LADENBURG THALMANN

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Fed Commentary LTAM Update

The market is responding negatively to the comments and press release from the Federal Open Market Committee (FOMC) yesterday despite indications by the Fed that the economy is showing signs of improvements. Investors have had a hard time grasping the nuanced message the Fed has been trying to convey about its plan for the program, leading to significant volatility in the stock and bond markets. The catalyst for yesterday's selloff in bonds and spike in yields may have been the increasing optimism towards the economy and the prospect of a taper in the near term.

Summary of Fed comments

- Fed lowered its 2014 unemployment projection to 6.5% - 6.8% (previously 6.7% - 7.0%). 6.5% is the unemployment rate threshold for holding the Fed Fund's interest rate at near zero. This could indicate sooner than expected tightening.
- FOMC saw "further improvement" in labor market and said downside risks to the economy have diminished since the fall.
- Fed officials also shaded down their inflation forecasts for this year but see it returning to at or somewhat below their 2% target by 2014.
- The Fed addressed the taper (plan to begin pulling back the $85 billion per month bond buying program) and said that if its economic forecast holds, then it would be appropriate to "moderate the pace of purchases later this year, ending mid-2014."

Ladenburg Strategy Update:

- We've anticipated the eventual increase in interest rates off historic and unprecedented lows for some time and our prior reallocations were intended to address this concern by shortening the duration of the portfolios. The rise in the 10 year Treasury yield yesterday afternoon and this morning could signal the beginning of that process.
- Markets this morning are experiencing a rare across the board sell-off in every asset class. Typically, when equities or fixed income experience a sell-off, there are other areas where one can hide from the volatility but this has not been the case yesterday or today.
- While the selloff in stocks may be an overreaction, it is important to remember that we have experienced a rally in the S&P 500 since the fall of 2012 and have been in a bull market for four years now. Pullbacks of 5-10%, or even 15%, are to be expected in equity markets more frequently than we have seen.
- When the facts change, we change: In light of the seeming market consensus that tapering will begin sooner than expected, we are re-evaluating several of our positions based on the current market environment. That said, we want to be careful not to sell any of our investments into a panicked market without evaluating the merits of the decision fully.