Bond Rally Continues, Despite Resilient Economic Data

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Retail sales were surprisingly solid in November as U.S. consumers shook off heavy debt burdens and shrinking savings to spend heartily at the start of the holiday buying season. The total value of consumer purchases rose +0.3% last month, well above the -0.1% median forecast, and a notable rebound from a revised -0.2% decrease in October.

The retail sales "control group," which excludes autos, gasoline, food services and building materials (and is used to calculate GDP) rose +0.4% in November, double the median forecast. The previously reported +0.2% October control group increase was revised downward to *unchanged*.

Consumer purchases were widespread last month as eight of 13 spending categories logged gains. Sales at eating and drinking establishments (the sole service-sector representative in the report) climbed +1.6%. Other positive contributions were made in sporting goods (+1.3%), online sales (+1.1%), furniture (+0.9%) and motor vehicles (+0.5%).

Falling pump prices dragged gasoline station sales lower (-2.9%), while increasing online preference weighed heavily on department store sales (-2.5%). Electronics and appliance store sales fell -1.1%, which probably reflects both lower prices and consumer reluctance to spend on big ticket items.

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In other news from this morning, initial jobless claims (first-time filings for state unemployment benefits) registered an eight-week low of +202k during the first full week of December, while continuing claims (ongoing benefit recipients) came in slightly below forecast.

The import price index fell -0.4% in November, better than the forecasted -0.8% decline. When gasoline is excluded, this inflation index was actually up +0.2%, well above the forecasted -0.2% drop.

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Virtually all of this morning's economic releases might normally have prompted a market sell-off; retail sales were higher, continuing claims were lower and import prices (although clearly trending down) weren't as cool as expected. *However*, in early trading, the bond market rally that reaccelerated yesterday has continued to run.

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surprise. The Fed's recent dot plot had indicated three rate cuts in 2024; at this point, the bond market has priced in six.

Investor sentiment shifted weeks ago, but as former New York Fed President Bill Dudley told Bloomberg TV yesterday, Powell's remarks "added fuel to the fire."

Market Indications as of 9:54 A.M. Central Time

DOW	Up 103 to 37,194 (NEW HIGH)
NASDAQ	Up 56 to 14,790 (HIGH: 15,871)
S&P 500	Up 12 to 4,719 (HIGH: 4,797)
1-Yr T-bill	current yield 4.91%; opening yield 4.90%
2-Yr T-note	current yield 4.38%; opening yield 4.41%
3-Yr T-note	current yield 4.09%; opening yield 4.14%
5-Yr T-note	current yield 3.90%; opening yield 3.96%
10-Yr T-note	current yield 3.93%; opening yield 4.02%
30-Yr T-bond	current yield 4.07%; opening yield 4.18%