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Don’t Fight the Fed

Last week, Ben Bernanke assured investors that he was not taking away their punch bowl anytime soon. The Federal Reserve sees the labor market “generally weak” and will continue to “provide support to the recovery”. He said the Fed’s involvement with quantitative easing was unlikely to stop until……….2016.

Interest rates should remain low for a while. It has certainly paid not to fight the Fed in the past and those sentiments might continue. We are only 108 points from a Dow record held back in October 2007. We will assuredly go past this record at some point. Corporate earnings, dividends, profits, cash, and balance sheets all look strong. Small and Mid-Cap stocks hit lifetime highs in February.

With the S&P up 6.45% already this year, and some tail winds at our backs, I wouldn’t be surprised by a little pull back in the next few months. Now with the sequester in effect, investors will watch economic data over the coming weeks and months to see what effects government spending cuts have on the U.S. economy.

So far, the market has shrugged off any adverse effects of the sequestration. The Congressional Budget Office says the sequester will reduce spending from its current path of $43 billion over the next seven months of this fiscal year - March to September. This is a 2% reduction of federal spending over that timeframe, yet only 0.5% of GDP. Some say this reduction in Government spending should throw us into a recession. The phase out of the payroll tax cut is supposed to raise revenue by $100 billion this year, and we have not seen any evidence of a huge downturn.

March 27th is the next hurdle as Washington DC policy makers struggle with a potential continuing resolution deal to avoid a governmental shutdown.

Most people would be thrilled if a shutdown applied to our government representatives. However, in this case, any shutdown could possibly result in REAL people losing REAL jobs. No one likes to see this. I am hopeful the representatives in Washington D.C. get their act together collectively.

We can always see an event-driven pull back in the stock market, which would be normal. If that happens, I would consider that a good time to be buying into the market.