MORNING MARKET COMMENTARY
Tuesday, October 23, 2018

	Yesterday end of day	Previous end of day
Fed Funds (open)	2.18%	2.17%
3- Month T-Bill	2.25%	2.27%
6-Month T-Bill	2.40%	2.41%
1-Year T-Bill	2.57%	2.58%
2-Year T-Note	2.866%	2.904%
10-Year T-Note	3.167%	3.190%
30-Year T-Bond	3.349%	3.372%
1-Month LIBOR	2.27975%	2.28188%
	This Week	Last Week
3-Month T-Bill Auction	2.346%	2.315%
6-Month T-Bill Auction	2.489%	2.479%
1-Year CMT	2.68%	2.67%
2-Year CMT	2.92%	2.85%
3-Year CMT	2.99%	2.94%
5-Year CMT	3.05%	3.01%
Dec 2018 Hike Prob	75.3%	77.2%

October 23, 2018: U.S. Growth Engine Looks Able to Power Past Stock Market's Woes (Bloomberg)

Despite a slump in equities and gains in the dollar, few economists are concerned that broad financial conditions will strangle the second longest U.S. economic expansion on record.

Goldman Sachs Group Inc. has one of the gloomier outlooks and forecasts the the recent decline in equity markets, as well as Federal Reserve interest-rate increases and a stronger greenback, will trim growth by about three-quarters of a percentage point by mid-2019, according to economist Daan Struyven. His outlook assumes stock prices remain steady. Other economists expressed were not convinced that overall financial conditions had tightened significantly in recent months. And by some measures, including Goldman Sachs' own index of financial conditions, they are looser now than when the Fed started raising rates in December 2015 in order to rein in the economy.

"The real question is whether the Fed unleashes forces it then loses control of and financial conditions are tightening more substantially than they would have liked," said Stephen Stanley, chief economist at Amherst Pierpont Securities LLC in New York. "That doesn't seem like a huge risk at this stage."

That may help explain why Fed officials have been slow to express concern over recent stock market woes or the dollar, which has appreciated by more than 3 percent his year. While central bankers say they're sensitive to sharp movements in financial conditions, their reaction to this months' decline in equity prices was typified by the muted response from Chicago Fed President Charles Evans.

"So far this all seems modest," he said on Oct. 12, when the S&P 500 was coming off a six-day losing streak.
The term financial conditions refers to a handful of factors -- typically including equity prices, foreign-exchange values, credit spreads and sometimes commodity prices -- that can influence economic growth. The Fed lowers and raises short- term interest rates in the hope of affecting those conditions and nudging the economy to slow down or speed up. But the transmission is imperfect, and other factors such as fiscal policies or global economic conditions can play a role.

Economists also have any number of individual methods for interpreting fuzzy indicators of future economic activity. Michael Gapen, chief U.S. economist at Barclays Plc, said he likes to separate signs of "financial stress," like bond spreads and volatility, from longer-term conditions more closely related to monetary policy.

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