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DB Not a "Lehman Moment;" Hillary Bounces

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The Financial Crisis of 2008-09 was the most significant economic event in this generation. It is not surprising that the "Ghosts of Lehman Brothers" are difficult to purge from investors' memories. Lehman's failure set in train a set of events that we have not seen since the Great Depression of the 1930s. Nevertheless, the current troubles of Deutsche Bank, Europe's largest, will not morph into a "Lehman Moment." This is not because I am privy to the details of DB's balance sheet, but I know that Mario Draghi, head of the ECB and Angela Merkel will not let the bank fail and will provide whatever liquidity is need to stem any contagion. In fact, yesterday's midday sell-off on rumors that hedge funds were abandoning the DB provided a buying opportunity for risk assets..

In other news, Hillary Clinton definitely received a good bounce from her debate performance. Nate Silver's "polls now" forecast now gives HRC nearly a 3-1 chance of defeating Trump, up from essentially a dead heat before the debate. She has regained a very slight lead in Nevada, North Carolina, and Florida from Trump. These are "cushion states" for Hillary; she does not need them, but if she takes any one of them, she is a virtual lock for the presidency. With this shift, Silver rates the Dems chances of taking over the Senate at 2-1, increasing from a slight underdog a week ago. Remember, the "Polls Now" forecast is very volatile. Four years ago Romney was deemed to have won the first debate by an even greater margin then HRC, but lost the next two and of course lost the presidency by a fair margin. Trump has a chance to redeem himself a week from this Sunday (the VP debate Tuesday is unlikely to move the needle). If he doesn't, his chances look very bleak.

Real GDP growth for Q3, which ends today, is centering around 3%. With the better-than-expected trade figures for August even Goldman – long the pessimist -- capitulated and moved its estimate from 2% to 3%. This morning, personal spending for August came in slightly below expectations, but the PCE deflators were at or near expectations. Next Friday is the labor report, with the early estimate being a gain of 170k jobs and unemployment rate remaining at 4.9%. But the September jobs report has nowhere near the drama that the August report had, the latter coming just before the critical September Fed meeting. There are 3 more employment reports before the Fed meets in December and much can happen. I reiterate my call: Unless there is significant turbulence in the markets, the Fed will move in December. But what will happen after that is anyone's guess. The Fed's next move will depend on how the market and the economy digests the second rate hike since the Lehman Crisis.
