

BONDS ARE IN THE CATBIRD SEAT

WEB BUZZ 2011.05.09

Isn't it great to see that at least one arm of the federal government functions extremely well? You got it - the Navy Seals. We can all rejoice in the bringing to justice of a truly evil man. We commend all who had a hand in this superb accomplishment.

Here is our current take on the financial markets and the economy.

1. The U.S. economy is entering another "soft spot," as Alan Greenspan would call it. We are exactly back to where we were a year ago although this time we don't believe another fiscal stimulus is in the works.
2. We expect budget cuts of significance to occur for the fiscal year 2012 commencing 10/1/11.
3. If we are right about the budget cuts, then monetary policy is the only tool left to fight recession/depression.
4. Please keep this uppermost in your mind - the Federal Reserve cannot allow long interest rates to go up or the country is broke. That being the case, the market has had it wrong - under present conditions the Fed, if necessary, will save the bond market and the other markets can go to hell.
5. On the other hand, being that we are in a period of weak demand and debt deleveraging, interest rates will probably remain low all on their own.
6. Huge capital gains are in our future. Patience will win out.