JEREMY
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Indexes all hit all-time Highs; Bullard Transformation

Saturday 12:40 p.m., EDT

Thursday, just after the NYSE close at 4p, I received a call from CNBC on my cell phone. "Dr. Siegel," the voice intoned, "for the first time since December 1999, all three major US indexes, the Dow, S&P 500, and Nasdaq, closed at all-time highs. We want to interview you live on the phone." As many of you know, I have appeared on CNBC many times, but rarely do they take telephone interviews especially by cell phone (they prefer the fast-disappearing landlines for better quality). But they believed it was important to have historical perspective, especially since that last time this happened was just a couple of months before the severe 2000-2002 bear market that sent the Nasdaq down about 80%.

I replied that the world is significantly different than 1999-2000. First, the S&P 500 in early 2000 sold for an all-time high of 30 times earnings, more than 50% higher than its current valuation, while the Nasdaq had sold at 500 times earnings. And, not to be ignored, is the fact that the 10-year treasury was selling at nearly 7%, compared to 1.5% today. I said we were not in a bubble, and relative to fixed income, current stocks valuations were low.

Friday, during my weekly show "Behind the Markets" airing on Sirius-XM Radio Channel 111, I had the pleasure to interview James Bullard, president of the Federal Reserve Bank of St. Louis, for an hour. This was not his first interview; two years ago I interviewed him and expressed my view that the long-run Fed funds rate was about 2% (the "new neutral," first proposed by Bill Gross), while Bullard felt it was closer to 4% and the Fed was moving far too slowly to normalize rates.

His position has now changed 180 degrees from being one of most hawkish members of the FOMC to the most dovish. He has now even leapfrogged my low 2% neutral Funds rate, believing that the long-term nominal Fed funds rate is only 63 basis points – just one more 25 bps hike from current levels! This is equivalent to a minus 1.37 basis point real short-term rate. He claims that the US has fallen into a "low growth, high liquidity" regime where far lower-than-historical interest rates are the norm. He does not know how long the US will stay in this regime, but he believes it will be for at least 2 to 2 ½ years, extending to the end of 2018, currently the latest year in which the FOMC is asked to project the funds rate. I find much credibility to his position and it is closer to the one the financial markets believe in, since July Fed 2018 funds futures are trading for under 1%. If more Fed members are persuaded of this view, the falling dots of the Fed "Dot Plot" may soon become an avalanche!

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