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Our Fed is "Better" than Your Fed

Global Markets and Regions

	2nd QTR	2013 YTD
US	2.2%	12.5%
Developed Europe	-2.2%	0.0%
Asia	-1.5%	2.6%
Emerging Markets	-9.1%	-10.9%

US Markets

	2nd QTR	2013 YTD
Dow 30	2.3%	13.8%
Large Cap Cos.	2.4%	12.6%
Mid. Cap Cos.	0.6%	13.8%
Small Cap Cos.	3.6%	15.5%
Bonds	-2.9%	-3.0%

Who knew that the Federal Reserve and the Central Banks of the world were so essential to healthy markets or unhealthy markets; or is it both? Years ago Central Banks labored in obscurity leaving the maintenance of a sound economic environment to their government's fiscal policies, the ebbs and flows of the economy and global trade and industry innovation. Then, in the midst of the stagflation of the 1970's, Federal Reserve Chairman Paul Volcker emerged to co-star with the fiscal authorities in the slaying of the "Inflation Dragon". They have been Rock Stars ever since. Now that the fiscal authorities no longer seem capable of fulfilling their role as custodians of their economies, it appears it's up to the Bankers and the economy by themselves to run the show. Can they handle the pressure?

Their success has been a mixed bag at best and it is becoming worrisome. The markets seem to be so dependent on their activities or even the discussion of their activities. The Bank of Japan has been the most bold in their stated objective to double the nation's monetary base. The Nikkei has responded with double digit volatility both up and down. As for the Japanese economy, I guess we'll see.

The Bank of England and the European Central Bank are committed to aggressive monetary accommodation policies. The Eurozone economies are still in recession and their markets have vacillated between gains and losses while waiting for their next comments. Cyprus headlines one day, Portugal the next, possibly Slovenia tomorrow. There is always Greece. Maybe they are just defying gravity.

The Peoples Bank of China has been attempting to avoid a real estate price collapse by tightening monetary policy and has succeeded in both slowing down the Chinese economy, destabilizing their

banking system and generating wide protests by real estate agents across the country. Maybe a “hard landing” is next.

Here in the US Ben Bernanke and the Federal Reserve are also addressing the economy with aggressive monetary easing. They say they will eventually have to stop easing. Their recent discussions of that someday event referred to as “tapering” has now introduced volatility into the US major market indices and caused the bond market to absolutely swoon with the thoughts of zero interest rate policies coming to an end and possibly reversing. The Bernanke Fed believes the economy will grow fast enough to later this year begin withdrawing their easing, if the data support such an action.

The US economy is not in recession. While GDP growth has been subpar and historically anemic throughout our recovery from “The Great Recession”, it is positive. It is resulting in only modestly positive economic numbers. The jobs picture is improving somewhat. Real incomes are improving somewhat. Housing is improving somewhat. We’re clearly in a better place than most of the rest of the global economies.

Earnings season is upon us and expectations are for maybe 2.3-2.5% growth, which is lower than the previous two quarters. Sales growth is expected to grow at 1.6%. Profit margins are peaking and corporate guidance has taken on a pessimistic slant. All in all, somewhat sluggish, but still positive.

The US stock markets appear to be pricing in better times ahead or at least just less bad than the others. The bond market may also be pricing in better times or it may be preparing for higher inflation sometime in the future. Inflation is what the Central Banks claim to want, at least some inflation. It’s also what they are supposed to control.

Maybe we do have the best Fed.