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## MV Capital Management Weekly Market Flash

### Fed Wars: Rosengren v. Bullard

*April 17, 2015*

In one corner, the Beantown Bruiser. In the other, the Show-Me State Slayer. Let the policy rumble begin!

It has been yet another week of all Fed, all the time. This week's will they-won't they chatter took the form of a policy square-off between St Louis Fed President James Bullard and his Boston Fed counterpart Eric Rosengren. Mr. Bullard looks into the future and sees "boom times ahead" – so it's time to raise rates. Not so fast, counters Mr. Rosengren. The economy is "still too weak" to take action, he argues, with neither labor market conditions nor inflation trends making a convincing enough case to start raising rates.

Rosengren and Bullard are this week's public faces for what appears to be a genuine fault line in the Fed Open Market Committee. The March FOMC meeting minutes released on April 8 revealed several members seeing an economy strong enough to start raising rates in June, with others looking at the same data and seeing no pressing need to go rushing in. So which is it – boom times or a still-unsteady patient?

#### Macro Mysteries

Recent macroeconomic headlines certainly have not presented an unambiguously clear picture. The March jobs report brought to a screeching halt a year's worth of monthly payroll gains in excess of 200,000. Fourth quarter GDP was also somewhat disappointing at 2.2%, and this year's cold winter is tempering expectations for the coming Q1 reading. The IMF chimed in this week with downward revisions to its global growth projections for the next two years. None of this sounds very much like Bullard's "boom times".

On the other hand, today's release of the March Consumer Price Index would appear to indicate steady, if not necessarily rapid, progress towards the Fed's 2% target. Energy prices kept the year-on-year headline number muted, but core inflation (excluding energy and food prices) inched up to 1.8% y-o-y. Retail sales turned higher in March after a couple weak readings earlier this year. Consumer confidence reached a post-recession high in February. Bullard also notes that under prior Fed policies, rates would have already started to go up.

#### Brave New World

Prior policies may not be altogether relevant, though, given the uncertain terrain of the new landscape. Even if global growth manages to best the IMF's lowered expectations, it will still be modest by historical standards. Then there is the other great unknown; namely, how asset markets will react. The IMF, which seems to have woken up on the wrong side of the bed this week, mused that a rate hike could ignite a "super taper tantrum" even more extreme than the wild and crazy ride the ten year Treasury took in 2013, soaring from 1.6% to 3% over a four month period that year. A super tantrum doesn't sound like anything that would be good for assets generally.

It also may not be the most likely outcome. Yellen's Fed has found game in its communications skills. It is hard to imagine that even a June hike would be a jaw-dropping surprise. Other market forces – a global savings glut, negative yields in Europe – could also keep a lid on rates particularly further down the yield curve. By the time the FOMC meets in June, we expect the data will be more clear as to whether the recent softness was mostly about weather or indicative of more structural weakness. If it's "boom times ahead", then let rates reflect accordingly.

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