

Interest Rate Spike Ahead?

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The talk of the market place this last week has centered around the recently published minutes of the Federal Reserve. Fed watch, as you know, has become the greatest sport on Wall Street. We happen to know several “famous” economists who have made a small fortune selling research, books, and securities to the investing public based upon their interpretation of “Fed speak.” And oh, by the way, their predictions of future interest rates have left a lot to be desired. But that, of course, is the investors’ problem.

Anyway, the word is out that the Fed has become acutely concerned about asset bubbles that have been spawned by their conduct of monetary policy. They do not accept the responsibility for such, but there is no question, at least in our mind, where the blame should reside.

It is our opinion that we are approaching one of the critical points where the Fed seems certain to overreact in the conduct of monetary policy. Many forces seem to be converging:

1. Prices are being increased by many in hope that at last they will stick (inflation scare)
2. The Fed appears to be conditioning us for even higher interest rates
3. But the consumer is finally beginning to tighten his purse strings.

This convergence could be very disruptive to asset markets over the next several months. We expect that a spike upward in long-term interest rates may be close at hand. We will be ready.