**Greg Valliere Monthly Commentary**
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**GREG VALIERE**: Well, hello, everybody. It's Greg Valliere at the Potomac Research Group in Washington recording on September 12th, an exceptionally busy time right now, so I'll get right to it on three big stories that I think will continue to have the markets riveted for much of the fall.

The first is whether there's any real chance of additional stimulus, either fiscal or monetary, to get the economy growing from this very, very tepid pace, with growth I would expect in the second half of no better than 1-1/2 or 2 percent GDP, which of course won't do anything good for the unemployment rate.

Let's take fiscal policy first. The President, a few nights ago, made a very emotional speech, proposing new policies that I think might receive a little warmer reception from House Republicans than some of his earlier plans. These House Republicans, including Eric Cantor, have been reading polls, showing that the American public thinks that the obstructionist Congress is an embarrassment and they would like to see something get done, so I think there's a chance there will be something on job stimulus. I think there's a decent likelihood that we'll get some new tax policies. The President wants to extend and actually expand the payroll tax cut to apply to businesses, and I think he's got a good chance of getting that. I think there's a chance for some additional stimulus for small business. Eric Cantor wants to see something there, and I think he's got a good shot to get it. There may also be, for the left in the House, a proposal enacted that would extend unemployment benefits.

Where I think there's going to be real difficulty would be getting anything in terms of new spending. The President would love to retrofit schools and build new highways and bridges, but I think that's dead on arrival in the House. There's no way that I can see how it could be paid for, and I think that the President must know this. In fact, I would say, cynically, that the President included many of these proposals in his speech simply to reenergize his base. The base in the Democratic Party is demoralized, and I think he wanted to show them that he still has some ideas.

Also, cynically, I think that he proposed many of these things knowing that the Congress would reject them in an effort to have a foil, and I think Barack Obama has a foil. He's going to run against a do-nothing obstructionist Congress, just as Harry Truman did in 1948, and it worked for Truman. So I think that, to be realistic, it may be the President can get about half of what he proposed the other night, and in terms of impact on the GDP and unemployment, you know, it would add a few tenths to GDP next year. Maybe it would reduce the unemployment rate a bit next year, but I think you have to conclude that a year from now the unemployment rate will still be well above 8%, and that's very dangerous territory for any president seeking reelection. And we'll talk about that in a minute.

The other option to stimulate the economy, obviously, would be to do something more on monetary policy. I feel quite strongly that the Fed after meeting on September 20th and 21st will announce new policies. At the least they'll announce that they're going to emphasize purchases of longer-term instruments in an effort to drive long rates even lower. Perhaps the Fed, as shorter-term instruments expire, will not repurchase any of them and make all of their new purchases on the long end. That will have some impact. It will help people refinance, it will help businesses with their balance sheets, but it's awfully hard to see a big, big impact there. I think the Fed also may announce that it no longer will pay any interest on bank reserves held at the Fed. Right now they pay 25 basis points, and I think the Fed may stop that, and that also might have a modest impact in forcing banks to lend more.

The big policy change, obviously, would be QE3, a new quantitative easing plan that would add maybe another half-a-trillion dollars or more to the Fed's balance sheet. I don't think that's imminent. I don't think the Fed is poised to announce that after the upcoming FOMC meeting. I think they would have to see the economy deteriorate further. I think Ben Bernanke realizes that there's real dissent within his own troops, that there are several Fed officials, mostly regional bank presidents, who don't want to do any more. They don't want to add more to the balance sheet. So I don't think the Fed is ready yet for QE3.

So when I add it all up, when I look at fiscal and monetary policy, I see some tinkering around the edges. I see some hope that there could be a little bit to stimulate growth, but neither monetary nor fiscal policy look like they could be a panacea to really get the economy jump started. So that's the first issue.

The second issue I wanted to spend a minute on is one that as I record this on September 12th, continues to deteriorate, and that of course is this deepening crisis in Western Europe. I think that we're getting to the point where an awful lot of smart people, the Germans in particular, are going to have to say, 'We may have to just give Greece the boot, they may have to leave the EU,' because it looks increasingly likely that the Greeks will never be able to come up with a credible deficit reduction package. Now social unrest is beginning to erupt once again in Athens, and I think that it's becoming such an albatross to the rest of the EU that Greece may have to leave.

Unfortunately, this would not improve prospects for banks. The French banks have tremendous debt obligations, other banks in Europe do as well, and the fear of contagion I think is a very real one. And then you add to this very toxic mix a growing dissatisfaction among voters in Northern Europe, in countries like Germany, who are asking the question, 'Why are we spending money to bail out profligate countries?' So I think this story has a long way to go before it bottoms. Maybe it helps the dollar a bit, but I think the more important impact on the U.S. is that, at the margin, it's not good for U.S. growth because Europe is such a huge trading partner, and I think it's not a good story for the equities markets to see this kind of instability. And, sadly, I think this instability will persist for quite some time to come.

The third big subject, of course, is politics, and I think that the intensity of the Republican fight right now is a reflection of the fact that this is a nomination worth winning. I do believe, and I don't say this lightly, but I do believe that if the election were held today Barack Obama would lose to a ticket of Mitt Romney and, let's say, Marco Rubio, the very dynamic Hispanic senator from Florida, which has 29 Electoral College votes. The election, of course, isn't today, and a lot can happen, but I do think that a Romney-Rubio ticket would be quite potent. The trick for Romney, of course, is can he win the nomination? And right now he's trailing badly in polls to Rick Perry, the very aggressive campaigner from Texas. But my sense is that Perry still has to be vetted. And many of his very controversial comments about Ben Bernanke or Social Security, I think, have raised legitimate questions about his temperament. So it's too early in my opinion to say that Perry is the Republican nominee. If he is, then I think it could be a much closer race with Obama than a race if Romney were the nominee.

The one thing that, for all of us as investors we have to keep our eyes on is where would a Romney or a Perry administration take us? And I must confess, even though I'm on the 50 yard line on most issues, I must confess to some real anxiety over their rhetoric toward Ben Bernanke and the Fed. I acknowledge that Bernanke has not been perfect, but to be this critical of the Fed I think is a real red flag for the markets, because the markets don't like politicians meddling in monetary policy, so that is a threat. And I think there are a lot of other issues, including what these candidates would do with Social Security, so a lot will still be revealed over the next few months.

It's a very unusual time, a very volatile time for the markets. But I have to conclude this call by saying I don't really see anything coming down the pipe that can jumpstart this economy from the very, very weak growth level that seems likely for at least the next few months.

That's it for this month. Hopefully, I'll have a more optimistic story next month. Great to talk with all of you. So long.

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