



S&P/TSX Surges After Ben Bernanke Refills Punch Bowl

Description

Canadian equity markets surged on Wednesday after the U.S. Federal Reserve announced its plans to withdraw monetary stimulus, though at a slower rate than widely expected.

The **S&P/TSX Composite Index** (^OSPTX) closed up 154.60 points, or 1.17%., at 13,334. In the United States, the Dow Jones Industrial Average posted a gain of 292.70 points, or 1.84%.

As expected, assets classes that most strongly benefit from a low-interest rate environment led the charge higher. The **iShares S&P/TSX REIT Capped Index Fund** ([TSX:XRE](#)) finished the day up 1.6%. Miners also finished higher notably **Yamana Gold** ([TSX:YRI](#)) and **Goldcorp** (TSX:G) were up as high as 2.8% and 3.1% respectively during afternoon trading.

Beginning in January, the Fed will buy \$75 billion in bonds each month, down from \$85 billion it had been buying since September 2012. The new cut represents the beginning of a gradual wind-down process nicknamed *tapering*.

It's important to note that tapering doesn't mean tightening. In fact, today the Fed extended its commitment to keep interest rates 'exceptionally low' until inflation exceeds 2.5% or the unemployment rate falls below 6.5%. All of this means we're not likely to see an end of stimulus, let alone tightening, until the end of 2015.

The bond-buying program has become so large, it's expected to push the Fed's balance sheet past \$4 trillion by the end of the year — money created out of thin air.

Randy Smallwood, Chief Executive of **Silver Wheaton** (TSX:SLW, NYSE:SLW), and I discussed the matter shortly before the Fed's announcement this afternoon. 'I don't think the economy in the United States can handle tapering back to zero,' he said Wednesday, 'I don't see a financial or fiscal management model out there that gives me confidence in the U.S. dollar.'

I'm inclined to agree. Everywhere I look things are rosy. The U.S. economy is expanding at a 3% annual clip. The stock market is at an all-time high. Corporate profits are setting records.

But how much of of this growth is real? What happens when the Fed takes away the punch bowl?

To echo the sentiment of market commentator Jim Grant from earlier this week, has the Fed's monetary manipulation created a 'hall of mirrors' for equity prices? How much is the stock market being propped up by easy money?

But many investors are putting those concerns aside and will take another sip of punch. Ben Bernanke just told them everything is okay and the Dow is up triple digits.

My private anxieties aside, how should investors respond to this announcement? Again Mr. Smallwood provided an insight into the matter. 'I'm not investing for the next six months. We're not building this company for the next six months. I know some of our shareholders are looking for returns over that period but we're building for long term value.'

If the Chief Executive of a \$7 billion streaming company isn't making any changes to his investment strategy on the Fed's policy decision today, I'm inclined to follow that example.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WPM (Wheaton Precious Metals Corp.)
2. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)
3. TSX:YRI (Yamana Gold)

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Author

rbailieul

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