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METWEST

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Fixed Income Commentary
Fed Watch

Mr. Bernanke presented his semi-annual testimony to Congress. While there weren't a lot of surprises, he did chide Congress, telling lawmakers that it is essential that our nation's fiscal policy be put in order. Given the election cycle, don't wait with baited breath. As an aside, Europe seems to be much better at biting the bullet than the U.S. Greece, Spain and Germany have all passed some form of austerity while the debate in the U.S. is not nearly so advanced.

Here are the highlights of Bernanke's testimony. You can read the full text at the link below:
http://www.federalreserve.gov/newsevents/testimony/bernanke20100609a.htm

Summary statement

The Fed expects 3.5% GDP this year and a little stronger growth in 2011. "This pace of growth, were it to be realized, would probably be associated with only a slow reduction in the unemployment rate over time. In this environment, inflation is likely to remain subdued."

Bright spot in consumer

"Although the support to economic growth from fiscal policy is likely to diminish in the coming year, the incoming data suggest that gains in private final demand will sustain the recovery in economic activity. Real consumer spending has risen at an annual rate of nearly 3-1/2 percent so far this year, with particular strength in the highly cyclical category of durable goods."

Headwinds remain

"Significant restraints on the pace of the recovery remain. In the housing market, sales and construction have been temporarily boosted lately by the homebuyer tax credit.....with activity being weighed down, in part, by a large inventory of distressed or vacant existing houses and by the difficulties of many builders in obtaining credit. Spending on nonresidential buildings also is being held back by high vacancy rates, low property prices, and strained credit conditions. Meanwhile, pressures on state and local budgets, though tempered somewhat by ongoing federal support, have led these governments to make further cuts in employment and construction spending."

Euro impact

"If markets continue to stabilize, then the effects of the crisis on economic growth in the United States seem likely to be modest. Although the recent fall in equity prices and weaker economic prospects in Europe will leave some imprint on the U.S. economy, offsetting factors include declines in interest rates on Treasury bonds and home mortgages as well as lower prices for oil and some other globally traded commodities."