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Six weeks later and it's Groundhog Day all over again! Or is that deja vu all over again?!?! It matters not. I began my Fed day comments with this in April.

"The Federal Reserve Open Market Committee concludes their two day meeting with an announcement at 2 pm that interest rates will not change today. That's what the markets are expecting. There has been all kinds of hot air coming from several Fed officials that rates need to rise now, but Chair Janet Yellen has been on the other side, sticking with her more accommodative stance. It would be very hard to believe that the majority of ***voting*** *members would overtly vote against their chair."*

Before I get into the meat of this issue, I want to mention three independent studies surrounding FOMC meetings. All three short-term studies conclude that stocks are supposed to rally here. One is a one day trade. One is a two day trade and one is a three day trade. Their accuracy has been 70-90%.

Fed Officials and Wall Street Lost Credibility Again

For four weeks, we continually heard from the Fed heads and pundits that Yellen & Co. will definitely raise interest rates on June 15. Goldman Sachs, Merrill Lynch, UBS and the endless parade of analysts on the financial channels. It was a certainty. The Fed heads prepared us over and over and over again through their speeches. They publicly wanted to hike rates. They needed to raise rates. They thirsted and craved higher rates.

They were out of their collective minds and the word "quack" now comes to mind.

With the blink of an eye, one weak employment report and a June rate hike is all but off the table. And almost as fast, those same pundits and analysts are now forecasting with certainty that the Fed will stand pat at 2 pm on Wednesday. Did they forget about the vote across the pond on June 23 for the UK to exit the Euro? There was no way Janet Yellen was going to raise interest rates before then.

How fast can you say, total lack of credibility???

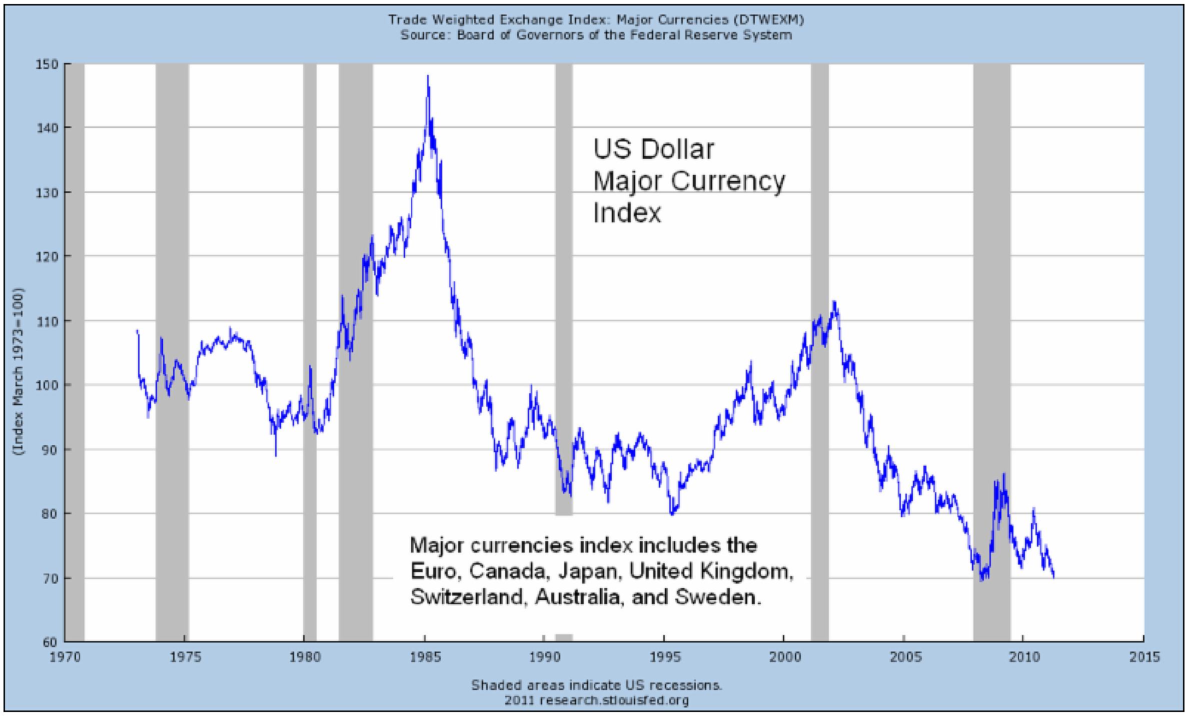
Leave Rates Alone

Since late 2008 I am on record all over the place saying that the Fed should unequivocally not raise interest rates until the other side of the next recession after the Great Recession. Since then and every moment after, I have firmly stated that the recovery would not be and is not your typical sharp snap back. Rather, it is a post-financial crisis recovery which is uneven, tantalizing, teasing and once in a while terrifying. They do not happen all that often around the world, but the path is very clear.

This is not new news for you, my loyal readers, nor is it new for anyone paying even the slightest attention to the real world. For years, I was convinced that the economy and markets could not handle higher rates. I am still not convinced. However, over the past year and a half, a few new reasons became clear.

WHY???

First and perhaps most important, I do believe that Janet Yellen is keeping the U.S. dollar under her hat. Fed officials rarely discuss currencies, but as I mentioned six weeks ago, I firmly believe that the really smart folks inside the room are worried that future rate hikes with the rest of world easing and/or accommodative with negative interest rates abound, the dollar could pull a repeat of the mid 1980s where it soared to almost 150 on the trade weighted index as you can see below.



Why does this matter?

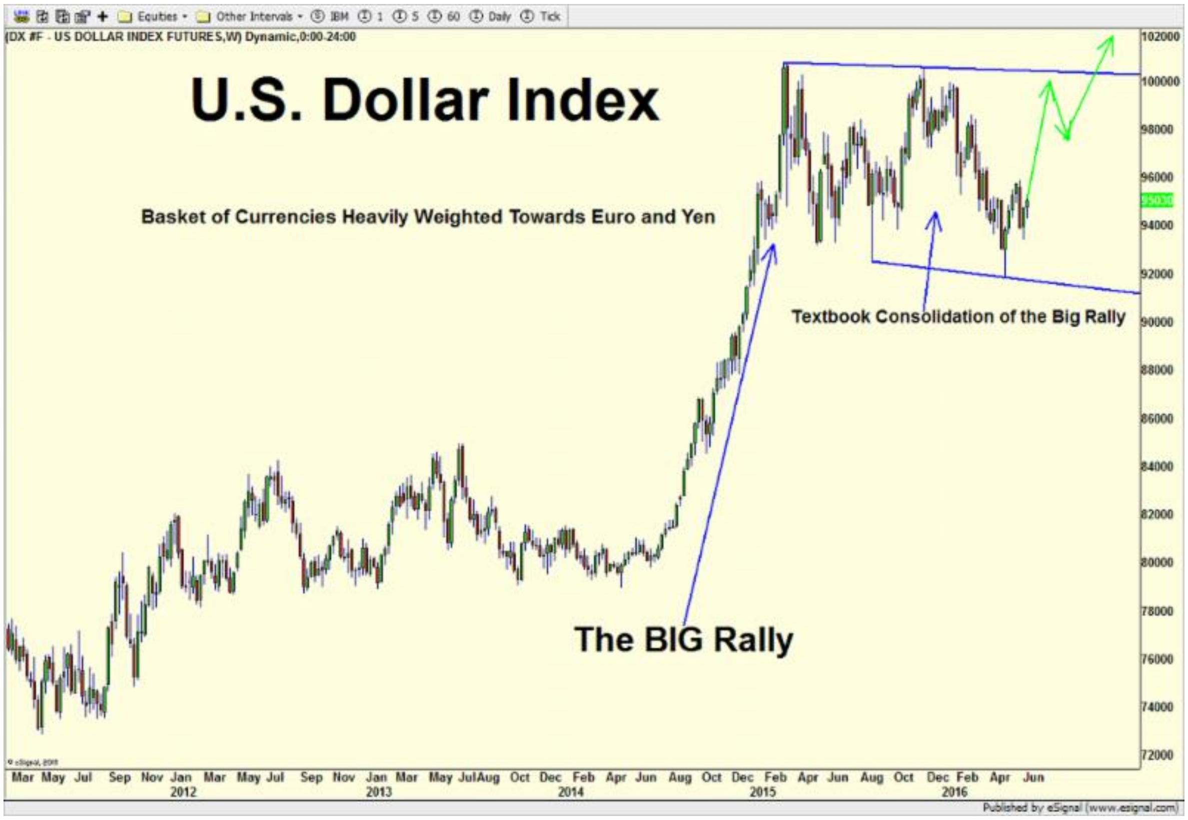
Let's say the Fed raised interest rates next month. Would you rather own the dollar where rates are increasing or the Euro where rates are becoming more and more negative each month? Where would your money be treated best?

You can make the same argument in Japan. The Japanese will continue to print and print and print, buy and own almost 100% of their government bond market and force rates well below 0%. Money flows where it's treated best.

Dollar to Soar

In the short and intermediate-term, more rate hikes from the Fed would fuel another major rally in the dollar at least to the upper end of the trading range that's been in existence since early 2015 as you can see on the chart below. That would not be bad overall. Sure, companies who export goods would struggle but the rest of the corporate world would do just fine.

The real concern comes once the dollar scores fresh highs and stays there for at least a few weeks. The scenario would quickly turn to the playbook from the mid 1980s but on a much grander scale. I contend as I have since early 2008 that the U.S. Dollar is in a secular (long-term) bull market that will carry the index well above 100 with the Euro first falling below par (100) on the way to collapsing to all-time lows below 80.



Dow Above 20,000

If I am right, we will see massive capital flows from Europe and Asia into the dollar sometime in 2017 or 2018 that will feed on themselves. After dollars are bought, money will flow into treasury bills and notes for those seeking safety. However, similar to the 1980s, I see hundreds of billions and ultimately more than a trillion dollars making its way into blue chip stocks. That's where my long standing forecast of Dow 20,000 and above come into play. Investors will be partying like it's 1985 - 1986 again.

Ultimately, as with any and all gargantuan capital flows, severe global market dislocations will appear and we all know how poorly they end. The crash of 1987 was how the 80s dollar boom ended.

Besides the dollar and the upcoming vote by the UK to leave the Euro, few seem to be talking about China. Forgetting about their weakening economy and real estate woes, let's not forget that the Bank of China responded very decisively to the Fed's December rate hike by devaluing their currency several times in January and February, adding further stress to the global markets.

Long-Term Rates

Finally (for now), long-term interest rates as measured by the 10 year Treasury note are back down to the 1.6% level as you can see below. That's getting eerily close to the all-time lows levels of 1.4% seen in 2012. While the Fed controls the overnight lending rate, the market determines most other rates. How "interesting" that the Fed heads would even contemplate raising short-term rates with long-term rates in collapse. This would further serve to flatten the yield curve and damage banks.

I am all the way to the end and it's time to hit the send button without diving into stock market leadership which has been solidly defensive of late. Both utilities and consumer staples (for full disclosure we own them) recently hit all-time highs as bonds prices rallied. Dividend paying blue chip stocks are in high demand as replacements for "safer" fixed income.

As I write about all the time on [www.investfortomorrowblog.com,](http://www.investfortomorrowblog.com) I care much more about the markets' reaction to the news over what the news actually is. Keep a close eye on what leads and lags from 2:30 to 4 pm today. For the shortest and most nimble traders, selling long-term bonds, utilities and staples on the Fed announcement may be a good play.

To Your Financial Success,

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