A Week at the Opera

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After a rough and tumble October—mostly tumble—markets steadied late in the month and carried that momentum into the start of November. Sentiment got another temporary pop Friday on a conveniently timed item that President Trump had instructed his Cabinet to draft up a possible trade deal with China, ahead of his meeting with President Xi a month from now at the G20 meetings. Many an eyebrow arched over this news, coming four days before the midterms, and it soon was denied. The trade spat remains arguably the **single biggest tail risk to the outlook**. Even with a retreat Friday morning, the broadest **market averages finally broke a five-week losing streak**, as the Wilshire 5000 managed to rise nearly 3% after a full-blown 10.6% correction (from the record close on Sep 20, to Monday's low). But the stock market's gains were the bond market's loss, as yields backed up across the curve amid the rally in risk assets and generally solid U.S. data.

Friday's rock-solid employment report capped off a string of strength, with the notable exception of a so-so ISM reading for manufacturing (57.7 in October). The latter was a theme globally, as the previously-expanding trade war was a key figure in dampening a variety of PMIs last month—notably in Asia, but also in Europe. On the domestic side of the ledger, U.S. growth is still quite clearly humming. Even amid the equity market correction, consumer confidence hit its highest level last month since the boom year 2000, at least according to the Conference Board (whose metric famously tends to be driven more by jobs than stocks). In a similar light, auto sales kept clicking at a 17.6 million pace in October, up both from the prior month and the lofty average of 17.3 million over the past three years.

With jobs behind us, and the markets seemingly steadying heading into a highly favourable seasonal period for stocks, the **focus will now fall squarely on Tuesday's midterm elections**. For our full review, see this week's *Focus*, but, suffice it to say that the market has been largely building in a split-decision result for months now (House shifts to Democrats, Senate stays Republican—but neither is locked down). One intense area of concern for the neighbours is whether that at all imperils the fate of the USMCA—the risk is that the trade deal becomes a pawn in a much bigger chess war.

Beyond the midterms, it's a very sparse week for key economic data, although we *do* have a little-noted **FOMC meeting on Thursday**. While Chair Powell has tried to emphasize that every meeting is live, this one conjures memories of a particular parrot from Monty Python (i.e., most definitely not live). Nevertheless, in honour of today's movie release on the story of ***Freddie Mercury and Queen***, we consider below how things *could* play out if the meeting actually were live…

Bankerian Rhapsody

(Scene I: FOMC Meeting, November 8)

Is this the real thing?
Is this just the economy?
Caught in a sell-off
No escape from reality
Open your eyes
Look up to the skies and see
I'm just a Fed Chair, I need no sympathy
Because rates should rise, growth should slow
The jobless rate, little low
Anyway the Dow goes, doesn't really matter to me, to me

Markets, just hiked again
Put a press release to bed
Pulled the trigger, now it's read
Markets, my term had just begun
But now I've gone and thrown it all away
Markets, ooo, didn't mean to make you sigh
If I'm not back again this time next year
Carry on, carry on, as if nothing really matters

Too late, my time has come
Sends shivers down the dollar's spine
Bonds aching for some time
Goodbye everybody I've got to go
Gotta leave you all behind and face Congress
Markets, ooo (anyway the Dow goes)
I don't want to step down
I sometimes wish I'd never been nominated at all

(Scene II: Testimony to Congress, December 5)

I see a little silhouetto of wage growth
Scary markets, scary markets, will oil do the contango
Quantitative tightening, very very frightening me
Going Loco, Going Loco,
Going Loco, Going Loco,
Going Loco, Figured so - magnifico

But I'm just a Fed Chair and nobody loves me
He's just a Fed Chair from the FOMC
Spare him his job from this monstrosity
Rates can rise, rates can fall, will you let me make the call
Businesses! No we will not let you hike - let him hike
Businesses! We will not let you hike - let him hike
Businesses! We will not let you hike - let me hike
Will not let you hike let me hike (never)
Never let you hike let me hike
Never let me hike ooo
No, no, no, no, no, no, no
Oh mama mia, mama mia,
mama mia let me hike once more
Bernanke and Yellen would have had the same policy
Policy… Policy!!

(Scene III: President enters, in high dudgeon, later that day)

So you think you can tighten and spit in stocks' eye
So you think you can invert the curve
and leave housing to die
Oh Jay P, can't do this to me Jay P
Just gotta get out just gotta get right outta here

Ooh yeah, ooh yeah, Rates must get to neutral
Anyone can see
Rates must get to neutral, not else really matters to me

Anyway the Dow goes

Now that you have been subjected to that, and possibly left with an earworm for the day, here's some trivia on that 1975 classic piece of prog-rock/operetta. Bohemian Rhapsody, at almost 6 minutes in length, never did manage to make it to number 1 in the U.S., neither initially nor upon its revival in Wayne's World in 1992. However, it handily reached those ranks in Canada and the U.K. (where it did it both times, and is often rated as one of the most popular rock songs ever). Even its video was ground-breaking and well ahead of its time, landing seven years before MTV was on the airwaves. Here's guessing that the song has another comeback alongside the new movie. Admittedly, I may be a tad biased, being a serious Queen fan all the way back to the days *before* this song was a twinkle in Freddie's eye.

As for the real Fed, the market has about as close to a zero chance for a rate hike next week as imaginable, but is almost fully locked in for a December hike, and two more next year. At this point, we concur on December, and **are still leaning to three more moves in 2019**, which would take rates to a 3.00%-to-3.25% range by end-19, listing a bit to the high side of neutral.