

J E R E M Y
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March Rate Hike in Play, but May/June more Likely

Friday, 6:15 p.m. EST

A couple of weeks ago, a March 15 Fed rate hike was “dead in the water.” But 2 strong inflation reports, plus a strong equity market, has put a March increase back on the table. Although the doves still have the upper hand now, the hawks are making a run. But that run will be overwhelmed when the February jobs report comes out March 10 and the PPI and CPI come out the day and morning before the March 15 Fed announcement. These 3 data points will be the most critical economic releases in quite some time. If the Unemployment and the participation rate rises, job gains moderate to 100k to 150k, and hourly wages rises less than 3 tenths of a percent, the doves on the FOMC will gain strength. The inflation reports will again move the needle a few days later. Nobody now knows what all those data will say. If inflation is moderate, the doves will argue that the economy “still has room to run,” and will likely prevail. In a close call, other data will come into play: a weaker dollar and stronger stock market will reinforce the hawks, and the 10 year Treasury bond will distill all economic data into an inflation plus real growth forecast that is very important. Anyone today who thinks he or she “knows” what the Fed will do March 15 is fooling himself. Guessing right on the Fed’s decision means you have guessed right on the balance of the indicators that will be released in the week preceding the final decision.

The stock market continued to reach new highs last week. Stocks were particularly pleased with Trump’s meeting with Canadian Prime Minister Trudeau. After that meeting Trump said that only minor adjustments were necessary in the NAFTA trade agreement with Canada. Markets were also encouraged by Trumps “rewriting” of the terrorist ban which so badly backfired when released 3 weeks ago. If the new ban clearly exempts green card and H1B visa holders (plus other favored groups) business will be satisfied. Of course, we still don’t know about the “wall” or whether illegal aliens will be rounded up and sent back to Mexico. At the present, it appears that only those with serious criminal records are being targeted for deportation. But this situation is fluid.

Stock investors really want action on corporate tax reform. The opposition to border adjustments, which I think are a bad idea, grows stronger. I do not think they will be implemented. Most businesses are telling Trump “No Border Adjustments.” The Republicans are attracted to the increase in tax revenues that can be used to reduce the corporate tax rate. But I do not the revenues will rise anywhere near projections because the dollar will not rise one for one with the tax rate, as supporter claim. Keep it simple, just reduce the corporate tax rate.

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