

In this week's recap: the Fed disappoints the markets, more homes move, consumer spending and sentiment look solid, and oil falls.



Weekly Economic Update

December 24, 2018

FED FAILS TO CALM WALL STREET

Federal Reserve policymakers voted unanimously last week to raise the benchmark interest rate by another 0.25%, putting the main overnight lending rate in the 2.25-2.50% range. Investors hoped for a hint of a pause in the Fed's tightening plans, yet no such signal emerged. The central bank's latest dot-plot showed a consensus projection of two hikes rather than three next year, but at the press conference following the rate move, Fed chairman Jerome Powell commented that monetary policy "does not need to be accommodative," and noted that the Fed would continue to thin its balance sheet by up to \$50 billion per month. Stocks dropped significantly in the wake of those statements. During an abysmal week for equities, the Dow Industrials fell 6.87% to 22,445.37; the Nasdaq Composite, 8.36% to 6,332.99; the S&P 500, 7.05% to 2,416.62.^{1,2}

LATEST KEY HOUSING INDICATORS LOOK BETTER

The National Association of Realtors just reported a 1.9% gain for existing home sales in November; that follows a 1.4% October increase. In addition, builders started more projects last month. The Census Bureau said that groundbreaking improved 3.2% in November as the pace of building permits picked up 5.0%.³

ON MAIN STREET, THE DATA IS GOOD

Households boosted their spending by 0.4% in November, according to the Department of Commerce; October's gain was revised to 0.8%. The final December University of Michigan consumer sentiment index (released Friday) showed a reading of 98.3, which was 0.8 points higher than its preliminary mark for the month. Analysts polled by MarketWatch had projected a final December reading of 97.2.^{3,4}

OIL SETTLES UNDER \$46

WTI crude also had a tough time last week. Futures settled down at \$45.59 on the NYMEX Friday. Oil fell 11% week-over-week, a slide aided by a Baker Hughes report showing a jump in the number of active rigs.⁵

TIP OF THE WEEK



If you receive an email about your taxes from the Internal Revenue Service, chances are it is fake. As a rule, the I.R.S. does not initially contact people about tax issues over the Internet.

THIS WEEK

U.S. stock and bond markets wrap up their trading sessions early on Monday, with no significant economic news scheduled. | Tuesday, all U.S. financial markets are closed for the Christmas Day holiday. | The October S&P CoreLogic Case-Shiller Home Price Index appears on Wednesday. | Thursday brings the Conference Board's December consumer confidence index, the November new home sales snapshot from the Census Bureau, and a new initial jobless claims report from the Department of Labor. | The National Association of Realtors presents its November pending home sales index on Friday.

QUOTE OF THE WEEK



"You can't help someone get up a hill without getting closer to the top yourself."

NORMAN SCHWARZKOPF

MARKET INDEX	Y-T-D CHG	1-MO CHG	1-YR CHG
DJIA	-9.20	-7.58	-9.42
NASDAQ	-8.26	-8.73	-9.08
S&P 500	-9.61	-8.20	-9.98

REAL YIELD	12/21 RATE	1 MO AGO	1 YR AGO
10 YR TIPS	1.02	1.09	0.55

Sources: wsj.com, bigcharts.com, treasury.gov - 12/21/18^{2,6,7,8}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

10-year TIPS real yield = projected return at maturity given expected inflation.

THE WEEKLY RIDDLE



It is known for its aggressive styling and performance, yet its name contains the name of a gentle mammal. What make of car is it?

LAST WEEK'S RIDDLE: Dave says that the small city he lives in has a municipal building with more than a hundred stories. What building is this?

ANSWER: The library.

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