

Bernanke-Jackson Hole Speech

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Although many expected Ben Bernanke to discuss (or at least allude to) another quantitative easing in his speech last Friday, the Fed Chairman did not say anything about QE3. There are mixed feelings on Wall Street about whether or not a QE3 would be beneficial to our economy. However, most people agreed that it was essential Bernanke emphasize to the public the Fed's resolve in facing current economic challenges. He did so by reiterating that the Fed has the additional policy tools to deal with the situation.

Initially, the absence of any policy changes was cause for disappointment on Wall Street. Subsequent to Bernanke's speech, the Dow Jones Industrial Average immediately fell 220 points. However, the negative sentiment did not last. The Dow closed up 134.72 points, or 1.21%, while the S&P 500 rose 17.53 points, or 1.51%.

One significant aspect of the Bernanke speech was an extension of the Federal Open Market Committee's (FOMC) September meeting. The extension from one day to two (September 20-21) is intended, "to allow a fuller discussion" of the "merits and costs" of the Fed's policy options. The extra time is significant, as a two-day meeting will allow Fed staff to present studies of possible courses of action. Additionally, it will permit each of the 17 members of the policy-setting FOMC to air views on policy and where the economy is heading. The expansion of the meeting underscores the degree to which Bernanke is worried about high unemployment, weak manufacturing data, stock market volatility and strains on European banks.

During his speech, Bernanke acknowledged slower than anticipated growth in the U.S. economy and warned that high long-term unemployment could leave lasting scars. He also added, "The recent data has indicated that economic growth during the first half of this year was considerably slower than the Federal Open Market Committee had been expecting, and that temporary factors can account for only a portion of the economic weakness that we have observed. Consequently, although we expect a moderate recovery to continue and indeed to strengthen over time, the Committee has marked down its outlook for the likely pace of growth over coming quarters."

Bernanke then addressed his concerns with the leadership style of President Obama and the rampant dysfunction of Congress. In fact, he provided a scolding to Washington's politicians saying, "The negotiations that took place over the summer disrupted financial markets and probably the economy as well," and warned that more of the same in the future could "seriously jeopardize the willingness of investors around the world to hold U.S. financial assets or to make direct investments in job-creating U.S. businesses."

Despite a seemingly endless stream of bleak economic data, the Fed chairman appeared optimistic on the long-term prospects for the economy - assuming Washington does its part. "Notwithstanding the severe difficulties we currently face, I do not expect the long-run growth potential of the U.S. economy to be materially affected by the crisis and the recession if--and I stress *if*--our country takes the necessary steps to secure that outcome," Bernanke said.

At present, the Federal Reserve Chairman has left the door open for more easing measures, but offered the markets nothing concrete during this speech. TPI will continue to closely monitor these events, as we believe they could have a major impact on 4th quarter performance.