue. But in a sharp reversal of the Fed’s stance just six week ago, Mr. Powell said the Fed had “the luxury of patience” in deciding whether to raise rates again.

“The case for raising rates has weakened somewhat,” Mr. Powell said, pointing to sluggish inflation, slowing growth in Europe and China, and the possibility of another federal government shutdown.

“My colleagues and I have one overarching goal,” Mr. Powell said at a news conference on Wednesday after a two-day meeting of the Fed’s policymaking committee, “to sustain the economic expansion.”

The Fed left its benchmark interest rate unchanged at its first meeting of 2019, a decision that was widely expected. What surprised markets was the indication that rates, which are in a range of 2.25 percent to 2.5 percent, may stay put for some time.

Investors expressed their enthusiasm around the globe early Thursday. Major Asian markets like Japan and Hong Kong rose by about 1 percent, and European stocks opened higher. Futures markets that try to predict stock performances indicated Wall Street would open higher too.

On Wednesday, the S&P 500-stock index climbed sharply after the Fed announcement and ended the day up 1.55 percent. Yields on shorter-term Treasury securities, which are heavily influenced by Fed policy, declined as investors concluded that any near-term interest rate increases were off the table.
The Fed's newfound caution is likely to delight President Trump, who argued loudly and publicly through much of 2018 that the Fed should stop raising its benchmark rate, which he said would snuff out the economic expansion. While the president did not address the Fed’s decision directly, he wrote on Twitter: “Dow just broke 25,000. Tremendous news!”

Some on the other side of the political spectrum also supported the Fed's move, saying the slow pace of inflation allowed the Fed to refrain from raising rates, so that job and wage growth could continue.

Jared Bernstein, an economist at the left-leaning Center on Budget and Policy Priorities, summarized the Fed's new policy stance as “Don’t just do something, stand there!” He added that the new approach “seems right to me.” Mr. Bernstein said domestic growth was under pressure from tighter financial conditions, the slowdown in global growth and what he called “Trumpian chaos.”

“Tightening under these conditions would be unnecessary roughness,” he said.

For the last several years, the Fed said consistently that it planned to keep raising interest rates. The pace was uncertain, but the direction was clear. Wednesday's statement omitted previous language indicating that “some further gradual increases” would be warranted. Instead, it said the Fed would be “patient” in evaluating the health of the economy. And it suggested the Fed stood ready either to raise or to cut rates, depending on economic conditions.

Reinforcing this more cautious tone, the Fed also announced in a separate statement that it was prepared to slow or even reverse the steady slimming of its bond portfolio. This, too, was a striking shift. The Fed said in December that it was committed to steadily reducing its holdings of Treasuries and mortgage bonds, which it amassed during the financial crisis to help bolster the economy.

The Fed's policymaking committee voted unanimously for the changes.

Fed officials had signaled the shift in their thinking in recent weeks, aligning on the theme of patience with unusual consistency, leaving little doubt of their intentions.

Still, the strength of the shift caught analysts and investors by surprise, particularly given Mr. Powell’s more hawkish comments at the end of last year.

While the Fed is pausing for now, Mr. Powell said he believed the central bank had raised rates to an appropriate level and had not overtightened. “I think our policy stance today is appropriate for the state of the economy,” he said. “That’s my feeling.”

Mr. Powell did not directly address how long the Fed planned to remain patient but suggested any future rate increases would depend largely on signs of inflation, which has consistently fallen below the Fed's 2 percent target.
“I would want to see a need for further rate increases, and for me a big part of that would be inflation,” he said.

Brian Coulton, chief economist at Fitch Ratings, said he expected economic growth to continue and therefore he expected the Fed to resume rate increases this year. “This reads more like a pause than a strong signal that they believe that they are the end of the hiking cycle,” Mr. Coulton said. “Barring a very significant global downturn, we still see further rate increases later this year.”

Others, however, said the Fed may well have raised rates for the last time during the current economic expansion. “It does feel like the top of the cycle,” said Tim Duy, an economist at the University of Oregon who follows the central bank closely. “With the economy poised to slow over the next year, the Fed is not interested in risking turning that slowdown into a recession.”

The shift left some Fed watchers puzzling over why the central bank had reversed course so quickly.

In early October, Mr. Powell described the Fed’s benchmark interest rate as “a long way from neutral.” The comment was read by markets as implying that the Fed planned to continue raising rates for some time.

Mr. Powell sought to soften that impression in subsequent public appearances. After the Fed raised the benchmark rate by a quarter point at its December meeting, Mr. Powell said that the rate was at the lower end of what Fed officials consider the neutral zone: the region in which rates would neither stimulate nor restrain the economy. That implied the Fed was closer to pausing.

But Mr. Powell still said the Fed expected to keep raising its benchmark interest rate. And the Fed released projections showing most of its officials predicted at least two rate increases in 2019.

In his opening remarks on Wednesday, Mr. Powell said that the change in the Fed’s plans did not reflect “a major shift in the baseline outlook for the economy.” But he struggled to explain the Fed’s reasoning, suggesting later in the news conference that the outlook for growth had soured. He pointed to problems including tightening financial conditions, weak global growth and the government shutdown.

One point he made insistently was that the Fed was not taking its cues from Mr. Trump, despite the president’s constant heckling. “We’re human,” Mr. Powell said. “We make mistakes. But we’re not going to make mistakes of character or integrity.”

The Fed on Wednesday also sought to clarify its plans for its giant stockpile of Treasuries and mortgage bonds it accumulated in the wake of the financial crisis. A decade ago, the central bank tried to revive economic activity and reduce borrowing costs for things like cars and mortgages by cutting its benchmark interest rate nearly to zero, and by vacuuming up huge quantities of bonds.
The Fed's bond-buying program was intended to encourage investors to buy riskier assets, like stocks and corporate bonds, by driving up the price of safer securities, like Treasuries and mortgage-backed securities. The Fed's enormous purchases drove down interest rates because, as competition for available Treasuries increased, buyers were forced to accept lower rates of return.

As the economy recovered, the Fed decided to take away that crutch and since the fall of 2017, it has gradually reduced its holdings at a pace of about $45 billion per month. But the Fed said on Wednesday that it planned to stop relatively soon, maintaining a much larger presence in the bond market than it did before the 2008 crisis.

The decision has limited implications for the general public. Some Fed officials and outside experts think that the new approach has improved the Fed's ability to influence economic conditions, like interest rates, but the practical difference is generally regarded as modest.

But it is a big deal for bond markets. The Fed is the world's largest investor, and even small changes in Fed policy make large ripples. The decision was applauded by some investors, who argue that the Fed's withdrawal from the bond market is contributing to the volatility of asset prices. Other investors, however, want the Fed to minimize its profile in the bond market.

In a final bow to markets, the Fed emphasized its plans were subject to change.

“The committee is prepared to adjust any of the details for completing the balance sheet normalization in light of economic and financial developments,” the statement said. It added the Fed was even willing to increase the size of the balance sheet, if necessary.

Carlos Tejada contributed reporting from Hong Kong.

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