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Super Dovish Fed and Trumpish GOP

Friday, 6:10 p.m. EST

Janet Yellen's opening words as she began the quarterly press conference that followed last Wednesday's Fed meeting were "Our assessment of the economic outlook and the risk to that outlook have not changed much since last December's meeting." Oh yeah? Then why did the members of the FOMC sharply reduce the expected number of Fed rate hikes in 2016 from 4 to 2? I found it fascinating that no reporter asked her that question (Steve Liseman from CNBC tried, but didn't quite get it right). I believe the reason for the change was huge deflationary shock that hit the economy in the first several weeks of the year. To be sure, oil and other commodity markets, and most certainly the stock market have bounced back strongly over the past month. But having witnessed oil at \$26 a barrel and hedge funds trying to push China into a substantial devaluation which could have set in train other devaluations and an outright currency war was scary, to say the least. We are on the mend, but it is not impossible for these events to occur again. This is certainly not the time for the Fed to push rates yet higher.

I was also surprised by Yellen's brush-off of the latest core inflation readings. She implied that they were caused by "temporary" factors, but she mentioned none. A good part of the increases in core inflation has been in the housing sector and I don't see home prices or rents going back down. There was one dissent from Esther George, the hawkish president of the Federal Reserve Bank of Kansas City and there may have been objections from other non-voting members. But Yellen was quite firm in her belief that inflation is not a threat at the present time. In any case, stocks are basking in an easy Fed, a recovery of oil prices, and prospects of a good earnings bounce later this year.

On the political front, Trump did well enough last Tuesday to keep his odds at 3-1 to be the GOP nominee. The betting market says it is only even money for him to get enough delegates to win on the first ballot, but the expectation is then that it would be hard to deny him the nomination if he were only a few delegates short while Cruz and Kasich are hundreds of delegates behind. Some Republicans are resigned to Trump heading the ticket, but others, such as David Brooke is today's *New York Times*, say "Never." Since Hillary is now a "slam dunk" to be the Dem nominee and many (including me) are resigned to her becoming president. The only interesting battle will be whether enough Republicans sit on their hands to enable the Democrats to capture the Senate. But let's look at the bright side. We have both the conventions and the Olympics to entertain us this summer.

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