First Trust
Monday Morning OUTLOOK
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November 2nd, 2015

Light This Candle

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The US stock market reminds us of Alan Shepard in 1961. Exasperated by the long wait in his Mercury Spacecraft "Freedom 7" while NASA engineers fiddled, he said, "Why don't you fix your little problem and light this candle?" They finally did and he became the first American to go into space.

These days, the Pouting Pundits of Pessimism are like NASA, constantly finding a reason to delay a Federal Reserve liftoff – er, we mean rate hike. All the while, the stock market, like Shepard, isn't worried and gets annoyed by delay.

So, last week's Fed statement was welcome relief. The Fed eliminated its worry about economic problems abroad (which means China). Additionally, the Fed shifted language dramatically regarding how it views the timing of a rate hike.

Although the Fed said it was still focused on goals of maximum employment and 2% inflation, it no longer said it was watching to see "how long" it could hold rates at zero. The Fed now says it will focus on the data at "its next meeting."

Markets took this as a sign that a December lift-off is really on the table. Stock prices increased sharply. In effect, saying, "…light this candle."

And guess what, the Fed is highly likely to get what it needs. Plugging recent data on unemployment claims and consumer spending into our models suggests payrolls expanded about 240,000 in October, much higher than the consensus expected 180,000. Moreover, after our piece last week on benefits hiding wage increases (link), the Wall Street Journal reported the same thing today (link). We think the Fed is looking at this too, and rate hikes are on the way.

Some investors think next year's election will keep the Fed from raising rates, but the Fed raised rates in 1984, 1988, 2000, and 2004, and the incumbent party won three times and essentially tied the fourth.

The scary part for some investors is the assumption that equities will sell off when the Fed raises rates. But that's an odd assumption given what happened last week and given the fact that the market dropped 7.2% in the two weeks after the Fed decided not to raise rates back in September.

These pundits are thinking backward. A rate hike will ratify the fact that the economy has improved.

Rate hikes won't hurt stocks, which are being lifted by profits, and they also won't kill housing. As rents grow faster due to tight inventory, demand from home buyers will remain robust despite slightly higher mortgage rates.

What rate hikes will do is push longer-term interest rates higher, because the market cannot permanently project low short-term rates. Also, it rips the legs out from under the gold market. We still think gold is worth about $950/oz.

So, as the Fed lights the candle, look for stocks to leave bonds and gold on the launch pad, just like Alan Shepard left earth behind.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-2 / 9:00 am	ISM Index – Oct	50.0	**50.0**	50.1	50.2
9:00 am	Construction Spending – Sep	+0.5%	**+0.1%**	+0.6%	+0.7%
11-3 / 9:00 am	Factory Orders – Sep	-0.9%	**-0.4%**		-1.7%
afternoon	Total Car/Truck Sales – Oct	17.7 Mil	**17.7 Mil**		18.1 Mil
afternoon	Domestic Car/Truck Sales – Oct	14.1 Mil	**14.2 Mil**		14.4 Mil
11-4 / 7:30 am	Int'l Trade Balance – Sep	-$41.0 Bil	**-$41.2 Bil**		-$48.3 Bil
9:00 am	ISM Non Mfg Index – Oct	56.5	**56.5**		56.9
11-5 / 7:30 am	Initial Claims – Oct 31	260K	**259K**		260K
7:30 am	Q3 Non-Farm Productivity	-0.3%	**+0.3%**		+3.3%
7:30 am	Q3 Unit Labor Costs	+2.5%	**+2.2%**		-1.4%
11-6 / 7:30 am	Non-Farm Payrolls – Oct	184K	**240K**		142K
7:30 am	Private Payrolls – Oct	168K	**230K**		118K
7:30 am	Manufacturing Payrolls – Oct	-5K	**0**		-9K
7:30 am	Unemployment Rate – Oct	5.0%	**5.0%**		5.1%
7:30 am	Average Hourly Earnings – Oct	+0.2%	**+0.2%**		0.0%
7:30 am	Average Weekly Hours – Oct	34.5	**34.5**		34.5
2:00 pm	Consumer Credit– Oct	$18.0 Bil	**$20.2 Bil**		$16.0 Bil