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Greetings,

Regretfully, all of the headlines and news lately has been on the government shut down and the possibility that the debt ceiling won't be raised which then could lead to a default on the Treasury bond payments. The stock market has not reacted that badly (this just goes to show how resilient this market is) to the government shut down, mostly because it isn't really a government shut down. It is only a shut down of "non-essential services". The military is still functioning so we don't have to be concerned about being attacked. The senior citizens will still collect their social security checks. All the air traffic controllers are still working. A small portion of the country is suffering some minor inconveniences. Even the 800,000 Federal workers who aren't getting paid now will be compensated for the pay they lost recto actively once this is resolved. The big concern to me as well as the market is the possibility that the debt ceiling won't be raised, most likely on October 17. October 17 is the date that the media talks about but that isn't really the drop dead date. The real drop dead date is November 1 which is when social security payments must be issued. While I believe that the possibility of this happening is remote, even the remote possibility of this happening will cause violent swings in the stock market. As dysfunctional as this government is and despite how much each side hates each other, I find it difficult to comprehend that they won't figure something out at the last minute although with these politicians in charge, I suppose that nothing should surprise me.

The Federal Reserve did the unexpected and surprised everyone (myself included) when they decided to continue its bond buying binge and not to "Taper". After the June Fed meeting when the Fed laid the groundwork for Tapering in the fall, it was expected that by now, the Fed would "Taper" its bond purchases. Ben Bernanke made it clear in his latest news conference that one of the reasons for his decision was he was concerned about potential problems caused by the government not being able to agree on a budget and he made a good call in that respect. With Janet Yellin (a noted dove with interest rates) most likely to be the new head of the Federal Reserve, it will most likely be her responsibility to slow down or "Taper" the Feds bond purchases. While I believe that QE will stop next year even if she is the new Fed chief, I think that she will wait awhile before raising short term interest rates. The economy is growing slowly even with all this liquidity so I believe that she will just as soon rather keep rates at near zero for a longer period rather than raise them too soon, which would rattle the financial markets. Unless the economy unexpectedly picks up next year, I don't see short term interest rates going up until at least 2015, maybe later than that.

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