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QE 1 & 2 boost stocks, not economy: TrimTabs

By Editor Test *Wed, Jan 19, 2011*

The S&P 500 rose 67% during QE1, the period from March 2009 to March 2010, but fell 13% after the first round of quantitative easing ended.

The Federal Reserve's quantitative easing programs are supposed to jump-start the economy and generate jobs but have only helped raise stock prices, according to TrimTabs Investment Research.

"While QE1 and QE2 have worked wonders on the stock market, their impact on GDP and jobs has been anemic at best," said Madeline Schnapp, Director of Macroeconomic Research at TrimTabs.

"GDP increased a modest 2.7% in the third quarter of last year," noted Schnapp. "We need GDP growth of 3.0% to 3.5% to significantly reduce unemployment. Employment gains averaged only 94,000 monthly in 2010, much less than the 150,000 per month needed to absorb population growth, and consumers collectively have $1.1 trillion less to spend annually than in 2008."

TrimTabs noted a correlation between quantitative easing and equities. The S&P 500 rose 67% during QE1, the period from March 2009 to March 2010 when the Fed bought nearly $2 trillion in mortgage-backed securities, Treasuries, and agency debt.

Stock prices fell 13% in the subsequent five months, but have risen 20% since Fed Chairman Bernanke announced QE2 at the end of last August 2010."When QE2 ends in June, the economy is in danger of returning to slow growth mode unless its structural problems are addressed," predicted Schnapp.