A Trade Deal is Very Close. Again.

All three major U.S. stock indexes rallied to new highs today as the Chinese media reported China is prepared to increase penalties on intellectual property theft and better enforce the rights of U.S. companies doing business in China. Details were sparse, but it would be a major step forward in the negotiating process if U.S. companies were not forced to share their IP secrets. There are also reports from both sides that a phase one trade deal is “very close.” Having said that, stocks seem to take two steps forward on every glimmer of hope and a single step back on bad news. We’ve been “very close” many times. Both countries have ample motivation to hatch an agreement, but if the meat of the deal entails freezing tariffs at current levels and rolling back others while pledging to increase U.S. agricultural purchases back to levels of last year, the giddiness isn’t likely to last. Even if phase one of the illusive trade deal is signed, few expect phase two negotiations to be any easier in the future. In the meantime, fourth quarter GDP forecasts from the New York, Atlanta and St. Louis Federal Reserve banks are all well below +1.0%. With the holiday shopping season fast approaching, the U.S. consumer will be expected to shop heavily to drive economic growth in the absence of business investment. The recent stock market rally should help support confidence and counterbalance elevated consumer debt loads.

FOMC committee members all seem to be on the same page these days. The common phrase has been “the economy is in a good place.” This is likely code for the Fed has cut three times in three months with unemployment at a five-decade low and inflation very close to target, and now we plan to hold steady and see how it all plays out. However, with Fed rate policy being “data dependent” and the economic numbers showing signs of weakening, the pause might be an abbreviated one. The next couple of weeks will be critical with fresh ISM surveys and the November employment report highlighting an extremely heavy data release schedule.

Although the European economy is thought to be on shaky ground, European stocks don’t seem to care as the Euro Stoxx 50 index closed the day at 3,707, its highest level in nearly 12 years. Investors clearly have little appetite for negative yielding bonds, choosing instead to take their chances on equity investments with some perceived upside. This, despite the fact that the last recession drove the Euro blue chip index from an high of 4,490 on June 2007 to a low of 2,071 by March 2009.
Market Indications as of 2:45 P.M. Central Time

DOW Up 160 to 28,037 (NEW HIGH)
NASDAQ Up 106 to 8,626 (NEW HIGH)
S&P 500 Up 21 to 3,132 (NEW HIGH)
1-Yr T-bill current yield 1.58%; opening yield 1.56%
2-Yr T-note current yield 1.62%; opening yield 1.63%
5-Yr T-note current yield 1.63%; opening yield 1.65%
10-Yr T-note current yield 1.76%; opening yield 1.77%
30-Yr T-bond current yield 2.21%; opening yield 2.22%