



The final Federal Open Market Committee meeting of the year is on Tuesday and unless I know absolutely nothing about the Fed and the financial markets, Bernanke & Co will stand pat, refraining from any activity. I expect the comments to be fairly consistent with the previous ones and the market's reaction to be in the normal parameters.

The Fed is in a good position right now, with almost an equal number of hawks and doves (those tough versus loose on inflation) in the financial community. While the economy continues to hum along, there are those worried about the recent inflationary spikes in Corn, Soybeans, Coffee, Cocoa and Cotton. I am not among them. On the flip side, the yield curve, the difference between short-term and long-term maturities in Treasury bonds is severely inverted, the most so since at least the early 1980s. This means that short-term rates are higher than long-term rates, indicating economic contraction ahead, i.e. a recession or softening. I lean more to the latter.

Right now, while the bond market is forecasting a definite recession, equities are holding firm for the Goldilocks scenario, not too hot and not too cold, very similar to 1995. I believe Bernanke's next move will be to cut interest rates much later in 2007, but with stocks at or near their highs, there is no way the Fed will risk inflating this group and creating a bigger problem like Greenspan did in the late 1990s.

All Good Trades,

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