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Whether you like Dolly Parton's, "Here You Come Again", Kenny Loggins', "This is It", or Europe's, "The Final Countdown", it's Federal Open Market Committee (FOMC) statement day again. Boy did those 6 weeks fly by. And the markets have basically done a 180 since January 27 with the Dow going from vertically down to up and advancing from 15,940 to 17,250.

Yellen's Cover for Standing Pat is Gone

After raising rates in December, the Fed prepared the markets for four more rate hikes in 2016. Almost to the day of that announcement, global markets began to sink on fears that the worldwide economy was slipping into recession. With that, the Fed quickly backed off the rhetoric and so went any discussion of a rate hike in January.

Yellen cited China, Europe and even lower than expected economic output in the U.S. along with collapsing oil prices are reasons for keeping interest rates unchanged.

My oh my have things changed.

- Our stock market not only stabilized, but rallied sharply
- Oil prices are up 50% from the bottom
- Q4 GDP came in stronger than expected although up just 1%
- February employment report printed a reasonably strong and better than expected increase of 242,000
- China's stock market calmed down and began to rally
- European markets gained
- ECB chief, Mario Draghi, announced an increase in bond buying and more stimulus

What will Janet Yellen say now?

She basically lost the cover to keep rates unchanged although markets expect no action from the Fed today with 90% certainty. However, they do expect a more hawkish statement and press conference. The likely path forward is that Yellen & Co. lay the groundwork for a June rate hike and let the markets digest and prepare for that.

"What If?" - Focus on the Banks

If Yellen pulled a March surprise, stocks, bonds and commodities should fall precipitously with staples, REITs, telecom and utilities being the hardest hit.

Of all the sectors, the banks look like they want to move most and here are four scenarios to watch for.

Fed stands pat & banks rally - Actionable trade for a few weeks to a few months

Fed stands pat & banks continue in line or worse with the S&P 500 - Ignore banks

Fed raises rates & banks rally - Actionable trades for the rest of the year

Leave Rates Alone

I won't rehash my trail of comments since 2008, and you are probably tired of hearing and reading them anyway, but ever since Q4 of that year, I am on record as saying that the Fed should **NOT** raise short-term interest rates until the other side of the next recession. The U.S. survived the Great Recession, but our economy is far from thriving.

As I have also pounded the table for the past 7 years, we are living through a very typical post-financial crisis recovery which is very uneven and frustrating. It sometimes teases and tantalizes on the upside, but occasionally terrorizes on the downside. Think Japan since 1990. In the end, few are pleased with it and blame is easily fanned around.

The Fed has tried mightily to spark some "healthy" 2-3% inflation, but has not been successful overall. And I don't believe they will see success until we get through the next recession which I forecast to occur early on in the next president's watch. It should be very mild as corporations are sitting on roughly $3.5 trillion in cash with more than $2 trillion on bank balance sheets. It's almost impossible to experience a significant recession with the banks having such a dramatic cushion of cash.

After that, inflation should begin a secular bull market along with interest rates going higher for decades. Our economy will finally get back to trend or average GDP growth of at least 3% which has not been seen since pre-2008. This could also coincide with Europe getting its fiscal act together after another sovereign debt crisis.

Did Yellen REALLY Want to Set Precedents

The December rate hike sets all kinds of precedents.

- First rate hike ever with inflation under 1%.
- First rate hike ever with the annual social security COLA at 0%.
- First rate hike ever with wage growth needing to jump 100% to hit the Fed's target.
- First rate hike ever with industrial production on the verge of recessionary levels.
- First rate hike ever with GDP barely 2%.
- First rate hike ever with inflation expectations close to 0%.
- First rate hike ever with retail sales closer to recession than escape velocity.
- First rate hike ever with non-farm payroll job growth continuing to decelerate.

To Your Financial Success,

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