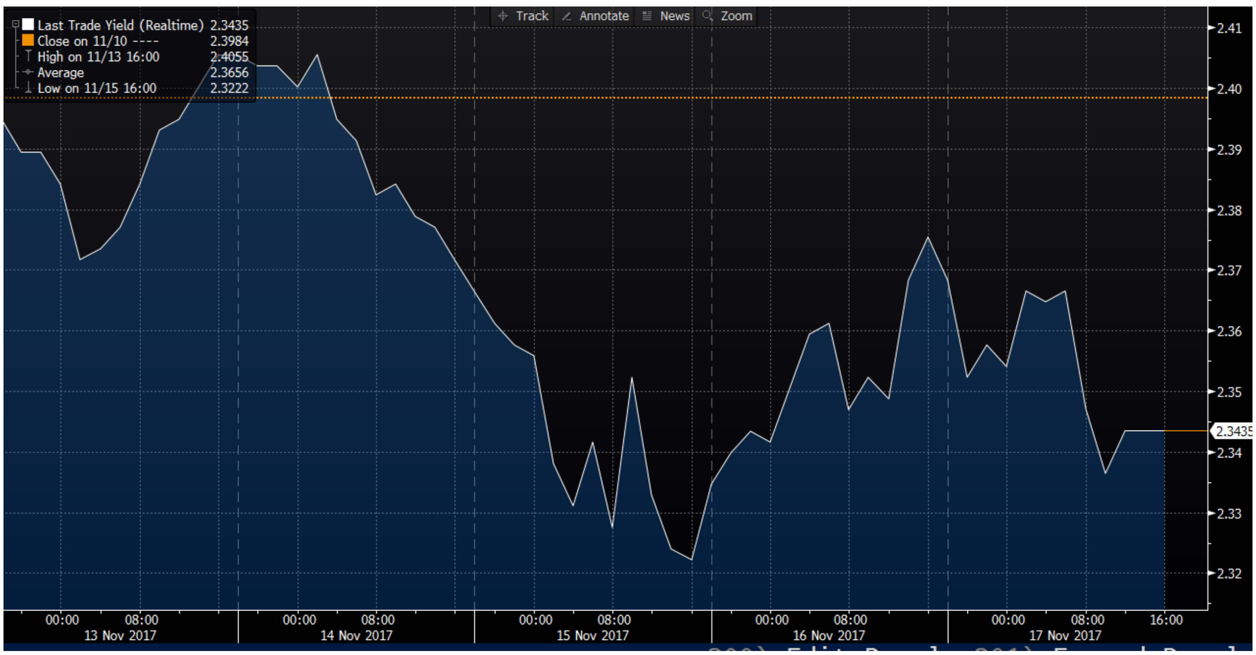
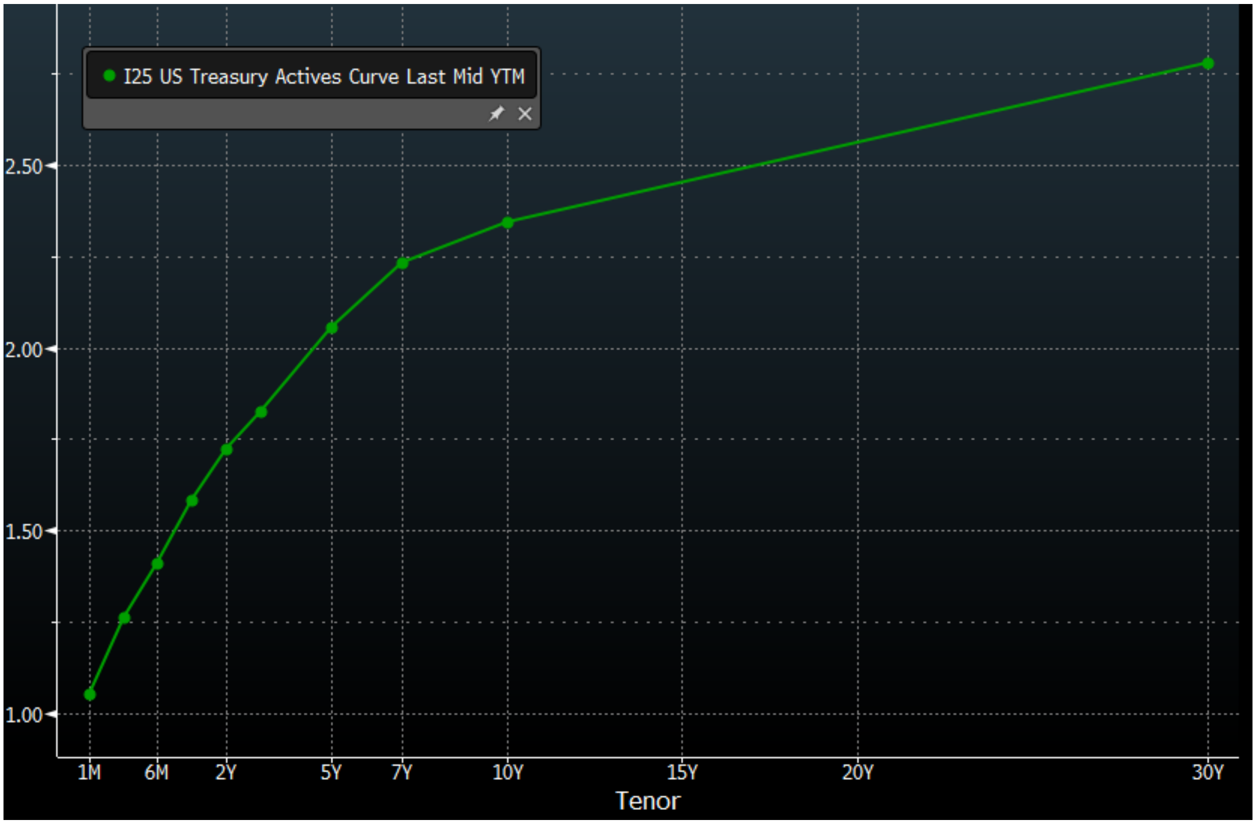
Bond Report

This week's bond trading was carried by the news that tax reform has taken one more step to closer to coming into fruition. Investors moved money into equity markets later in the week upon the announcement that the tax bill had been passed through the house and has been passed along one-step closer. Early in the week, there was an exact opposite problem, with investors being scared off by commodity prices, and thus flooding safer government bonds, pushing up prices. Although there have been no signs of inflation in sight, investors have been reacting as if they expect large interest rate hikes regardless in December. An interesting move considering Trumps pick of Jerome Powell. Powell is decisively less hawkish than John Taylor is.





What's next and key events?

In the week to come we will receive more information on tax cuts. It is looking as if Susan Collins, a member republican party within the senate, may be one of the primary holdouts. According to the Wall Street Journal, the bill looks much more promising at a corporate tax rate of 22% and states that Collins believed the individual tax rate would be more attractive if left as is. If the bill is indeed compromised to pass at this rate the market will most likely react by flooding equity markets with money, vacating bond markets, and many companies will be able to take on more risky projects thus increasing need for capital. All of these changes equate to larger interest rates. This, of course is completely theoretical and an answer will not come until at least after thanksgiving. In the nearer term, we will get information on existing home sales and money supply. Both of these numbers should give indication into inflation, although the markets seem to be reacting as if rates will rise regardless.