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Economy: More of the Same; The State of “The Race”

Friday, 3:50 p.m. EDT

This past week, the economy has ground out more of the same: A robust labor market indicated by a fall in the unemployment claims to a 42 year-low and very slow GDP growth. What in the world are these millions of new workers producing? Almost nothing, at least from looking at reported GDP. We won't get Q1 growth until April 28, but estimates remain in the sub 1% range. The good news this week is that inflation edged down, with both PPI and CPI numbers coming in about one-tenth below expectations, reversing a bump above expectations that marked inflation data released in March. It was already certain that the Fed will remain on hold in the April 27 meeting, but this news will impact Fed guidance going forward, which will be important to the markets.

Earnings season is starting out mixed. Watch guidance rather than just whether firms “beat the street” or not. Management has sufficient control of analysts to guide next quarter's estimate to a penny or so below the actual number. So the “beat rate” has become a less meaningful number for the market than it once was. Guidance can be more telling, and the current buoyancy in stocks is predicated in part on the expectations of a good earnings recovery in the second half of the year. Investors need to see some strong forward optimism for stocks to move convincingly to new highs.

On the political front Cruz has been hitting the media circuit and was on CNBC this morning for an hour. He put on his “moderate” face saying that he, as president, will get along with everyone: Democrats, Republicans, conservatives and liberals. He will fashion legislation to spark a stronger economy, relying on the growth of “small firms.” Yet he strongly maintains the mantle of an outsider, coming to rescue the American people from growth-killing regulation and bureaucratic encroachment.

It seemed like Cruz was pivoting to the general electorate, not just to Republicans and expects his candidacy to prevail in a locked convention. I am increasingly convinced that Cruz can give Hillary a good run in November as the electorate seems to want an “outsider” this year. Yet I still think Hillary will beat him, as Cruz's earlier more extreme positions will consolidate Clinton's support. Sanders is equally active on the Democratic side. Can Sanders and Cruz come within 10 points of Clinton and Trump in Tuesday's New York primaries? That would give both underdogs a strong boost.

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