T e c h n i c a l   S p e c u l a t o r
MARKETS – BONDS – CURRENCIES

TS Model Portfolios

The accommodating Fed effect

Overview: Bull market underpinnings

The stock market has enjoyed a remarkable recovery from the deep March low. The benchmark S&P 500 is now at an all-time high. The index is up 54 percent. Canada's TSX has yet to post an all-time high, but the index has still risen almost 46 percent since March.

The markets are being lifted by several factors. First the very accommodating Fed.

The FOMC has injected $1.50 trillion since Q1/20 through short-term lending arrangements (**Chart 1**).

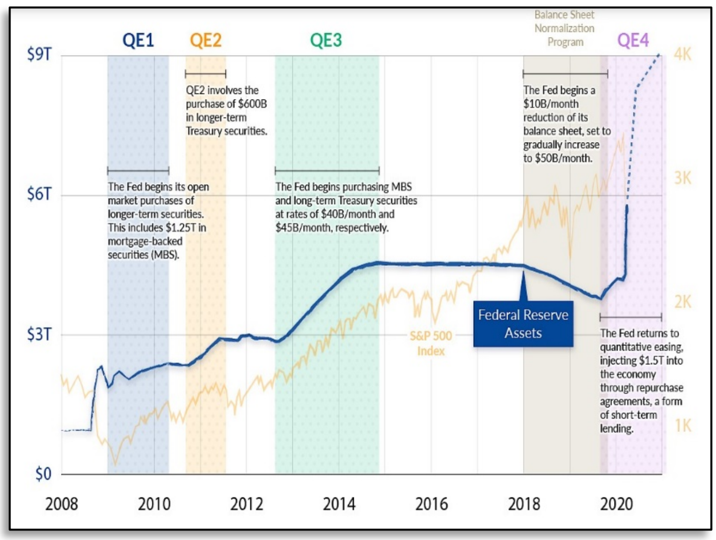

Chart 1

The expansionary monetary policies used by the Fed are designed to stimulate economic growth by increasing the money supply which, in theory, will stimulate business investment as well as consumer spending.

However, this massive injection of capital has had a negative effect on the U.S. dollar (due to more debt) and, thus, a very positive impact on gold prices.

Second reason for the market's monumental rise, is interest rates.

Short-term Fed Funds Rate currently sits at 0.25 percent. The Fed has lowered the rate from 2.50 percent to the current 0.25 percent, the same rate back in 2012-2015 (**Chart 2**).

These two elements (lots of available capital and near zero interest rates) are the main drivers of the stock markets since March.

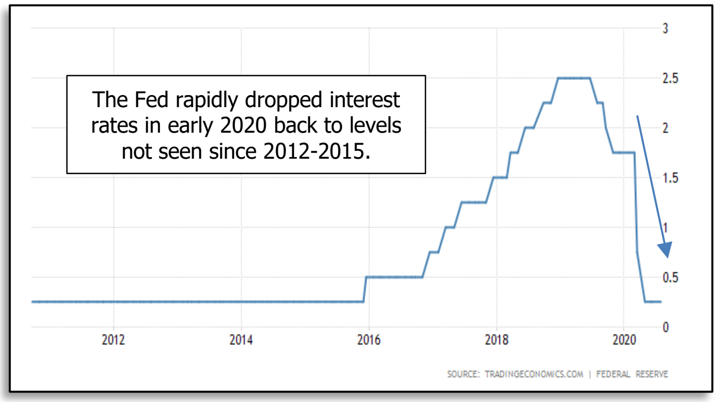

Chart 2

Nevertheless, the massive amounts of capital at near zero interest rates have not lure the consumer back, yet.

U.S. consumer confidence and spending, collectively, reached multi-year lows in March and have yet, to date, rebounded (**Chart 3**). Consumer spending equals the largest percentage of annual Gross Domestic Product (GDP).

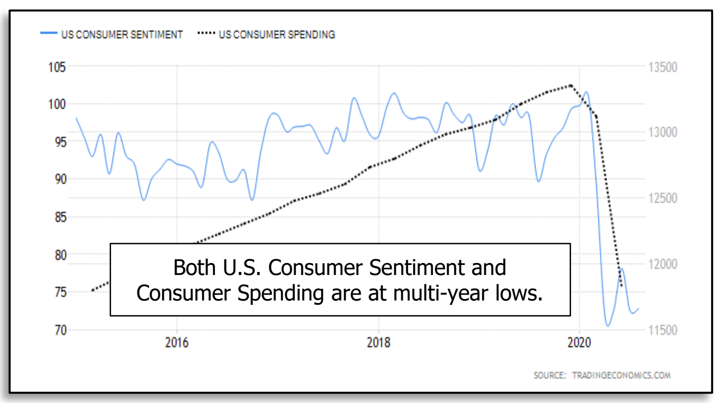

Chart 3

S&P 500 continues to advance

In response to the positive economic conditions (massive cash injection and record low interest rates), the S&P 500 has moved to a new all-time high in late August (3493.73), driven mainly by the technology and the consumer discretionary sectors (*our TS Model Growth Portfolio is overweighed in the technology industry and holds the Sector Select SPDR Consumer Discretionary ETF - XLY*).

Moving forward, the benchmark index is overvalued (trailing P/E is 35.35, forward P/E is 26.17). Fair value is 17.