Why isn't quantitative easing working?

The U.S. economy grew at an annual rate of 0.7 percent in the fourth quarter yet it's the envy of most of the rest of the world. Citi says the global economy is trapped in a "death spiral." Quantitative easing (QE) is no longer working. But why?

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In macro-economic terms (I'll make this short) the QE programs have flooded the world with liquidity starting in 2008. As a result, savings and capital have grown faster than investment opportunities. Savers and investors have benefited the most, which is why wealth inequality has increased during the Obama years to the chagrin of the president.

Unlike the middle and lower classes, the wealthy are not inclined to spend more because of lower rates. Any central bank stimulus must overcome the drag of wealth inequality.

For many, a flattening yield curve and the drop in junk bond prices point to a slowing economy. Junk bonds act as the economy's "canary in the coal mine." But much of the weakness is centered on energy companies, some of which will be in jeopardy if prices stay low. Junk bond default rates, however, are still low.

A slow-growth economy, here and overseas, is not a recipe for rising earnings and a bull market. If it turns into a recession and lower earnings, stocks would be in for tougher sledding. No doubt about it. Still, today's valuations and yields don't support a bear market.

Stocks are where they were in early 2014 and is no longer uptrending. While that is not good news for growth investors (witness the plunge in technology stocks), those paying and increasing dividends will do better.

That was the message of my interview with Investor's Business Daily, which is posted on the News page at www.VomundInvestments.com. The case for better-yielding stocks, especially those that raise their dividends, remains a compelling one and will become even stronger in the slow-growth, low-rate environment ahead.

Even more attractive are preferred securities. Returns on preferred stocks topped the overall market last year and figure to do the same this year.

The bottom line: catalysts for significantly faster economic and profit growth, to the extent there are any at all, have to overcome the drag of growing amounts of savings and capital in the hands of those less (or not) likely to spend and invest.

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