On interest rates, the economy, and stocks

August and September were grim months for the stock market. In both months investors were focused on a possible or, as Janet Yellen said, likely interest rate hike this year as if that would surely trigger a bear market.

Then came a massive October rally and the market's losses were quickly erased.

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The diminishing (read vanishing) possibility of a rate hike this year is one reason stocks are looking up. The economic outlook is not improving and recent data indicate the opposite is more likely, so a rate boost would at best be counter-productive.

The financial futures market is now reflecting the probability of a rise next April. Don't count on it. There will be many economic reports along the way. Those in the next few months figure to show weakness. Next spring's numbers are anyone's guess.

Investors acted as if a Fed rate hike would surely trigger a bear market. But does a rate increase really matter? Hedge fund manager Leon Cooperman (Omega Advisors) pointed out on CNBC that in the past stocks rose for more than two years after the first rate hike.

Wharton Professor Jeremy Siegel has often said they peak 12-18 months after the initial hike. One of them is off by a year or so. No matter. Stocks don't peak when rates start to go up. That's the point. They peak sometime later amid euphoria and overvaluations

No sign of either now, so expect higher prices. Both Siegel and Cooperman point out that past rate increases occurred when the economy was accelerating and corporate profits were set to rise. No wonder stocks rose. They are always a bet on future profits.

Little if anything has been said about the declining impact of interest rate changes. At one time, when the U.S. economy was dominated by manufacturers and banks, rate changes were important. Now that we're far more a service economy, their impact is much less.

If economic growth hinged on the level of interest rates, the economy would have been humming along with zero rates since 2009. Two percent GDP growth is not what anyone would call humming. It could very well have grown at the same pace if rates had been a point or two higher. Perhaps.

The bottom line on interest rates is that they will remain low. That's true if the Fed raises rates this year, next year, or if they hold off until 2017.

The interest rate guessing has led to market volatility, but the bull remains intact. Once before I said that stocks take an escalator up and an elevator down. In October, that escalator has been moving pretty fast.

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