

[Martone Capital Management: Weekly Investment Commentary \(9/24/2013\)](#)

In a widely watched decision, last Wednesday the Federal Reserve surprised the markets by declining to begin backing off (tapering) its asset-purchase program. Most observers (us included) were expecting the central bank to begin a modest pullback in the pace of purchases, so the Fed's decision to stand pat took many by surprise.

By failing to taper, the Fed signaled that it believes there are still lingering questions regarding the strength of the US recovery. The central bank remains focused on the fact that while the labor market is improving, it is doing so at an uneven pace. The Fed also pointed to the fact that more and more Americans have been dropping out of the labor force. In addition, the Fed is particularly concerned about the resilience of the housing recovery in the face of rising interest rates. This is an issue we have been discussing recently: if rates climb too far too quickly, it would imperil the housing market recovery. This concern was reinforced by some weaker-than-expected housing starts and housing permits data last week. Finally, the Fed's decision also serves as a tacit acknowledgement that the political backdrop could contribute to market risk, as Fed Chairman Ben Bernanke cited the potential for volatility around the upcoming debt ceiling and budget battles.

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