

Market Outlook:

Apex

When the last Great Recession hit (2008) and it became clear that monetary policy along with severe fiscal policy measures were necessary to try to limit the damage to the economy, no one could have imagined or foretold of the remarkable stock market recovery that ensued. For quite some time, the averages have been far outpacing their historical rates of return. While fiscal policy will probably again be required to regulate the status of the recovery, all eyes are now firmly upon the next moves by the US Federal Reserve to assess how, or when, they might begin tightening the flow of money.

Regardless of when they allow interest rates to float upwards, it will have an effect upon the acceleration in stock valuations which up to this point have seemingly been unabated.

The expansion of US equity shares is obviously a welcome sight for investors twice bitten in this generation by tech stocks (dot.com) and then bonds (credit crisis). The "what" of what's happening has been obvious. Portfolio valuations are expanding. The "why" has been given little attention.

Now, with Federal authorities ready to adopt changes to monetary policy, the focus will rightfully be upon interest rates and the dollar.

While there has been no singular catalyst to the US market surge, it is clear the impact of low interest rates and a strong dollar have had upon attracting capital to the financial markets. All sectors have benefitted from the expansion in prices. However, there might be concern going forward that a "high" dollar could inhibit exports. We saw reports last week that US Gross Domestic Product was contracting. But the offset is that a relatively strong US economy provides the globe with stability and safe haven during a time of extreme financial discord.

Besides, any "losses" incurred by US corporations as a result of export diminution are tempered by greater consumer activity at home in sectors where pricing pressure has been modest. The roles of great export nations are always in flux and rebalance. Foreign sales notwithstanding, the strong dollar has kept inflation and prices low in commodities here at home.

The only drawback that my data might discern is that despite the statistics looking good "on paper", there still exists a deep wealth and wage gap in our nation which fosters a continuation of a "confidence crisis" that discourages discretionary spending from a segment of the population most disconnected from Wall Street's bountiful success.

Ready for change?

While we just referenced "low oil prices", for example, as an offshoot of the current recovery, have you started to notice a gradual cyclical shift in the price of gasoline at the pump? Prices have risen by 20 percent or more since touching their lows in January. For policymakers committed to sustaining the recovery, and policies which accommodate spending, this small inflationary uptick could pose some problems down the line.

In fact, it is the policy of over 27 global central banks to commit to austerity and future growth by directing monetary policy towards these goals. **The timing of the Fed rate hike, along with a gradual inflationary price push will be, for certain, the most anticipated new cyclical development for the markets worldwide and for market watchers alike.**

Of course, any perceived increase in inflation would be modest, at first, compared with current levels. But a change, nevertheless, would represent a new secular condition with which we haven't had to operate for several years. Therefore, any redirection of a secular trend could be significantly adverse...or at least statistically important... to the elements of equity price growth which have heretofore been inconsequential.

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