(BN) ‘Hissy Fit’ Risk to Record Stocks Seen If Hawk Speaks in Wy oming

+--+

‘Hissy Fit’ Risk to Record Stocks Seen If Hawk Speaks in Wyoming

2014-08-21 17:23:30.516 GMT

(For more Market Line insights, see NI MKTLINE.)

By Michael P. Regan

Aug. 21 (Bloomberg) -- If you’re a millennial on Wall Street, you’re probably talking about that huge raise you’re getting. For the rest of us, it’s the same old discussion today:

The Federal Reserve.

As central bankers and economy wonks converge on Jackson Hole, Wyoming, the Standard & Poor’s 500 Index is sitting near a record for the first time in about a month and inching closer to that nice, round 2,000 level. This even after Fed minutes released yesterday showed “many” policy makers believed interest rates might need to be lifted sooner than anticipated.

While the Fed didn’t quantify what it meant by “many,” a poll from ConvergEx Inc. gives a rough sense of how many in the financial industry agree with that sentiment: 59 percent of respondents said the Fed was “behind the curve/interest rates should be higher” while 32 percent think borrowing costs are just fine where they are.

Fed funds futures trading shows the market is pricing in about a 51 percent chance policy makers will start lifting the benchmark rate in July of next year. So what would happen if they lift rates too soon?

“I think the bond market would have a hissy fit, I think the equity market would have a hissy fit,” Michael Shaoul, chairman and chief executive officer of Marketfield Asset Management LLC, told “Bloomberg Surveillance” this morning.

“But I can’t think of a single, sensible, corporate decision which would be derailed.”

Yellen Speech

So now we sit and wait for Fed Chair Janet Yellen's speech tomorrow in Jackson Hole to see if a hissy fit is in the making.

Stern Agee & Leach Inc. analyst Kenneth James offers a game plan for the bank stocks to play should Yellen echo the minutes'

hawkish tone.

Banks with shorter-dated assets and earnings that are heavily dependent on loans should do well, he wrote. He highlighted the companies that fit the bill and are rated buys at Stern Agee: Comerica Inc., PrivateBancorp Inc., PNC Financial Services Group Inc., Fifth Third Bancorp and East West Bancorp Inc.

Dovish remarks from Yellen would benefit banks with longer- dated assets, less liquidity to re-invest, and above-average levels of longer-term funding, he wrote. Among them are buy- rated lenders Washington Federal Inc., Umpqua Holdings Corp., EverBank Financial Corp. and TFS Financial Corp.

'Hater Storyline'

Meanwhile, David Zervos, chief market strategist at Jefferies Group LLC, took on what he calls "the standard hater storyline" that the five-year rally in equities has been solely a result of expansion in the Fed's balance sheet and stocks will sink when the central bank's holdings shrink.

He pointed out in an e-mail to clients that the boom and bust in technology stocks at the turn of the century occurred without a similar swelling of Fed assets. The central bank's balance sheet has increased almost 400 percent to $4.4 trillion in the six years since Lehman Brothers Holdings Inc.'s bankruptcy, compared with about a 33 percent increase from the end of 1994 to the market top in March 2000.

Anyway, it'll be interesting to see what these millennials at Goldman Sachs Group Inc., Morgan Stanley and Bank of America Corp. buy with their raises. It would totes be a good time to start charging for Emoji.

For Related News and Information:

Market Line Columns: NI MKTLINE <GO>

Developed Markets View: DMMV <GO>

World Stock Indexes: WEI <GO>

S&P 500 Market Map: SPX <Index> IMAP <GO> Top Stories on Stocks: TOP STK <GO> Equity Screening: EQS <GO>

Graphing: GRAPH <GO>

Feature Stories on Stocks: TNI STK GREET <GO>

To contact the reporter on this story:

Michael P. Regan in New York at +1-212-617-7747 or mregan12@bloomberg.net To contact the editors responsible for this story:

Lynn Thomasson at +1-212-617-0506 or

lthomasson@bloomberg.net

Jeremy Herron