Weekly Market Insights

Dow Jones: 21797 YTD +12.28% | **S&P 500:** 2461 YTD +11.50% | **NASDAQ:** 6360 YTD +19.12%

September 11, 2017

A Sad Anniversary, a Terrible Storm, a Political Deal, a Regrettable Retirement, and an Astonishingly Resilient Market

This is the sixteenth anniversary of the terrible events of 9-11. It was a savage wake-up call, and we shouldn't allow the human tragedy or the dangers that lurk to fade from our collective memory.

Over the weekend Hurricane Irma made landfall in Florida. It wasn't quite as devastating as it might have been, but it certainly was bad. We won't know just how bad for a while, but we do know that the human and financial damage will be enormous.

The holiday-shortened week started off with a bang. The Dow Jones fell 234.25 on Tuesday, the first trading day of the week, but proved resilient and recovered most of the loss ending the week with a relatively small loss of .86. Investors are never happy with losses, but by the end of the week most gave a sigh of relief.

Donald Trump surprised the political and financial world by making a deal with the Democratic leadership Chuck Schumer and Nancy Pelosi to avert a government shutdown, prevent a U.S. default and start funding for hurricane victims. This act continues to alienate the Republicans in both Houses from the President and is unlikely to endear him to the Democrats. So much for ideology. The threat of default and government shutdown is certainly not over. The deal struck by Trump and the Democrats is temporary and comes to an end in December. This creates a minor crisis for Republicans running for office in the mid-term elections. There may be no room for them to compromise. Congratulations to Chuck and Nancy!

The Federal Reserve lost one of its most gifted members last week. Vice Chair Stanley Fischer submitted his resignation. Dr. Fischer has a towering intellect and enormous expertise in monetary policy and crisis management. He will be sorely missed. It will be very interesting to see the new composition of the Fed. There will be four openings.

When writing about the Fed, it is easy to make a transition to the dollar and monetary policy. The U.S. dollar has been losing value for some time now. There are both good and bad reasons for this. One obvious reason is the economic recovery from the great recession has not been completely synchronized among countries. Economic theory tells us that as a country's economy gains strength versus other country's economies, the faster growing country's currency gets stronger. The U.S. led the recovery from the great recession while Europe and Japan lagged. This could not last forever so as other countries' economies started to catch up their currencies did the same. This is to be expected and is perfectly fine. In fact it makes perfect economic sense. With a strong dollar U.S. exports were suffering, but as the dollar fell it became sort of an economic stabilizer and U.S. exporters benefitted. But the dollar has fallen far more and faster than one would expect. The question is why. One obvious answer is the perceived turmoil in Washington. Another is confusion about the direction of the Fed. Will they tighten and/or will they start to reduce their balance sheet? Markets and investors abhor confusion and confusion reigns at the moment. We remain in the camp that the Fed will raise interest rates one more time and start to reduce their balance sheet before the end of 2017. There are many other questions that make investors and analysts nervous: Why is there no inflation? What has happened to productivity? Are extraordinarily low interest rates here for a very long time? We will try to get to them next week. There are some very interesting and, as you may expect, contradictory theories.

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The Week Ahead:

- **MONDAY:** Russia GDP for 2Q y/y expected at 2.5%, Italy Industrial Production m/m expected at -0.40%
- **TUESDAY:** UK CPI m/m expected at 0.50%, Japan PPI m/m expected at 0.10%
- **WEDNESDAY:** Germany CPI m/m expected at 0.10%, EC Industrial Production SA m/m expected at 0.10%
- **THURSDAY:** US CPI m/m expected at 0.30%, US CPI Ex Food and Energy expected at 0.20%
- **FRIDAY:** US Retail Sales Advance m/m expected at 0.10%, US Retail Sales Ex Auto and Gas expected at 0.30%, US Business Inventories expected at 0.20%