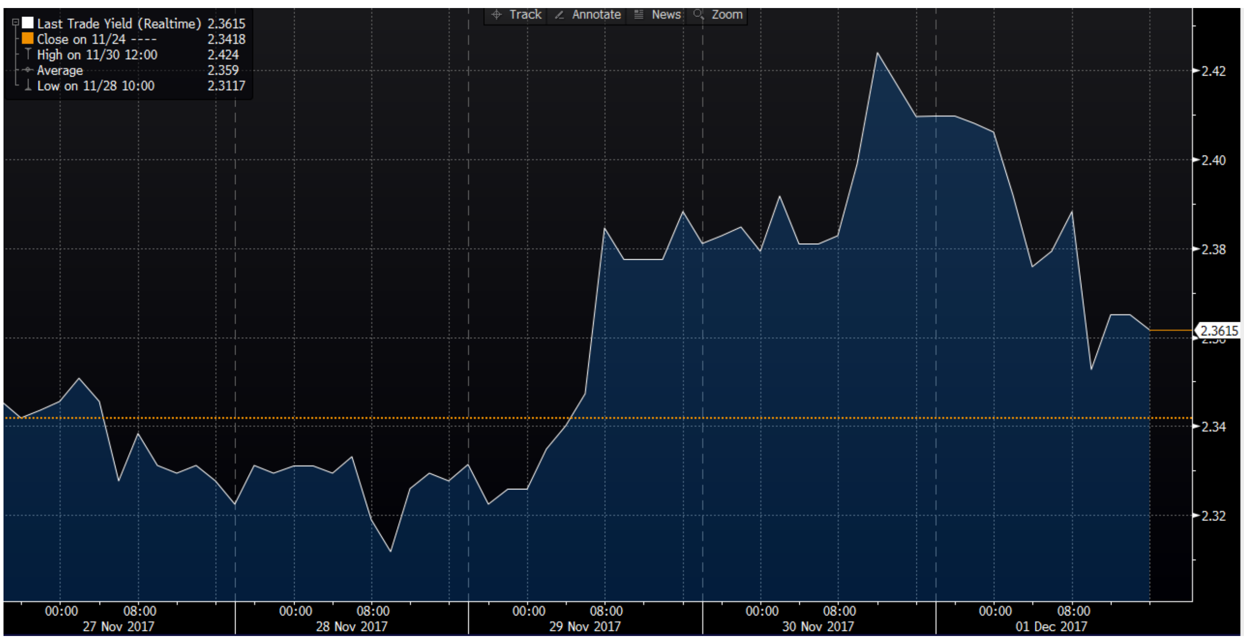
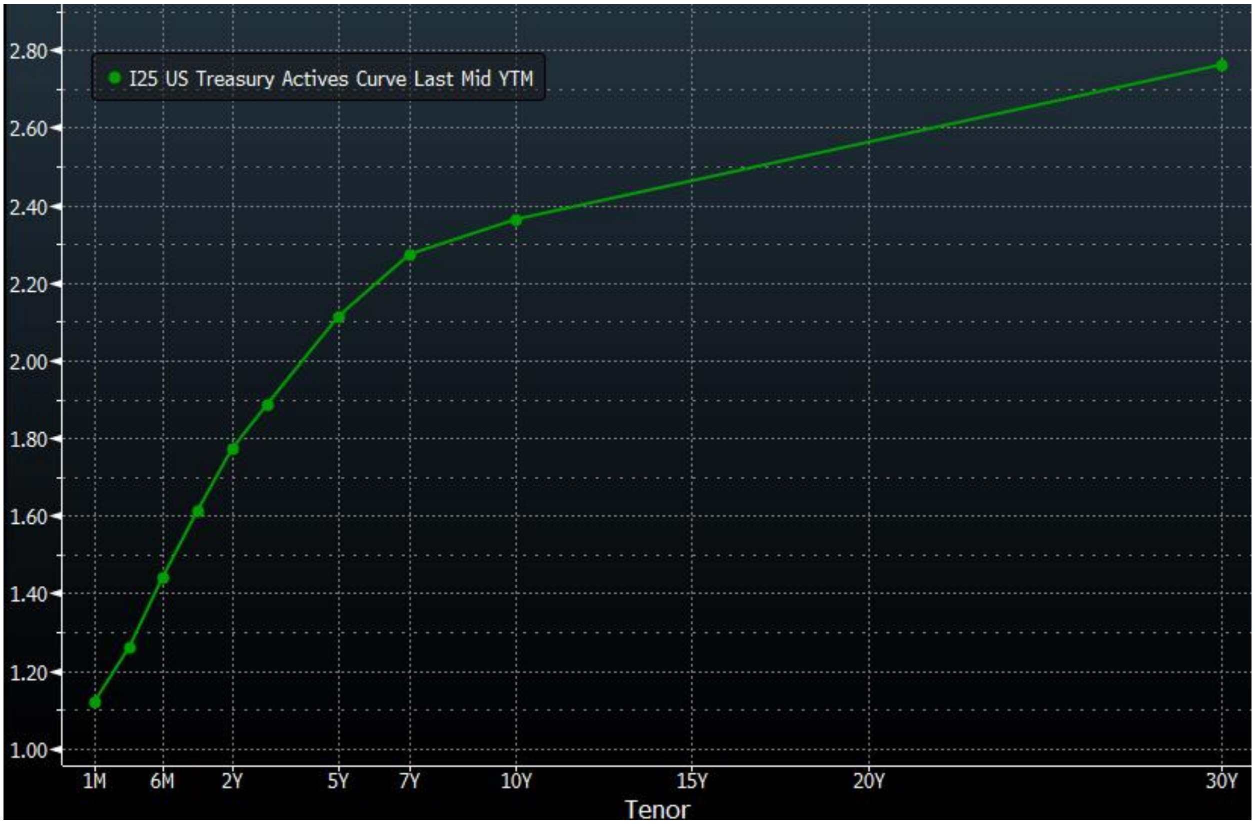
# Bond Report

Bond yields rose as there was optimism that the tax bill would eventually get passed. The tax bill saw increasing probability throughout the week, this being mirrored in yields. Bond investors may be forward looking in the fact that if the tax bill does go through then the likely hood of increasing budget deficit is there. The overlaying question is how will this budget deficit be paid for? Bond investors seemingly think that the government will have to issue more government debt to cover the difference, thus de-valuing new debt and increasing the value of the debt coming into existence prior to the passing. Also with an increasing deficit, there is in theory less certainty about the bonds and the future. In addition, Core inflation grew very slightly, at a rate of .21%. This small increase in inflation seems to have the FED excited and optimistic about the future and where the economy is headed. This small victory in the field of inflation could give raise to justification to large federal funds rate hikes.






**What's next and key events?**

The tax bill was passed and the numbers were laid out showing that there will indeed be an increase in the budget deficit. This budget deficit funding will most likely come from government debt as the individual tax rate has not and is not expected to increase in the future. This means that the market may be flooded with new issues of government debt in the future. Also, the core inflation numbers look promising but should not lead to as much optimism as they seemingly have. There is a changing of seats set to come between Powell and Yellen in the near future. Yellen may understand that her successor is not as hawkish as some may have liked and take action of large rate hikes on her own in the near future. Markets should also look at the employment situation discussion on Friday. This discussion may give leading indicators about economies health, average individual disposable income, and also a leading indicator of inflation which will dictate the FED's next move.