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Copacetic

Copacetic is not a word I use very often; in fact, I don't think I've used it since junior high school. But here it is again because it's the best word to describe the current state of the markets. Everything, in short, is fine right now. Corporate earnings are, for the most part, being reported at levels that justify the increased stock prices we've experienced over the last six months. The economy is moving forward at an acceptable pace, interest rates are low, and prospects are good for continued growth.

This (you may have noticed!) is a presidential election year. As customarily happens, the markets are focused on the outcome of the election. For now, the markets anticipate that the president will be re-elected and that current policies and programs will remain in place. If we get to a point during the campaign, say in June or July, where it looks as if the White House might change hands, I would expect the markets to pause.

If it looks like we might get a new president, the markets will have to evaluate the potential effects on the economy. After all, if we were to expect or hope for no changes, there would be no reason to change administrations. So some research will be done to ascertain the likelihood of this or that change actually taking place. Once it is all added up, the markets will adjust and move on in the manner that seems appropriate.

Keep in mind that the markets are always attempting to look six months ahead and adjust for the situation most likely to occur. For all concerned, the sooner the Democratic candidate is selected, the better. It is better for the Democrats because they can focus on winning the November election as a unified group rather than spending time on infighting and splitting the party. What's more, we have a better chance of hearing about real issues and differences between the two parties if the selection process can be clearly and cleanly decided early.

I continue to watch the market for signs of deterioration. There are plenty of items on the long-range radar that can cause problems. The budget deficit, trade deficit, and cost of health care will have to be dealt with by the next administration, whoever it is. In the shorter term, we have heard a change of language from the Federal Reserve to the effect that they now look to increase rates at some time other than "not for the foreseeable future." Until last week, the Fed had been using this phrase to describe when they would raise rates. There is, of course good news and bad news associated with the removing of this phrase. The bad news is that rates will go up sooner rather than later; the good news--call it copacetic--is that the Fed perceives economic pressures that require this response. Accelerated growth of the economy and prospective inflation pressures are typical reasons for increasing interest rates.