Weekly Market Review

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The Week Ending December 15, 2017

The Fed followed through with the anticipated 0.25% Fed Funds rate hike this past Tuesday. This was the third rate hike of the year leaving the target Fed Funds Rate range from 1.25% to 1.50%. But as the Fed pushed up the short end of the curve, mid to longer-term rates fell, leading to a flattening the yield curve. This reflects the market's expectation for inflation to remain low for the immediate future. But from the Fed's perspective, things are looking pretty good. We have modest economic growth, low unemployment, and upward movement on wage growth. However, we've had very little inflation which is leaving central bankers a bit puzzled. Some believe the new tax policy will be a shot in the arm for wages, and at least a short-term boost for the U.S. economy, giving the Fed leeway to tighten more. Nonetheless, they need to press on with the tightening to provide themselves with room to ease in the future when the next economic downturn inevitably comes.

Now that tax reform looks like a done deal, Congress will focus their vitriol on battling over the Federal budget. Liberals want a deal to protect "Dreamers" who are afraid they'll be deported, Conservatives want a huge increase in defense spending, and many Moderates are pushing for aid for health insurers. Experts think that Congress will avoid a potential shutdown that could occur this Saturday morning (December 23rd). By mid-January, we could see a potentially lengthy shutdown as politicians seem to be miles apart on the previously mentioned issues.

Bitcoin continues to dominate headlines. On Sunday, the Chicago Mercantile Exchange (CME) became the second reputable exchange, CBOE being the other, to offer a futures contract based on the value of Bitcoin. TD Ameritrade, a very large retail broker, announced last week that they would allow certain clients of theirs to trade the CBOE futures. Bitcoin's price went from about $13,500 last weekend to as high as $17,500 during the past week.

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