ICM's Jim Simmons Comments on U.S. Stocks and Interest Rates
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June 23 (Bloomberg)— Jim Simmons, who oversees $2.3 billion as president of ICM Asset Management, Inc., comments on his outlook for U.S. stocks. He spoke in an interview in New York; his firm is based in Spokane, Washington.

The Standard & Poor's 500 Index is little changed this quarter, rising one percent, on concern that higher interest rates may slow growth in the economy and earnings.

"People are unsure about the sustainability of the recovery and whether the economy will roll over, like we expect."

"The economy will slow more than people are expecting," said Simmons, whose firm holds shares of American Greetings Corp., the world's largest publicly traded greeting-card maker. "The consumer has been spending above his wherewithal."

"Not sure that we've seen the top, but most of the gains in the market are behind us," said Simmons, whose firm specializes in shares of smaller companies, with a median market value of about $500 million.

Higher interest rates will reduce demand for home equity loans and limit consumers' ability to refinance their mortgages, hurting consumer spending, said Simmons. "It's hard to figure out what will give consumer the wherewithal to drive things higher," he said.

"There is legitimate question about the quality of the jobs being created in terms of wages, and the job gains will be transitory and less than people are expecting."

"The economy is decelerating. Earnings comparisons next quarter will be somewhat tougher and progressively tougher thereafter. Earnings at some point will not be as favorable."

On the Federal Reserve and the outlook for interest rates:

"Most of the economy is not driven by where short-term rates go; it moves on long-term rates. The move in the 10-year Treasury from 3.1 percent last year to about 4.7 percent this week has had more effect than the Fed raising rates 100 basis points." One basis point equals 0.01 percentage point.

The Federal Reserve is not too late to raise rates to stem a surge in inflation," he said. "The Fed's reluctance to move any faster to raise rates is understandable. There were plenty of people still talking about deflation last year and no one would have wanted them to move prematurely."

As consumer spending shows signs of weakening, concerns about rising inflation will subside, allowing the Fed to raise rates gradually," Simmons said.

To contact the reporter on this story: Edgar Ortega in New York at 212-318-2892 or ebarrales@bloomberg.net.