

Forecasts & Trends

By Gary D. Halbert

The Commerce Department reported that GDP rose at a blistering annual rate of 7.2% in the third quarter following 3.3% in the second quarter. Consumer spending was stronger than expected in the 3Q. Meanwhile, unemployment date has improved. Barring some negative surprise, such as another terrorist attack(s), the economy should remain relatively strong for the next year.

The Fed says it remains committed to keeping interest rates low. At their latest FOMC meeting, the Fed governors elected to leave short rates unchanged, even though they were aware that a very strong GDP report was about to be released. Do not be surprised, however, if the Fed begins to nudge interest rates slowly higher.

Stocks have continued to trend higher on the improving good economic and monetary news. Since bottoming in March, just before the war, the Dow is up 25% and the S & P is up 27%. If you took my advice in March to move back to a fully invested position in the market, you should be very happy today. The Treasury bond market continues to be very volatile, coming off the huge decline in June – August.

Market Threat: Another Major Terrorist Attack

When we are talking about what could derail the current bull market in equities, we cannot ignore the threat of more terrorist attacks on our soil. All of my geopolitical sources agree that one of the main goals of al Quad and other terrorist groups is to make something bad happen that will unseat President Bush next November. This would be the crowning moment for the terrorists if they could defeat the Commander-In-Chief of the War On Terror.

My sources believe that the greatest threat for another serious terrorist attack on American soil lies in the next 6 – 9 months, so as to have the maximum impact on the 2004 presidential elections.

As you know, my outlook for the US economy has been very positive for the last year, and that has proven to be the correct forecast. I have also been positive on the stock markets with this year, and that has also proven correct. With the latest scorching economic news (GDP up 7.2% in the third quarter), the economy would appear to be on a sound growth path for the next year, and stocks will likely continue at least mildly higher as well.

Yet all that could change if there is another serious terrorist attack in the US. Like Stratfor, none of my other sources have any specific intelligence regarding another attack. Yet if the terrorists are intent on driving Bush out of office, they probably need to strike in the next six months or so.

On the bright side, there has not been a serious terrorist attack on US soil since 9/11. Clearly, the increased security measures we have adopted since 9/11 have lessened the likelihood of another major attack, but they have not eliminated the threat.

As investors, we should not pull all or most of our money out of the markets just because another terrorist attack “might” happen. Yet we should also be ever mindful that another serious terrorist attack in the US could have major negative implications on the economy and the equity markets, just as it did after 9/11.

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