First Trust
Monday Morning OUTLOOK
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Apple vs The Fed

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Honest question: How much time does the Apple Inc. Board of Directors spend debating whether the Federal Reserve will hike rates once or twice more in 2016? We don't really know the answer, but we would guess the best answer is zero.

Now, how much time does CNBC spend debating this question, along with potential actions of the Japanese and European Central Bank? Answer: Way, way too much.

Business news should cover business, not government, but somehow, over the years, people have been led astray and many now think actions by the government are more important than actions of businesses and entrepreneurs. Nothing could be further from the truth.

We get that Fed decisions can influence currency values and global companies care about that. But, since the Fed lifted rates in December, while Europe and Japan moved to negative rates, the dollar has *weakened*, not *strengthened*. This is the exact opposite reaction the conventional wisdom crowd expected. And, it was totally predictable.

Negative interest rates force people into cash. This slows money supply growth. Higher rates in the US speed up money supply growth rates as banks lend more. Moreover, the December rate hike was the first one in US history which did not actually squeeze bank reserves. The US still has at least $2.25 trillion in excess bank reserves and, as long as there are excess bank reserves, hiking rates will not cause a tightening in monetary policy.

In fact, the longer the Fed leaves excess reserves in the banking system, the more likely inflationary pressures will accelerate. At the same time, the longer other central banks attempt to manipulate their economies with negative interest rates, the more likely deflationary pressures will build.

Over the past three months, at annualized growth rates, the M2 measure of money in the US is up 6.6%, while commercial and industrial loans are up 19.3%. These numbers, while not the perfect measure of Fed policy, show that monetary policy is far from tight.

So, while the TV debates between day traders rage on, it doesn't really matter whether the Fed lifts rates in June, or not. The difference between a 0.5% and 0.75% federal funds rate matters little to corporate America and entrepreneurs. In fact, higher rates will most likely make money more available, not less. If the Fed really wanted to tighten policy, it would get rid of all excess reserves, but it won't. So, we suspect a symbolic rate hike in June, no matter what the talking heads' endless debates about the matter suggest.

As investors we want to follow the lead of Boards of Directors, not the lead of what passes for business journalism these days. No matter what they say, it is the entrepreneurial class that drives economic activity, not the government.

After all, Greenspan, Bernanke and Yellen have never pulled all-nighters drinking Red Bull and writing Apps for the iPhone. That's what changes lives, not quarter point rate hikes.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-2 / 9:00 am	ISM Index – Apr	51.4	**51.4**	50.8	51.8
9:00 am	Construction Spending – Mar	+0.5%	**+0.2%**	+0.3%	-0.5%
5-3 / *Afternoon*	Total Car/Truck Sales – Apr	17.4 Mil	**17.5 Mil**		16.5 Mil
Afternoon	Domestic Car/Truck Sales – Apr	13.5 Mil	**13.7 Mil**		13.0 Mil
5-4 / 7:30 am	Int'l Trade Balance – Mar	-$41.3 Bil	**-$42.1 Bil**		-$47.1 Bil
7:30 am	Q1 Non-Farm Productivity	-1.3%	**-1.6%**		-2.2%
7:30 am	Q1 Unit Labor Costs	+3.3%	**+4.2%**		+3.3%
9:00 am	ISM Non Mfg Index – Apr	54.8	**55.1**		54.5
9:00 am	Factory Orders – Mar	+0.6%	**+1.6%**		-1.7%
5-5 / 7:30 am	Initial Claims – April 30	260K	**256K**		257K
5-6 / 7:30 am	Non-Farm Payrolls – Apr	200K	**245K**		215K
7:30 am	Private Payrolls – Apr	195K	**235K**		195K
7:30 am	Manufacturing Payrolls – Apr	-5K	**-11K**		-29K
7:30 am	Unemployment Rate – Apr	4.9%	**4.9%**		5.0%
7:30 am	Average Hourly Earnings – Apr	+0.3%	**+0.2%**		+0.3%
7:30 am	Average Weekly Hours – Apr	34.5	**34.5**		34.4