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Commodity Prices Signal Stronger Economy; Expect Trump-Clinton Matchup

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As many of you know, even I, a long-term bull, have been surprised by the resilience in equities despite the lack of a convincing rebound from last year's severe earnings recession. But as I study the charts, I have become convinced that the rise is rooted in the dramatic rise in commodity prices – not just oil, but also iron, steel, and other industrial commodities as well as agricultural products. This is a sign that world demand, and particular China, is not slipping nearly as badly as feared 2 months ago. In fact, recent data from China's property markets show continuing strength. Action in the commodity markets suggests that world output may rebound faster in the second half of 2016 than is currently expected. Furthermore the cost of insuring investment-grade corporate debt has fallen to the lowest level since last August, just before the collapse in the Chinese market prompted the “flash crash” on August 24.

This rise in commodity prices has led to a strong recovery in emerging markets stocks. The MSCI emerging market index is now up 25% from its late January low. To be sure, it is still down nearly 20% from its 2015 high, but it has crossed its 200-day moving average and is nearly back to the 5-year range in which it has fluctuated since 2010. And with a P-E of 14 and a dividend yield near 3%, I still believe these stocks will be a rewarding buy for those willing to tolerate short-term volatility.

Next week is huge for data: not only the April FOMC meeting on Wednesday, but also data for Q1 GDP, the PCE Deflator, the Employment Cost Index, and personal income for March. The FOMC statement will give us strong clues whether the Fed is considering hiking rates in June.

Election update: Both Trump and Hillary righted their listing ships in New York's primary last Tuesday. After falling below 50%, Trump has now moved back to almost 3-1 and Clinton to near-certain 96% to secure the nomination. Even the probability of a locked GOP convention has fallen below 50%. It is seen as politically impossible to deny Trump the nomination if he is within a 100 or so delegates of a first-round victory and has received a majority of the primaries' popular vote. Hillary is still odds on to beat either Trump or Cruz, and she is expected to trounce Trump fairly convincingly in a national match-up. Of note: Kasich, who has virtually no chance to secure the GOP nomination, beats Hillary by about 8 percentage points in the national polls.

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