The press has framed Ben Bernanke's valedictory press conference last week in heroic terms. It's as if a veteran quarterback engineered a stunning come-from-behind drive in his final game, and graciously bowed out of the game with the ball sitting on the opponent's one-yard line. In reality, Bernanke has merely completed a five-yard pass from his own end zone, and has left Janet Yellen to come off the bench down by three touchdowns, with no credible deep threats, and very little time left on the clock.

The praise heaped on Bernanke's swan song stems from the Fed's success in initiating the long-anticipated (and highly feared) tapering campaign without sparking widespread anxiety. So deftly did the outgoing chairman thread the needle that the market actually powered to fresh all-time highs on the news.

There can be little doubt that the Fed's announcement was an achievement in rhetorical audacity. In essence, they told us that they would be tightening monetary policy by loosening monetary policy. Surprisingly, the markets swallowed it. I believe the Fed was forced into this exercise in rabbit-pulling because it understood far better than Wall Street cheerleaders that the economy, despite the soaring gains in stocks and real estate, remains dependent on continued stimulus. In my opinion, the seemingly positive economic signs of the past few months are simply the statistical signature of QE itself. Even Friday's upward revision to third-quarter GDP resulted largely from gains in consumer spending on gasoline and medical bills. Another major driver was increased business inventories fueled perhaps by expectations that QE supplied cheap credit (and the wealth effect of rising asset prices) will continue to encourage consumer spending.

But to many observers, the increasingly optimistic economic headlines we have seen over recent months have not squared with the highly accommodative monetary policy, making the arguments in favor of continued QE untenable. Even taking the taper into account, the Fed is still pursuing a more stimulative policy than it had at the depths of any prior recession. As a result, as far as the headline-grabbing taper decision, the Fed's hands were essentially tied. But they decided to coat this seemingly bitter pill in an extremely large dollop of honey.

More important than the taper "surprise" was the unusually dovish language that accompanied it. More than it has in any other prior communications, the Fed is now telling the markets that interest rates - its main monetary tool - will remain far more accommodative, for far longer, than anyone previously believed. Abandoning prior commitments to raise rates once unemployment had fallen below 6.5%, the
new statement reads that the Fed will keep rates at zero until "well after" the unemployment rate has fallen below that level. No one really knows what the new target unemployment level is, and that is just the way the Fed wants it. On this score, the Fed has not simply moving the goalposts, but has completely dismantled them. With such amorphous language in place, they appear to be hoping that they will never have to face a day of reckoning. This is a similar strategy to that of the legislators on Capitol Hill who want to pretend that America will never have to pay down its debt.

At his press conference Bernanke went beyond the language in the statement by hinting that we should expect consistently paced, similarly sized reductions through much of the year, and that he expects that QE will be fully wound down by the end of 2014. The outgoing Chairman may be writing a check that his successor can't cash. He also made statements about how monetary policy needs to compensate for "too tight" fiscal policy that is being delivered by the Administration and Capitol Hill. Does the chairman believe that $600 billion annual deficits are simply not enough… even with our supposedly robust recovery? By the time President Obama leaves office, the national debt may well have doubled in size, and he will have added more to the total of all of his predecessors from George Washington through the first five months of George W. Bush's administration combined! How can Bernanke possibly say that our economic problems result from deficits being too small?

It's easy to forget in the current euphoria that a majority of market watchers had predicted that the first taper announcement would be made by Janet Yellen in March of 2014. But perhaps with a nod toward his own posterity, Ben Bernanke may have been spurred to do something to restrain his Frankenstein creation before he finally left the lab. But no matter who pulled the trigger first, this initial $10 billion reduction in monthly purchases has convinced many that the QE program will soon become a thing of the past.

But without QE to support the markets, in my opinion, the US economy will likely slow significantly, and the stock and real estate markets will most likely turn sharply downward. [To understand why, pick up a copy of the just-released Collector's Edition of my illustrated intro to economics, How An Economy Grows And Why It Crashes.] If the economic data begins to disappoint, I believe that Janet Yellen, who is much more likely to be concerned with full employment than with price stability, will quickly reverse course and increase the size of the Fed's monthly purchases. In fact, last week's Fed statement was careful to avoid any commitments to additional tapering in the future, merely saying that further changes will be data dependent. This means that tapering could stall at $75 billion per month, or it could get smaller, or larger. In other words, Yellen's hands could not be any freer. If the additional cuts never materialize as expected, look for the Fed to keep the markets convinced that the QE program is in its final chapters. These "Open Mouth Operations" will likely represent the primary tool in the Fed's arsenal.

Despite the slight decrease in the pace of asset accumulation, I believe that the Fed's balance sheet will continue to swell alarmingly. As the amount of bonds on their books surpasses the $4 trillion threshold, market watchers need to dispel illusions that the Fed will actually shrink its balance sheet, or even halt its growth. Already fears of such moves have pushed up yields on 10-year Treasuries to multi-year highs. Any actual tightening could push them significantly higher.

We have much higher leverage than what would be expected in a healthy economy, and as a result, the gains in stocks, bonds, and real estate are highly susceptible to rate spikes. If yields move much
higher, I feel that the Fed will have to intervene to bring them back down. In other words, the Fed will find it much harder to exit QE than it was to enter.

In the meantime, the Fed's open-ended commitment to keep rates at zero, despite the apparent recovery, should provide an important clue as to what is really happening. We simply have so much debt that zero is the most we can afford to pay. The problem, of course, is that the longer the Fed waits to raise rates, the more deeply indebted we become. As this mountain of debt grows larger, so too does our need for rates to remain at zero. So if our overly indebted economy cannot afford higher rates now, or in the next year or two, how could we possibly afford them in the future when our total debt-to-GDP may be much larger?

As he left the stage from his final press conference, Ben Bernanke should have left a giant bottle of aspirin on the podium for his successor Janet Yellen. She's going to need it.

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