NAVELLIER
Calculated Investing

Weekly Marketmail

Monday, June 24, 2013

In This Issue

Bernanke's Bombshell Announcement Spooked the Markets
Bernanke's Bomb Could be a Tactical Move against the Hawks
Stat of Week: Housing Starts are up 28.6%, Year over Year

Bernanke Drops a Bomb – Then Tries to Control the Damage?

By Louis Navellier

Ben Bernanke dropped a bomb on all major markets last Wednesday when he laid out a tentative time table for the end of the Fed's monetary stimulus policies. The dollar rose 2% within hours of Bernanke's bombshell. The 10-year Treasury rate shot up from 2.19% to 2.52% in two days. Gold fell $80 in a day. The Dow fell over 600 points (-4%) from Wednesday afternoon to Friday morning's low – falling 1.8% for the week. In addition, Friday's volume was the highest since 2011. What's next?

Bernanke's Bombshell Announcement Spooked the Markets

On Wednesday afternoon, Fed Chairman Ben Bernanke dropped a "bomb" when he said that the Fed could begin to wind down its $85 billion per month in quantitative easing (QE) later this year and end its bond buying program entirely by mid-2014. This last point was the biggest surprise, since it had been widely anticipated that the Fed would keep its money pump on until mid-2015 – or until the jobless rate falls to 6.5%. Now, the Fed Chairman seems to be saying QE will end within a year "no matter what."

The bond market panicked. The widely-watched 10-year Treasury bond yield closed at 2.514% Friday, up from 1.66% in the beginning of May and 2.12% at the start of last week. The dramatic rise in bond yields is truly shocking. Now that Treasury bond yields are at their highest level in two years, and rising, the higher cost of borrowing could depress the economy, especially hurting housing and vehicle sales.

Why such an "about face" by the Fed Chairman? Apparently, the Fed is now much more optimistic than most private economists about the economy. The Fed now says that the jobless rate will fall to between 6.5% and 6.8% by the end of 2014. The Fed also sees rising growth with low inflation. For instance, Bernanke said last week that "the fundamentals look a little better to us," adding that "in particular, the housing sector, which has been a drag on growth since the crisis, is now obviously a support to growth."

The Fed predicts 3+% GDP growth in both 2014 and 2015, which is more optimistic than *The Wall Street Journal's* monthly survey of private-sector economists, which sees 2.3% gains in 2013 and 2.8% in 2014.

Frankly, I think Bernanke is bluffing a bit. I feel that Bernanke plans to continue with quantitative easing for the remainder of his current term as Fed Chairman (ending January 31, 2014). In addition, he has made it clear that his 0% policy for short-term interest rates will continue well into 2015.

Bernanke's Bomb Could be a Tactical Move against the Hawks

Another "bombshell" coming out of the Federal Open Market Committee (FOMC) meeting last week was the fact that St. Louis Fed President James Bullard switched sides and voted with the hawks after previously voting with the doves. Due to Bullard's dissent, the vote to continue the Fed's $85 billion per month of QE was 10 to 2, with Bullard joining Kansas City Fed President Esther George in voting "no."

The other major hawks – namely, the heads of the Dallas, Philadelphia, and Richmond Federal Reserve Banks – do not currently vote on the FOMC, but the FOMC's voting seats will rotate among the heads of the Fed's regional district banks, so the hawks could become much more influential after next January.

We also wonder if Ben Bernanke is preparing his "exit plan" for next January. What if President Obama does not reappoint

him? Last week, the President subtly suggested in an interview with Charlie Rose that he is ready to allow Chairman Bernanke to resign when his term ends in January. Specifically, President Obama said that Bernanke "has already stayed a lot longer than he wanted or he was supposed to."

Naturally, the speculation on Bernanke's replacement will heat up. Perhaps President Obama wants one of his inside team, such as Larry Summers or Tim Geithner, to be the next Fed Chairman. For an early indication, let's see who speaks at the influential Jackson Hole summit in August. Chairman Bernanke recently said that he cannot attend due to "scheduling conflicts." We'll see if he is replaced by Fed Vice Chair Janet Yellen or by former Treasury Secretary and New York Fed President Tim Geithner, or by a political economist like Larry Summers. President Obama has made it clear in recent months that he likes to appoint partisan loyalists, no matter the political blowback, so the Fed's cherished independence may be in jeopardy if President Obama announces a political ally to be the next Federal Reserve Chairman.

Stat of Week: Housing Starts are up 28.6%, Year-over-Year

Chairman Bernanke seems justified in his optimism, based on the positive economic news released last Tuesday, but the news coming out Wednesday caused the market to question Bernanke's rosy outlook.

On Tuesday, the Commerce Department reported that May's housing starts rose 6.8% to a seasonally adjusted rate of 914,000. Single family home starts rose 0.3% to 599,000, while multifamily starts rose 21.6% to 315,000. Building permits fell 3.1%, but this was not a big surprise, since building permits surged 12.9% in April. In the past 12 months, building permits are up 20.8% and housing starts are up 28.6%, so a robust housing recovery seems to be underway. In addition, the National Association of Home Builders' index of builder sentiment hit a post-recession high of 52 in June, up from 44 in May.

Also on Tuesday, the Labor Department reported that the Consumer Price Index (CPI) rose only 0.1% in May, below economists' consensus estimate of a 0.2% rise. The core CPI, excluding food and energy, rose 0.2%, since energy prices rose 0.4% and food prices declined 0.1%. Shelter costs rose 0.3% in May, due to higher rents and home prices. Interestingly, healthcare costs declined in May, the first monthly decline since 1975. The main reason was the expiration of patents on major drugs and some changes in how insurers reimburse medical providers, so this is not yet a long-term trend, but this tame inflation outlook will allow the Fed to continue its quantitative easing indefinitely, without fear of rising inflation.

That's the good news, but we got some bad news Wednesday when the Conference Board announced that its Leading Economic Index (LEI) rose just 0.1% in May, down from a robust 0.8% gain in April. In April, seven of 10 components rose, but in May only three of the 10 LEI components rose. However, Ataman Ozyildirim, economist for the Conference Board, said that "widespread gains over the last six months suggest there is some upside potential for economic activity in the second half of the year."

The other factor weighing down global stock markets Wednesday was the announcement that HSBC's preliminary survey for China's Purchasing Managers Index (PMI) slipped to 48.3 in June, down from May's final reading of 49.2 and well below economists' consensus forecast of 49.1. Since any reading below 50 signals a contraction, concerns are mounting about worldwide GDP growth. Specifically, HSBC chief China economist Hongbin Qu wrote in his report that "Manufacturing sectors are weighed down by deteriorating external demand, moderating domestic demand and rising destocking pressures."

Marketmail gets updated on Fridays and whenever the DOW closes up or down 300 points or more.

None of the stock information, data and company information presented herein constitutes a recommendation by Navellier or a solicitation of any offer to buy or sell any securities.

Information presented is general information that does not take into account your individual circumstances, financial situation, or needs, nor does it present a personalized recommendation to you. Individual stocks presented may not be suitable for you.

Although information has been obtained from and is based upon sources Navellier believes to be reliable, we do not guarantee its accuracy and the information may be incomplete or condensed. All opinions and estimates constitute Navellier's judgment as of the date of the report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security.

Past performance is no indication of future results.

FEDERAL TAX ADVICE DISCLAIMER: As required by U.S. Treasury Regulations, you are informed that, to the extent this presentation includes any federal tax advice, the presentation is not intended or written by Navellier to be used, and cannot be used, for the purpose of avoiding federal tax penalties.

Navellier does not advise on any income tax requirements or issues. Use of any information presented by Navellier is for general information only and does not represent tax advice either express or implied. You are encouraged to seek professional tax advice for income tax questions and assistance.

IMPORTANT NEWSLETTER DISCLOSURE: The performance results for investment newsletters that are authored or edited by Louis Navellier, including *Louis Navellier's Quantum Growth*, *Louis Navellier's Emerging Growth*, *Louis Navellier's Global Growth*, and *Louis Navellier's Blue Chip Growth*, are not based on any actual securities trading, portfolio, or accounts, and the newsletters reported performances should be considered mere "paper" or *proforma* performance results. Navellier & Associates, Inc., does not have any relation to or affiliation with the owner of these newsletters. The owner of the newsletters is InvestorPlace Media, LLC and any questions concerning the newsletters, including any newsletter advertising or performance claims, should be referred to InvestorPlace Media, LLC at (800) 718-8289. Investors evaluating any of Navellier & Associates, Inc.'s, (or its affiliates') Investment Products ***must not*** use any newsletter information, including newsletter performance figures, in their evaluation of any Navellier Investment Products. Navellier Investment Products include the firm's mutual funds, managed accounts, and hedge funds. InvestorPlace Media, LLC newsletters ***do not*** represent actual funded trades and ***are not*** actual funded portfolios. There are material differences between Navellier Investment Products' portfolios and the InvestorPlace Media, LLC, newsletter portfolios. Newsletter portfolios (1) may contain stocks that are illiquid and difficult to trade; (2) may contain stock holdings materially different from actual funded Navellier Investment Product portfolios; (3) do not include trading costs, commissions, or management fees; and, (4) may not reflect prices obtained in an actual funded Navellier Investment Product portfolio. For these and other reasons, the performances claimed by InvestorPlace Media, LLC newsletter portfolios ***do not*** reflect the performance results of Navellier's actually funded and traded Investment Products. In most cases, Navellier's Investment Products have materially lower performance results than what InvestorPlace Media, LLC newsletter portfolios claim to have. **The InvestorPlace Media, LLC newsletters and advertising materials typically contain performance claims that significantly overstate the performance results an investor may expect from any Navellier Investment Product.**

Navellier claims compliance with Global Investment Performance Standards (GIPS). To receive a complete list and descriptions of Navellier's composites and/or a presentation that adheres to the GIPS standards, please contact Tim Hope at (800) 365-8471 or timh@navellier.com.

© 2007-2013 Navellier & Associates, Inc. All Rights Reserved. Terms of Use | Privacy Policy | Proxy Voting Policy