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Citizens SAVINGS & LOAN ASSOC., FSB

Weekly Economic News & Updates

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CELEBRATING 135th ANNIVERSARY 1884-2019 Strong, Stable and Staying that way

Market Update: Week in Review

The hot and sultry "dog days of summer" are upon us. And depending on where one is, they're here with a vengeance. But that old expression, like much of the communication coming from the Fed these days, is often misunderstood. The actual origin of the "dog days" description has more to do with astronomy than it does with meteorology. It just so happens that Sirius, the Dog Star, can be seen rising in the northern hemisphere following the summer solstice. But that doesn't mean it's hot everywhere.

So, when New York Fed President John Williams delivered an exceedingly dovish speech yesterday to the Central Bank Research Association, lots of rate gazers took his remarks as an indication that a Fed Funds cut of as much as 50 basis points could be on the horizon. Mr. Williams made a celestial reference of his own when he told his audience that r-star, the real neutral rate of interest, is somewhere around half-a-percent. That's lower than at anytime before the Great Recession, and lower than the current level of around 90 basis-points. If current interest rates were higher, Mr.Williams argues, the Fed would have the luxury of taking small, incremental steps in order to gradually provide accommodation. But he goes on to say, "When you only have so much stimulus at your disposal, it pays to act quickly to lower rates at the first sign of economic distress." With passages like that one, along with actual references to deflation, it's no wonder that most listeners concluded that a bigger-than-expected cut was coming.

But, that doesn't mean we shouldn't believe what the Beige Book tells us. Unfortunately, that Federal Reserve aggregation of regional conditions hardly ever tells us anything, and this month's edition was no exception. But, yesterday's Philadelphia Fed's Business Outlook Survey Diffusion Index of General Conditions might as well have been a dog whistle based on the way it perked up investors' ears. That measure of C.E.O. attitudes had its biggest jump in a decade with its leap to 21.8 from just barely above zero. It is VERY sunny in Philadelphia. It's a little less sunny in the Wolverine State, but the University of Michigan's Index of Consumer Sentiment still managed a small boost to 98.4 from 98.2. That was slightly less than expected, but only by those who expected too much.

WEEKLY QUOTE
"If we could read the secret history of our enemies, we should find in each one's life sorrow and suffering enough to disarm all hostility" ~ Henry Longfellow

WEEKLY TIP
Beware of altering your investment mix in response to anxieties or short-term market fluctuations. Remember your time horizon and big-picture goals.

WEEKLY RIDDLE
I'm a word that's hardly there. Take away my start, and I'm on herbal flair. What am I?

Last week's answer:

A Tombstone

Sources: MarektingPro, Financial Strategies Group, The Baker Group, wsj.com, bigcharts.com, treasury.gov, Randy Baker and Chris Low and Rebecca Kooshak FTN Financial
Please feel free to forward this newsletter to friends, family and colleagues.

If anyone was expecting Housing Starts to rise, they were expecting too much. The drop of 0.9% in new starts looks mild, though, compared to last month's 6% plunge in Building Permits. Earlier in the week, we learned that the New York Fed's Empire Manufacturing Index un-plunged from it's negative 8.6 June level to a robust 4.3 in July. And if that won't get some tails wagging, maybe June's report on Retail Sales will. Last month's rise of 0.4% was twice what was expected, but raises questions about just how long consumers can keep it up. And what happens if consumers get wind of Mr.Williams deflation fears? Oh wait, those are just academic fears; move along everyone.

It's becoming clearer and clearer that international trade isn't doing much to move the inflation needle along. Import Prices fell 0.9% last month while Export Prices fell 0.7%. Something else that fell this week were yields in the short-end. At the moment, 90-day bills and Ten-Year notes will both get you 2.04%. The yield curve is looking more and more like a view of the horizon from Lubbock. Does that mean the market is giving more credence to John Williams than to John Williams' spokesperson? Hard to say; some things only dogs can hear. Have a great weekend; be careful out there.