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S&P 500 at highest level since June 2008, but some skeptics point to skimpy trading volume

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As Federal Reserve Chairman Ben Bernanke takes center stage Wednesday in the first-ever press conference following a closed-door Fed meeting, he couldn't ask for a better backdrop.

The stock market hit a three-year high Tuesday, pointing to increased optimism by investors and perhaps providing the psychological boost that prompts corporate leaders to commit money to expansion plans.

Clearly, one of the Fed's goals during the last couple of years of unprecedented stimulus with so-called quantitative easing has been to give the stock market a good jolt so consumers would feel confident about shopping and businesses would hire.

Tuesday, the Dow Jones industrial average climbed about 115 points, finishing at 12,595, while the Standard & Poor's 500 closed at 1347 its highest level since June 2008.

Still, investors will be listening carefully Wednesday for hints that Bernanke shares the market's optimism as he answers reporters' questions. Despite the strength of the stock market, investors and economists alike have been ruminating on what-if questions, ranging from whether the Fed's policies of the last few years have unleashed a worldwide commodity bubble and spate of inflation that will zap household budgets and be hard to tame, to whether the economy will be able to stand on its own as the Fed pulls away from support like the $600 billion bond-buying stimulus plan scheduled to end in June.

Yet, Fed watchers suggest that Wednesday's press conference is not likely to reveal new information.

"The media buildup to the Federal Reserve's first official press conference is starting to rival that of the upcoming royal wedding in England," said **Bernard Baumohl**, of Economic Outlook Group. But despite the anticipation, **Baumohl**, like many economists, assumes "there is little chance it will produce any major news."

Further, economists such as David Malpass, president of Encima Global, challenges those who worry that the Fed could endanger the economy by ending quantitative easing in June.

"It did not have an impact on bond yields or house prices," or lead to more loans for people wanting to buy homes, he said.

Despite optimism in the stock market, the housing industry remains deeply mired in what Gluskin Sheff economist David Rosenberg is calling a depression.

He notes that new-home sales "are still 22 percent below depressed year-ago levels and 78 percent below the bubble highs. … At $246,800, new-home prices, on average, are lower today than they were in mid-2003 and down 25 percent from the highs posted just four years ago."

And with loans difficult to get, three out of every four new units sold have been priced below $300,000, with "practically no activity for new homes priced over $500,000," Rosenberg said.

At this point in a normal recovery after a recession, Rosenberg added, new-home sales would typically have risen 30 percent, but instead they have "tanked an astounding 24 percent."

Against the backdrop of disconcerting housing data and unemployment still close to 9 percent, the stock market's climb may be baffling to some. And technical analysts point out that trading in the market hints at less optimism than meets the eye.

Although the S&P 500 has soared 28 percent since the Federal Reserve announced a new round of stimulus in August, Standard & Poor's technical strategist Chris Burba notes that volume, or the amount of buying and selling by investors, has been unusually light lately. And that means that stocks are rising based upon the enthusiasm of a modest number of investors rather than widespread excitement.

Last week, daily volume in the S&P 500 was 3.6 billion, or about half the daily volume in May, when investors worried about the economy in the midst of a lapse in Federal Reserve stimulus.

Yet, investors were clearly encouraged Tuesday by strong corporate earnings as companies ranging from 3M and Ford to Cummins and Illinois Tool Works reported strong profits and gave upbeat estimates of the future.

Market strategist Ed Yardeni said that a booming global economy is driving up earnings and stock prices, and the Fed's quantitative easing probably contributed by sparking a 24 percent jump in commodity prices and an 8 percent drop in the value of the trade-weighted dollar since August.

Forward earnings are close to the October 2007 level, Yardeni noted, and he credits the surge to the Fed's zero-interest-rate policy, which he thinks is likely to remain in place for an "extended time," even if stimulus ends in June.

Investors, of course, will be listening to Bernanke's answers to questions Wednesday for any hint of when interest rates might rise and potentially work in reverse on corporate profits. Fed critics, including some who sit on the Fed's board, have claimed that allowing interest rates to remain at zero has been sparking dangerous inflation and commodity increases in everything from food to gasoline.

In a recent interview, Federal Reserve Bank of Dallas President Richard Fisher said that as the risks of inflation rise, "The Fed is nearing a tipping point."