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TPWC Market and Economic Update

The Markets

Despite headlines to the contrary, the S&P 500 Index (SPX) turned in another winning week, rising 2.13% to 2781.01. That rise puts it up just over 4% year-to-date and 7.7% from a year ago. The market jumped largely to its current level at the open on November 7 as soon as the news was announced that the election results put the Democrats in charge of the House and the Republicans remained in control of the Senate. Contrary to what many thought, the outcome was not as important as the fact that the campaigning was over. An interesting report was that investors and traders were pleased with the change of parties in the House because the chances of further tax cuts and the resulting increase in the national debt were likely to be on hold for at least the next two years. There is some evidence that the Treasury's increased borrowing is beginning to drive rates up whether or not the Fed raises them.

U.S. crude oil officially entered a bear market, down more than 20% from its October high point, turning in its longest losing streak in more than 30 years to close at $59.87. Despite the drop, it is still up nearly 10% from a year ago. A combination of increased output from Saudi Arabia and from U.S. fracking appears to have more than offset the Iranian oil embargo imposed by the United States.

Interest rates continued up as the U.S. 10-year Treasury note yield rose a tenth of a point to 3.182%, a quarter point higher than three months ago and 0.85% higher than a year ago. The good news is that the long end of the yield curve, the 20-year T-bond also rose to 2.8% keeping the yield curve sloped in the right direction and suggesting more good times ahead. Gold continued its decline, down almost 2% for the week and 9% year-to-date, closing the week at $1,208.60 (settlement price). The U.S. dollar (BUXX) moved, as it often does, in the opposite direction, up 0.38% for the week and 5.37% year-to-date against world currencies. Meanwhile, the dollar remains up about 7% against the Chinese Yuan this year, rising nearly one percent for the week to nearly 7 Yuan to the dollar.

The Economy

The Federal Reserve Board left interest rates where they were but noted that the economy is operating at or near full capacity, signaling for another rate hike in December. The Fed’s statement did not mention the recent stock market slump, suggesting the Board considered it a normal, minor correction. The Fed’s concern appears to be that the effects of import tariffs are just now beginning to show up in producer price increases and may soon filter through to consumer prices. Producer prices rose 0.6% last month which translates to a 7.2% annualized increase. It is too soon to tell if that was a transitory increase or something more, but those increased prices will either be passed on to the consumer, causing inflation to accelerate, or result in earnings declines. Only time will tell.

In a reverse of the U.S. administration’s expectations, China announced this week that total exports for October are up 15.6% from a year ago. Even exports to the United States, where the trade-tariffs should have had the most effect, were up 13%. Ironically, what did drop was imports from the U.S., down 1.8% from last year. Those figures suggest that the consensus of economists was correct in their forecast that the tax-cut generated demand in the U.S. would

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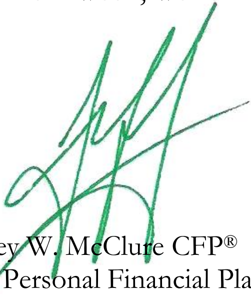
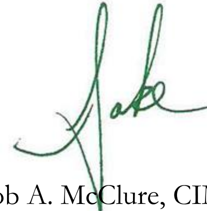
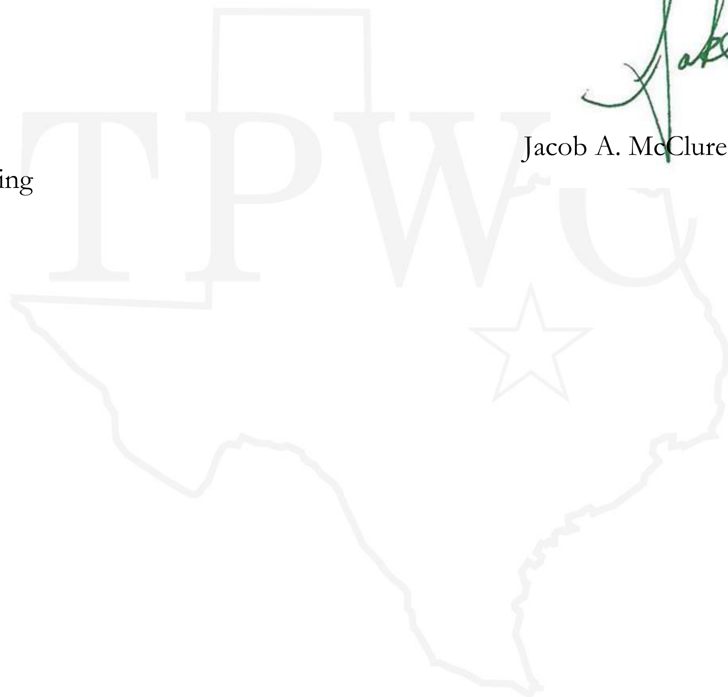
more than offset any tariffs as U.S. businesses and consumers have more money to spend than there are goods and services made domestically and would wind up increasing imports.

According to the Wall Street Journal, U.S. companies are warning that tariffs and a labor shortage are increasing costs and will cut into profits next year unless they aggressively raise prices. In the short-term, those are symptoms of a high-growth economy as consumer demand appears poised to accelerate into the holidays. The University of Michigan on Friday said its consumer sentiment index remains extraordinarily high at 98.3. With wage growth at the highest in nearly ten years and the unemployment rate at a 49-year low, the Fed has good reason to continue to raise rates. All these data are classic economic indicators of an economy running at an unsustainable rate.

Until next week, we remain your faithful servants,







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