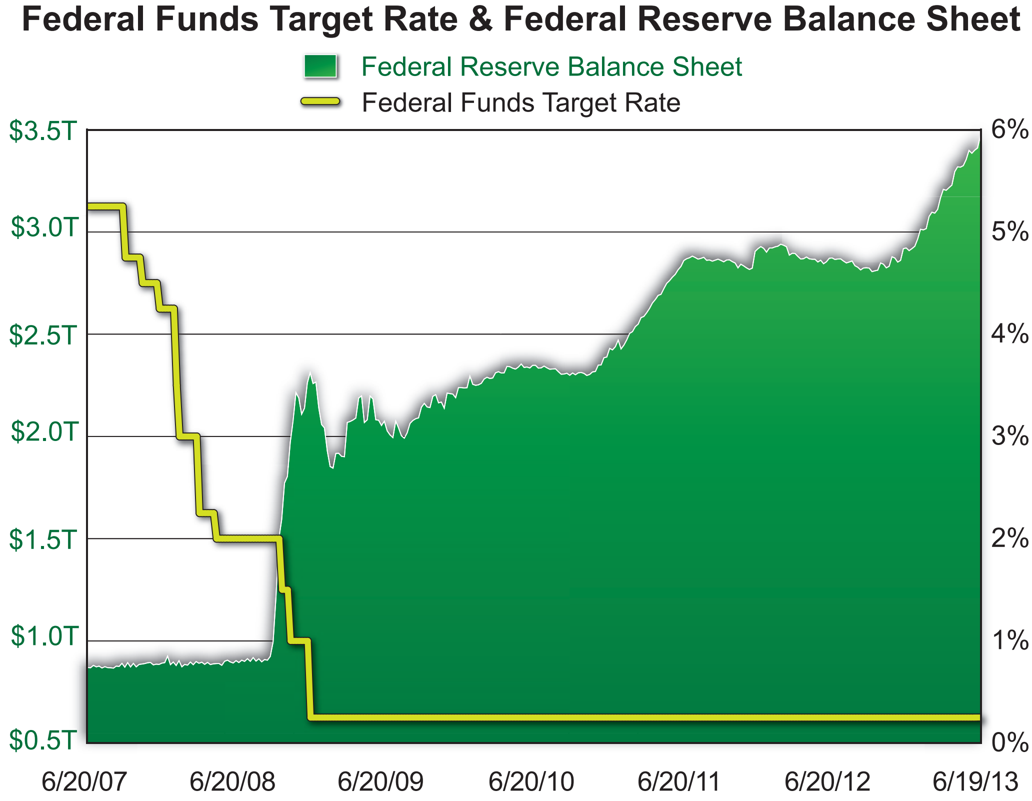
Pedal To The Metal



Sources: Bloomberg and Federal Reserve

View from the Observation Deck

1. If you have never seen what an aggressive approach to the easing of monetary policy looks like…take a moment and soak in the images in the chart.
2. In an effort to combat the recession (12/07-6/09) that accompanied the financial crisis in 2008, the Federal Reserve essentially adopted a two-pronged stimulus approach to keeping interest rates low.
3. As is usually the case, the Fed lowered its target on the federal funds rate. It took the rate down from 5.25% to 0.25% and has kept it at that level since the end of 2008.
4. Simultaneously, the Fed embarked on a series of quantitative easing initiatives primarily involving the purchase of Treasuries and mortgage-backed securities on the secondary market.
5. The ongoing process of buying bonds pumps more capital into the system, but there is some debate over just how beneficial it truly is.
6. One of the potential benefits of keeping interest rates at an "artificially" low level was the stabilization of the housing market, and the data suggests it has helped in that regard.
7. The Fed has expanded its balance sheet from $800-$900 billion in 2008 to $3.47 trillion today through its bond-buying programs.
8. Brian Wesbury, Chief Economist at First Trust Advisors L.P., has been steadfast in saying that while the bond-buying is boosting reserves in the banking system it is not stimulating growth in the economy.
9. In other words, the eventual end to the Fed's quantitative easing programs is not a negative, in our opinion, but rather a step in the right direction towards unleashing greater economic growth.
10. For this reason, we encourage investors, where appropriate, to consider upping their exposure to equities moving forward.

This chart is for illustrative purposes only and not indicative of any actual investment.

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