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Could the Bulls Still Run Without the Fed?

If the central bank ceased easing, could stocks continue their ascent?

Provided by Frank DeMaio*

Could this bull market last with less help from the Federal Reserve? Is it propped up by the Fed's stimulus, or strong enough to sustain itself if the central bank reduces its efforts? Some factors hint that the economy and the market may have a bit more strength than assumed, even with Q2 GDP projections being tempered.

The real estate comeback is real. Housing is a catalyst in the recovery and demand for new and existing homes is not waning. According to the National Association of Realtors, listings remained on the market for an average of only 46 days in April; the norm is between 90-120 days. New home sales were up 2.3% in April, which also brought a 0.6% improvement in residential resales. The year-over-year numbers speak loudly: new home sales, +29.0%; existing home sales, +9.7%. Another nice note: the market share of foreclosures fell from 25% to 18% between April 2012 and April 2013.^{1,2,3}

Many S&P 500 firms met EPS expectations. Q1 earnings season showed two-thirds of companies surpassing earnings per share forecasts; slightly better than the historical average of 63%. The downside, as cited by Thomson Reuters, is that less than 50% of these firms met revenue forecasts. So belt-tightening turned out to be a bigger factor than growth. Still, increased profits generate interest in and confidence in stocks.⁴

Hiring, buying & spending are holding up. In the past year, the economy has generated an average of 169,000 new jobs per month. (The jobless rate did fall from 8.1% to 7.5% in that 12-month interval.) We know that consumer spending increased by 0.7% in February and 0.2% in March – some of that was attributable to higher fuel and energy costs, but the increases still topped economists' expectations. Overall retail sales ticked up 0.1% in April (and core retail sales 0.6%) following a 0.5% March setback, but the usual spring buying patterns don't seem to have been hampered – April saw a 1.0% jump in auto sales, a 1.2% rise in clothing and accessory sales, and a 1.5% sales gain for home and garden products. Gasoline sales dropped 4.7% last month, and further price descents could free up disposable income for other consumer wants.^{5,6,7}

Wall Street withstood a global hiccup last week. On May 23, the Nikkei 225 dropped 7.3% and the key flash purchasing manager indices for China and the Eurozone came in under 50

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(announcing factory activity contraction). What did the S&P 500 do on this unnerving day for global markets? It only retreated 0.29%, with good news on new home sales and initial jobless claims reversing losses. Stocks have proven resilient again and again, and here was another example; it would seem to take something really momentous to shake Wall Street's core confidence.^{8,9}

Regardless of what happens, the Fed should remain accommodative. That factor alone might reassure bulls in case of a pullback, and encourage the belief that we will see further gains for the U.S. benchmarks as the rest of 2013 proceeds.

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Citations.

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