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Watch What Central Bankers Do, Not Just What They Say

By Louis Navellier

The S&P 500 declined a little (-1.07%) last week as nervous investors misinterpreted central bankers' words rather than watching their actions – i.e., their continued pump-priming to boost economic growth. I oftentimes view these occasional pullbacks as new buying opportunities, especially for some companies that aggressively buy back their existing shares. And now, after a brief Memorial Day pause, the market will likely continue rising, based mostly on improving second quarter sales and earnings trends.

Political Distractions Can Be Good for Stocks

Last week, most U.S. stock indexes fell by over 1%, while gold gained 1.6% and crude oil fell by 1.9%. This is a case of money "sloshing around" from one market to another, which is usually an encouraging sign. In particular, last week's nervous financial markets resulted from traders overreacting to headlines – selling stocks before bothering to digest the details of the news. In addition, trading volume was light on Friday, due to the advent of a major U.S. holiday when traders tend to take off early in the afternoon.

There was also a media circus going on in Washington, DC, diverting attention away from the economy and stocks. The media spin on the Benghazi tragedy, the IRS targeting of conservatives, and the Associated Press/Fox News wiretap scandals suggest that the White House either knew nothing or it was guilty of wrongdoing and/or cover-ups.

The "know nothing" defense and the resulting "outrage" within Congress essentially means that some scapegoats must be found and sacrificed. The media, which used to love the White House, now seem outraged that reporters were wiretapped by the Justice Department, so with the news media now on the warpath, some heads will have to roll. Congressional hearings might last for the next several months.

Ironically, these scandals seem to help the stock market. While the government investigates itself, the U.S. economy can prosper with potentially less government interference over the next few months.

Chairman Bernanke Tells Congress That QE is Still in Full Force

With chaos reigning in the White House, the most powerful person in government appears to be Fed Chairman Ben Bernanke who became a bit testy in his Congressional testimony last week. Even though the Fed has carefully laid the groundwork for more quantitative easing (QE) in the upcoming months, pundits have recently concentrated on the possibility of the Fed scaling back or ending QE sometime this year.

Fed Chairman Ben Bernanke rattled financial markets last Wednesday when he warned Congress that "a premature tightening of monetary policy could lead interest rates to rise" and "carry a substantial risk of slowing or ending the economic recovery and causing inflation to fall further." In these blunt words, he implied that if the Fed curtails QE prematurely it could hurt the stock market and sabotage economic growth, potentially resulting in a deflationary spiral. Using an unusually curt tone, Bernanke also warned that economic growth could come to a grinding halt if the Fed ended its bond buying plan too quickly.

On the same day (Wednesday), in the official release of the minutes of the last Federal Open Market Committee (FOMC) meeting, we learned that a growing number of FOMC members want to slow the Fed's asset purchases, but this would not likely occur for at least 4-5 months, and only then if we see improving economic data. Specifically, many FOMC officials want to see continued progress in job creation (i.e., over 200,000 new jobs per month) and improvement in other key economic indicators.

Even though the Fed's $85 billion-per-month money pump remains in force, the stock market fell last week based on traders' overreaction to their fear that the party might end sooner than they once thought.

No Fed Chairman wants the economy to blow up on his watch. Since Bernanke's current term ends next January, I fully expect he will keep the Fed's money pump primed through at least the end of 2013.

Stat of the Week: April Durable Goods Orders Rose 3.3%

The Commerce Department announced last Friday that April's durable goods orders rose 3.3%, much better than economists' consensus estimate of a 1.5% gain. The biggest increase came from commercial aircraft orders (+18.1%), as Boeing* received orders for 51 jets. Also, orders for new cars and trucks rose 1.9%, while core capital goods rose 1.2%, a good indicator of a potentially rising second-quarter GDP.

On Thursday, we got two more pieces of good news. First, we learned that new jobless claims fell from 363,000 in March to 340,000 in April. (The four-week average was also 340,000.) Also, new home sales rose from an upwardly-revised 444,000 annual rate in March to 454,000 in April, well above the consensus estimate of 425,000 and a huge (29%) gain from 352,000 in April 2012. Median prices were up 14.9%, year-over-year, while inventories of new homes remained at a lean 4.1 months' supply.

Europe started to show some signs of life last week. On Thursday, Markit reported that its PMI for the euro-zone rose to 47.7 in May, a three-month high, up from 46.9 in April. Germany's PMI rose to 49.9 in May, up from 49.2 in April, while Germany's Ifo business-climate index rose from 104.4 to 105.7.

The news from China is not so good. On Wednesday, HSBC said its preliminary Purchasing Managers Index (PMI) for China fell to a seven-month low of 49.6 in May, down from 50.4 in April. Inventory buildup around the world, especially in the U.S., seems to be the primary culprit for the latest decline, but I expect this inventory bottleneck will be short-lived due to improving U.S. economic growth.

Also on Wednesday, the Bank of Japan sparked a major selloff in Japanese stocks after it merely left Japan's monetary policy alone. Specifically, BOJ Governor Haruhiko Kuroda made it clear that Japan's impressive 3.5% annual GDP growth rate meant that no additional monetary stimulus would be needed. This simple (and logical) statement caused a 7.3% correction in the Nikkei index Thursday. That turned out to be an overreaction. The Nikkei rebounded on Friday and is still up by over 40% so far in 2013.

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