

J E R E M Y
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Fed to Hike in December; Trump Closing the Gap

Friday, 11:55 p.m. EDT

As I predicted last week, the Fed used this week's FOMC meeting to tee up a December rate hike, and the data we received from the labor department this morning did nothing to change that forecast. Although the overall change in payroll came in a bit light, there was a 44k upward revision in the last two months numbers, the unemployment rate ticked down, as expected, one tenth. Hourly wages rose 4 tenths, a tick above expectations and led to a year over year growth of 2.8%, the strongest since the Great Recession and a number the Dems are likely to tout in the waning days of this presidential election. Also, the U6 inclusive unemployment rate fell to 9.5%, the lowest in 8 years. This is a number that Yellen has frequently noted is an important indicator of labor market slack. To be sure, there is another employment report before the next FOMC meeting, and of course, the results of the general election could generate market volatility. But today's developments keep the Fed right on track for a December hike.

Speaking of the election, the presidential race has certainly tightened this month although Clinton's polls today are a bit better. Yesterday the trend became very worrisome for Clinton as polls in New Hampshire, once considered fairly safe for HRC tipped to Trump. New Hampshire is a state included in Clinton's "firewall," which she must win if she loses such swing states as Florida, North Carolina, Iowa, and Nevada. Polls in the firewall states had long been running in Clinton's favor. Nate Silver's website gives HRC a 2-1 edge as it does for the Dems to control the Senate. No outcome is now certain.

Risk markets have been under pressure from the election uncertainty all week. The VIX is now trading near 22, which I say is an encouraging sign for the equity markets. It means that most of the decline has been due to hedging against a Trump victory. It also means that if Hillary wins there could be a significant "relief" rally.

As a final word, Friday night, after the Cubs staved off elimination by winning game 5 of the World Series against the Cleveland Indians, Nat Silver was asked what the probability The Clubs would break the century old curse and actually win it all. He responded that his computer models said that the probability that Chicago could win the final two games in Cleveland and become World Champions was about one in four, virtually the same as Trump winning the presidency. Today Clinton's odds of winning are down to 2-1. At this point, the probability that Trump will be President is almost the same a flipping a fair coin 3 times and coming up with precisely two heads and one tail.