Markets Rally on Easing Price Pressures

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

A key inflation measure showed unexpected cooling in November, sending bond yields lower across the maturity curve. Earlier this week, Fed officials had indicated inflation would remain elevated for longer. This concern, along with a correspondingly lower interest rate forecast, prompted a dramatic market selloff Wednesday afternoon. This morning's report suggests the path of inflation (for the time being anyway) is still downward. Stocks and bonds have responded positively in early trading.

The overall Personal Consumption Expenditures (PCE) index rose by just +0.1% last month, below expectations for a third straight +0.2% gain. On a year-over-year basis, PCE came in slightly below forecast at +2.4%. More importantly, core PCE rose just +0.1% in November, *the coolest since May*, and +2.8% year-over-year, slightly below forecast.

Core goods prices signaled *deflation* for the first time since August with a -0.1% decline. Core services, which exclude energy and housing (*and have decreased only six times in the past 15 years*) rose just +0.2%, the smallest increase since May.

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In other not-so-good news, the clock is ticking on a possible government shutdown as the House overwhelmingly voted to reject the latest short-term funding package, which included a suspension of the debt ceiling. The idea of raising the nation's borrowing limit when the incoming administration hopes to slash federal spending, seems to be a major sticking point. Incoming President Trump, in an early morning social media post, demanded that Congress get rid of the debt ceiling, or extend it through 2029. The fact that 38 Republicans voted against the proposal has raised eyebrows.

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It isn't clear that a compromise will be reached by tonight's midnight deadline. If non-essential government functions cease early tomorrow, hundreds of thousands of federal employees will be furloughed while essential workers including military, federal law enforcement, border security and air traffic control will be forced to work without pay until a bill is passed. The processing of social security checks (considered essential) will continue without delay to 73 million Americans, although there may be delays for new recipients. The post office would not be affected since it's self-funded, while most day-to-day services are funded and provided at the local level.

A brief shutdown shouldn't have a measurable effect on economic growth, although a longer closure will eventually weigh on GDP and presumably market confidence.

Market Indications as of 10:31 A.M. Central Time

DOW	Up 627 to 42,969 (HIGH: 45,014)
NASDAQ	Up 272 to 19,645 (HIGH: 20,174)
S&P 500	Up 70 to 5,937 (HIGH: 6,090)
1-Yr T-bill	current yield 4.25%; opening yield 4.25%
2-Yr T-note	current yield 4.30%; opening yield 4.32%
3-Yr T-note	current yield 4.30%; opening yield 4.33%
5-Yr T-note	current yield 4.36%; opening yield 4.41%
10-Yr T-note	current yield 4.51%; opening yield 4.55%
30-Yr T-bond	current yield 4.70%; opening yield 4.73%

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