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Global Strategy and Investment Trends by David Fuller **http://www.fullermoney.com**

I believe the US Federal Reserve and possibly other central banks have been quietly intervening in stock markets recently.

Is this the elusive summer rally? The Fed does intervene from time to time, as part of its mandate to help maintain orderly markets. However you won't hear about it from Greenspan - stock market intervention has always been a very quiet operation. So what's the evidence? Look at the tails on a daily candlestick chart for the S&P 500, following the big down days over the last fortnight. I first mentioned this on my website, after the intra-day recovery on Friday 14th June. I also mentioned it in FM217, released on 21st June. Positive tails on the S&P, which are also evident on the 24th, and the 26th following the latest shock from WorldCom, indicate significant buying after the initial sell off. Who else would buy in volume in a panicky environment? Not the institutions - they follow rather than initiate changes in momentum, and most are shifting capital from equities to bonds, where they can. Not the hedge funds, because they won't cover shorts aggressively in a falling market. Not the public, justifiably traumatised by all the scams. We also had the usually pragmatic US Treasury Secretary Paul O'Neil's unusually bold stock market forecast a fortnight ago: "Eventually it will go back up, maybe sooner rather than later". Even the Bank of England's Eddie George has been making reassuring comments recently. I can't prove that there has been actual intervention but at minimum it is cheerleading, following a short-term climactic acceleration to a region of important prior support - the September 2001 lows for many indices. Therefore, if we are to see a summer rally, the preconditions are in place. Markets are manic-depressive. Therefore the focus of attention could switch away from valuations and financial scandals, at least for a while, to economic recovery hopes and somewhat better corporate earnings in 3Q and 4Q, following all the write-offs during the same period last year.

Reversion to the mean will remain the big theme, for all the reasons detailed in this publication over many months. Remember, summer rally aside, the big, long-term trend is downwards, following the 1983 to 1999/2000 super-cycle bull market. In this environment, most of the surprises are nasty, as I've said before and as we have just seen with WorldCom. Even if the Fed is intervening, it won't draw a line on the S&P chart (as many technicians are doing near 950) and attempt to defend it. If Greenspan has been buying S&P futures, he will sell them during the first significant rally. I do expect last September's lows to be comprehensively taken out at some point, but probably not in the short term. If I'm wrong, for whatever reason, watch the 900 level on the S&P. Meanwhile, I remain a stale long of Nikkei futures and I bought the NASDAQ recently, but only for a technical bounce.

Best regards - David Fuller

Charts supplied by Bloomberg.

US S&P 500 Index: 990.64 (Daily)

US S&P 500 Index: 990.64 (Weekly)

UK FTSE 100 Index: 4619 (Daily)

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