

Fed Nomination Highlights Holiday-Shortened Week

It was a data-rich week in front of the Thanksgiving break, but the decision to renominate Fed Chair Powell was the key market event. It looked for a time that Lael Brainard, a Harvard-educated economist currently serving on the Fed Board of Governors might get the nod. This might have provided an opportunity for the Fed to pivot on its complacent inflation message, as well as the timing of the taper and rate hikes, without losing credibility. But Powell did a good job of holding the economy together during the pandemic, and probably deserves reappointment. Brainard was subsequently nominated for Vice Chair. The bond market apparently perceived Brainard as more patient than Powell, so the announcement of unchanged leadership had the effect of pushing market yields higher across the curve. At this point, the market has already priced-in multiple rate hikes for next year.

This morning's jobless claims report was about as stunning as weekly unemployment claims can be, with just 199k first-time filings for the week ending November 20th. This was a steep drop from 270k new claims in the previous week, and was actually the *lowest weekly count since 1969*. That being said, this might be another case of seasonal adjustment factors distorting, instead of smoothing the data, so analysts expect claims will move higher in the coming weeks. Still, businesses can hardly afford to lay-off workers, even temporarily, in an environment where there are so few applicants. The labor situation might be better reflected in *continuing claims*, which declined from 2.11 mm to 2.05 mm last week, *the lowest number receiving benefits since early April 2020*.

Also this morning, the Commerce Department announced the October trade balance unexpectedly narrowed by -14.6% to \$82.9 billion, well below the \$94.6 billion median forecast. Imports were up by just +0.5%, while exports jumped +10.8%. It's usually good news when the trade gap narrows, but in this case it has much to do with the inbound port traffic jams and less congested outbound trips. Still, improved exports should boost GDP growth in the fourth quarter.

Third quarter GDP was revised upward from +2.0% to +2.1% as consumption was a bit stronger than previously reported. However, the GDP price index was a bit more compelling as it was revised upward from +5.7% to +5.9%. Also on the inflation front this morning, the PCE deflator was up +5.0% year-over-year in October, while core PCE was up +4.1%. Neither of these increases were a surprise, but price pressures remain front and center, and continue to pressure market yields.

Personal income rose +0.5% in October, after tumbling -1.0% in September. Blame for the September income drop was the expiration of federal pandemic unemployment benefits, while the October bounce was the result of higher wages. Personal spending rose +1.3% in October, following a +0.6% increase in September. When adjusted for inflation, October personal spending rose by a solid +0.7%. The personal saving rate slipped from 8.2% to 7.3% in October, and is now near the pre-pandemic norm. As savings dwindle, more Americans should be incentivized to return to work.

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New home sales were up just +0.4% in October to an annualized pace of 745k, but the September pace was revised downward from 800k to 745k. New homes make up about 10% to 12% of all sales, but could easily step much higher if builders could only find the workers.

Earlier this week, existing home sales rose +0.8% in October to a 6.34 million annualized unit pace, slightly above forecast. On a year-over-year basis, existing homes sales are down -5.8% according to data from the National Association of Realtors. First-time buyers represented 29% of all sales, down from 32% a year ago, while investors represented 17% of sales in October, up from 14% a year ago. The median sales price climbed to \$353,900, up +13.1% from a year ago. Homes selling below \$250,000 fell by -24% over the past year, while homes selling for a million or more rose by +31%. *First-time buyers have historically been clustered in the lower tier.*

The inventory of unsold homes currently stands at 1.25 million; that's -12.1% below a year ago. Builders are aware of the depleted inventories, and should be incentivized by market demand and price, but continue to face multiple hurdles.

With demand outpacing supply in most sectors of the global economy, an overabundance of unfilled jobs and wages on the rise, inflation may be stickier than most thought a month or so ago. Short yields have spiked in anticipation of a more aggressive Fed. So far, Fed officials have not confirmed the market's take. This afternoon's release of the November FOMC meeting minutes could offer some insight, but more likely investors will have to wait another few weeks until the December 15th FOMC meeting when Powell will face some tough questions.

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Market Indications as of 10:58 A.M. Central Time

DOW	Down 108 to 35,706 (HIGH: 36,432)
NASDAQ	Up 22 to 15,797 (HIGH: 16,057)
S&P 500	Down 3 to 4,688 (HIGH: 4,705)
1-Yr T-bill	current yield 0.21%; opening yield 0.17%
2-Yr T-note	current yield 0.64%; opening yield 0.61%
3-Yr T-note	current yield 0.96%; opening yield 0.94%
5-Yr T-note	current yield 1.34%; opening yield 1.34%
10-Yr T-note	current yield 1.65%; opening yield 1.66%
30-Yr T-bond	current yield 1.99%; opening yield 2.02%

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