Weekly Commentary **April 1, 2016**

Good Job Report Supports Dovish Fed

Friday 9:20 a.m. EDT

A good job reports: The participation rate has now increased or held study for six consecutive months, the longest string this century. The unemployment rate, for the first time since May, ticked up one tenth to 5.0%, which gives the Fed further breathing room between the current level and the Fed's "natural" rate of 4.8%. To be sure, wages ticked up by 3 tenths of a percent, but year over year levels are still a very moderate 2.3%. The only disturbing part of the report was that hours worked remained depressed at 34.4; this number has averaged 34.5 for nearly two years. Perhaps that is why recent estimates of Q1 GDP growth have been very depressed; data suggest growth of only 1% to 1.5%, and some estimates are lower. Productivity growth remains dismal.

Today's jobs report reinforces Yellen's very dovish comments earlier this week. Her caution centered on the drop in the "neutral" Fed funds rate, that rate at which monetary policy is neither contractionary nor stimulative. I reported last October that the Fed staff reported to the FOMC that the neutral Fed funds rate may have fallen considerable and may be now near zero. This has been my position for several years and Bill Gross has voiced that opinion even longer. Yellen suggests that the neutral rate may increase in the future, but is unsure when that will be. If the Fed hits its 2% inflation target and the neutral real funds rate stays at zero, then long-run funds target should be 2%, not 3.25% as the Dot Plot indicates. With Yellen's caution, there is no chance of a rate hike in April and even a June hike is in doubt, although we will have much more data then.

Yesterday I was on CNBC and stated that I believed stocks would remain range bound, with the Dow fluctuating between 17k and 18k until we see a sustained increase in earnings, which may come at year's end. If we do, that could lift the Dow to 19k if the Fed keeps its cautious stance. In any case, there are still no economic indicators that show a recession on the horizon and if commodity prices remain stable, markets are likely to move sideways in coming months.

Election Odds Update: Trump's recent abortion comments have caused his numbers to slide appreciably in the betting market (although we will have to wait to see how, or whether, they impact his poll numbers). Odds are now 3-1 that he will ***not*** get enough delegates to win on the first ballot, and the probability that he will be the nominee has fallen to 55%, with Cruz's rising to 34%. Even Hillary's odds have fallen, but remain at a very high 90%. As March Madness ends this weekend, there is no doubt that politicos will keep us entertained.
