



Mixed signals, more records and a search for a Fed chair.

The equity markets continued to make new highs during the past week. New records in the financial markets are occurring with such frequency that we are in danger of having investors believe this is the norm and any down draughts are merely buying opportunities. The problem, of course, is sometimes they are, but that one time when it is not can be pretty devastating. This cautionary tale isn't meant to keep investors out of the market, but to be cautious and not to get caught up in the excitement by making moves that one wouldn't ordinarily do. In other words investors should keep their goals and parameters firmly in mind.

The economic reports last week were a mixed bag. But the bad news, primarily the loss of jobs, can be attributed to the natural disasters which we are all too familiar with. The confusion is based on the seeming contradictory employment reports. There is a very sound reason why the two labor reports differ. The loss of jobs is done by a survey of businesses, while the strong report on unemployment is done by a survey of households. In the former, employers are asked about payrolls. In the case of a hurricane many workers can't get to work or the business is closed and employees are not paid so employers count them as unemployed. In the latter, household members are asked if they are employed. Since they know that they do have jobs, they just aren't being paid at that time and they say they are employed. The latter is clearly the most accurate. Along with those statistics, wage growth appears to be accelerating. Wage growth has been reported to have been quite sluggish during this recovery. Real wages don't seem to have been all that slow. Inflation has been almost nonexistent so most of any increase in wages is new income. Households have been able to increase their balance sheets to a remarkable level and consumer spending, although not great, has been steady. This is not to say all is great for the consumer, just perhaps not quite as bad as reported.

Which leads us to the Federal Reserve. There is nothing in the past week's economic releases to change our view that the Fed will raise interest rates in December and reduce their balance sheet. We have written often about this and how at some time they must reduce their bloated balance sheet. It is better to do it when the economy can easily withstand it.

Mr. Trump is now thinking about who to appoint as the new Fed Chair. There is plenty of speculation. One choice is to reappoint Ms. Yellen to another term. This would be in keeping with tradition. Most Fed Chairs have served two terms. Mr. Trump appears to want to keep rates low and Ms. Yellen, a labor economist, would likely fit that requirement. She might fail in that Mr. Trump is anti-regulation and Ms. Yellen is more pro regulation. Kevin Warsh is a sitting Fed governor and not an economist. His father in law, Ron Lauder, is heir to the Lauder fortune, a friend of Trump who has lobbied hard for him. Gary Cohn has lots of experience as Co-head of Goldman. He is bright and has experience running a group of independent minded people. John Taylor is a very interesting choice. He is a well-known and respected Stanford economist, a true expert on monetary policy and is a strong proponent of a rule based monetary policy, very controversial. A very interesting choice. Larry Lindsey is another respected economist. He is bold and perhaps, like Larry Summers, not the best politically.



Those are just a few. We will continue to profile them and, as speculation narrows, go into more detail.

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#### The Week Ahead:

- **MONDAY:** Germany Industrial Production SA m/m expected at 0.90%; EC Sentix Investor Confidence expected at 28.5
- **TUESDAY:** France Industrial Production m/m expected at 0.40%; UK Industrial Production m/m expected at 0.20%; Japan Core Machine Orders m/m expected at 1.00%
- **WEDNESDAY:** US FOMC Meeting minutes; UK RICS House Price Balance expected at 4%; Japan PPI m/m expected at 0.20%; US JOLTS Job Openings expected at 6160
- **THURSDAY:** Canada New Housing Price Index m/m expected at 0.30%; US PPI Ex Food Energy Trade m/m expected at 0.20%; US Initial Jobless Claims expected at 252k
- **FRIDAY:** US CPI m/m expected at 0.60%; US Retail Sales Ex Auto m/m expected at 0.90%; US Business Inventories expected at 0.60%