Fed hikes rates for ninth time; equities see sharp correction

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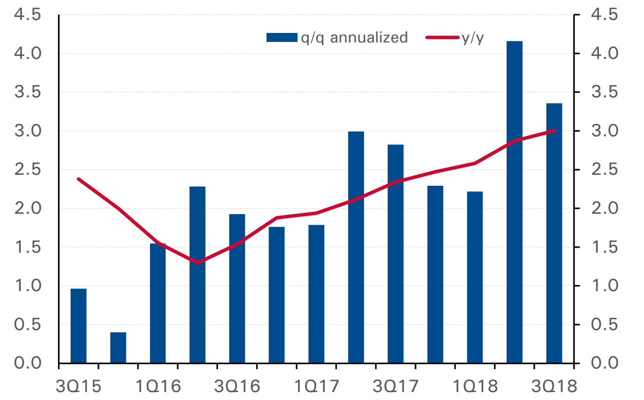
- 3Q18 annualized GDP growth was revised down slightly to 3.4% on lower personal spending and net trade.
- Core CPI inflation edged up to 2.2% in November supported by the underlying strength in the economy.
- Retail sales growth dipped in November to 4.2% y/y, but early December numbers hint at strong holiday sales.
- Manufacturing and non-manufacturing activity both picked-up in November.
- Softening economic growth and market volatility has seen expectations for further Fed rate hikes fall sharply.
- December marked 2018's second equity market correction and threatened to end the almost 10 year bull-run.
- The US dollar index was relatively flat m/m, with direction driven by trade talks, growth, and politics.

Chart 1: Real GDP growth

(%)



3Q18 annualized GDP growth was revised down slightly to 3.4% from 3.5% on lower personal spending and net trade estimates.

Source: U.S. Bureau of Economic Analysis

Chart 2: Unemployment rate

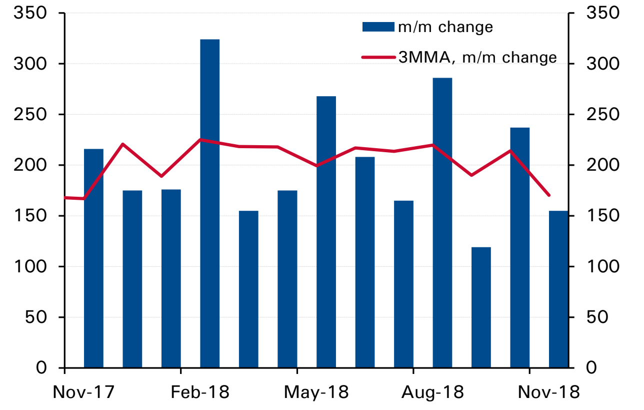
(%)

Unemployment was unchanged in November at a 49-year low of 3.7% and in line with expectations.

Source: U.S. Bureau of Labor Statistics

Chart 3: Non-farm payrolls (new jobs)

(thousand)

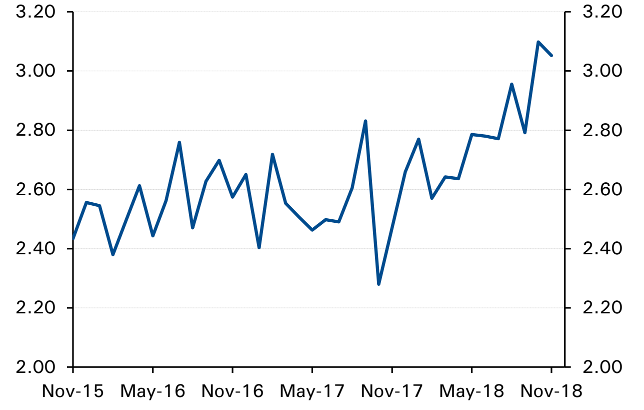


November's non-farm payrolls rose 155,000, below the year-to-date average of 206,180.

Source: U.S. Bureau of Labor Statistics

Chart 4: Wage growth

(% y/y)

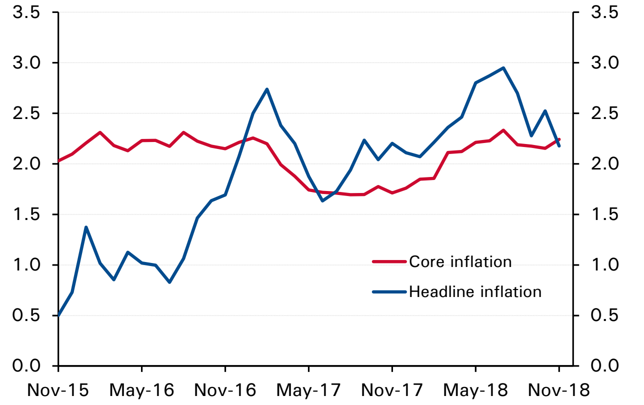


Wage growth held steady around 3.1% y/y in November, levels not seen since 2009, reflecting strength in the labor market.

Source: U.S. Bureau of Labor Statistics

Chart 5: Consumer price index inflation

(% y/y)



Core inflation edged up to 2.2% in November, as higher wages and material costs (due to tariffs) may be starting to filter in.

Source: U.S. Bureau of Labor Statistics

Chart 6: Commercial and industrial loans

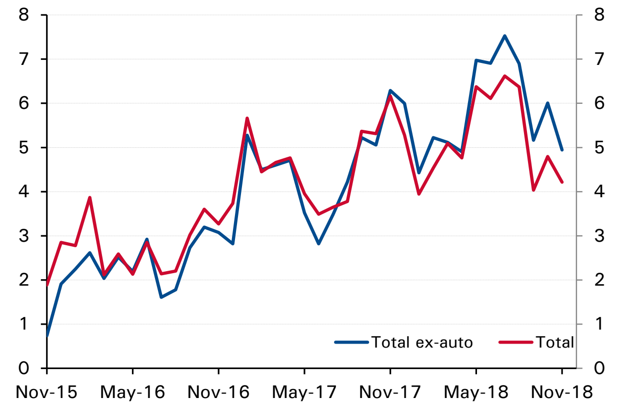
(% y/y)

C&I loan growth in November expanded by 7.9%, on higher business activity and frontloading ahead of the Dec. Fed hike.

Source: U.S. Board of Governors of the Federal Reserve System

Chart 7: Retail sales

(% y/y)

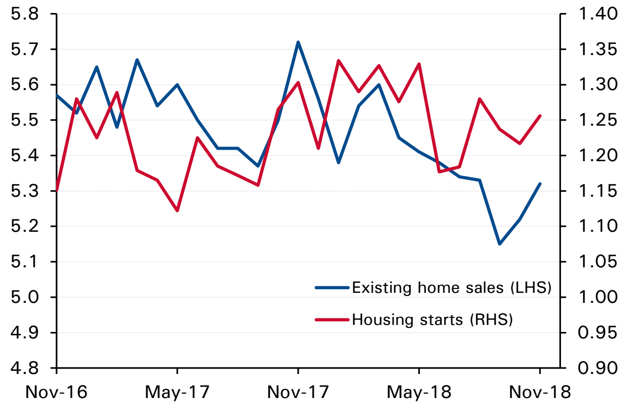


Retail sales growth dipped slightly in November to 4.2% y/y, but early December numbers hint at strong holiday sales.

Source: U.S. Census Bureau

Chart 8: Existing home sales and housing starts

(million units)

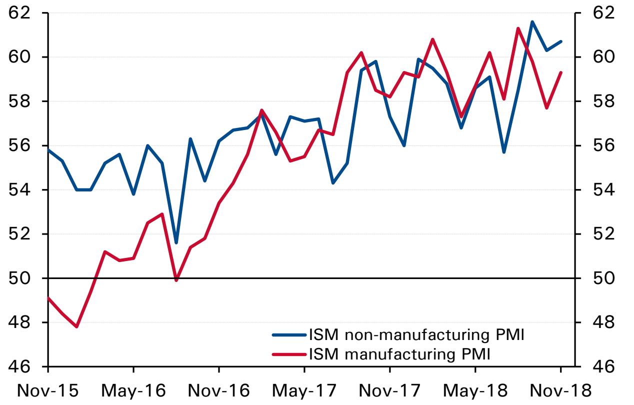


Housing starts and home sales both rose in November, as hurricane Florence woes subsided.

Source: National Association of Realtors, U.S. Census Bureau

Chart 9: Business activity surveys

(index)

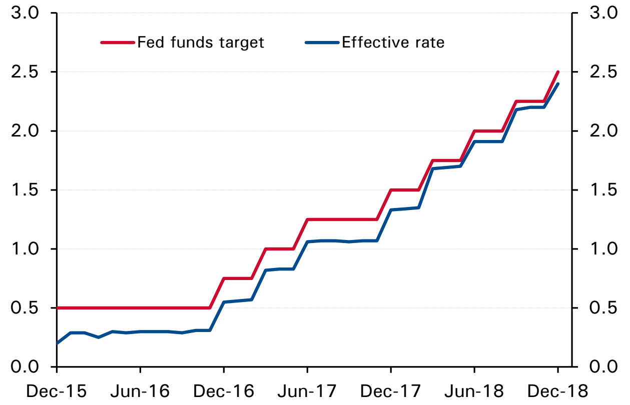


Manufacturing and non-manufacturing activity surveys both picked-up in November despite trade tensions.

Source: Institute for Supply Management

Chart 10: Policy interest rates

(%)

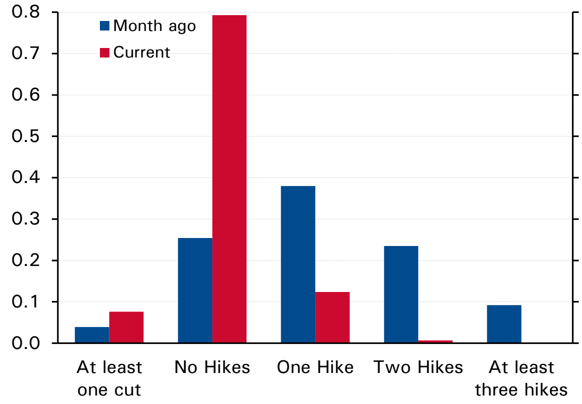


As expected, the Federal Reserve target rate range was raised by 25 bps in December and currently stands at 2.25-2.50%

Source: Thomson Reuters Eikon

Chart 11: Fed rate hike outlook for 2019

(probability, as of 29 December 2018)

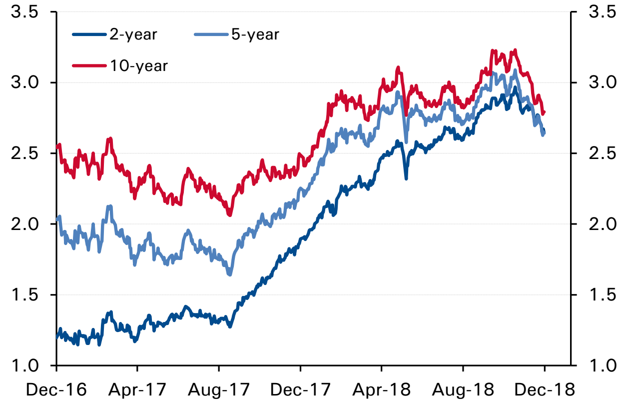


Softening growth and a less hawkish Fed has seen expectations for future rates hikes fall sharply.

Source: CME Group

Chart 12: Government bond yields

(%)



Bond yields continued to tighten amid the sell-off in equities, driven by rising uncertainty over global growth and trade.

Source: Thomson Reuters Eikon

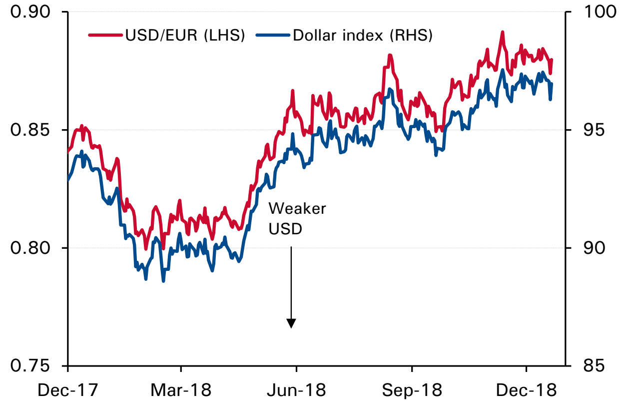
Chart 13: Stock market

(S&P 500)

December marked 2018's second correction pushing YTD losses to -7.7%, and threatning to end the almost 10 year bull-run.

Source: Thomson Reuters Eikon

Chart 14: Exchange rates



The US dollar index was relatively flat m/m, with direction throughout December driven by trade talks, growth, and politics.

Source: Thomson Reuters Eikon

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