

Yet Again, the Market Focuses on What Matters –Interest Rates and Earnings

After a rocky start to last week, U.S. equity markets rebounded and finished higher, led by Friday's 1% bounce in the S&P 500. The employment number reported on Friday was exceptionally strong and is further evidence that economic growth can continue. This is frankly not surprising in that the stock rally over the past six weeks has been telegraphing the same thing.

High beta risk assets are outperforming, and interest rates appear to have bottomed. We are now right back at all-time highs in the major indices, after a brief pullback on overbought conditions. Dips are being bought at every opportunity and that is a good sign as we close out the year. Commodities, like copper, are also rallying. Copper is up nearly 5% in the last week. Copper is often called "Dr. Copper" because it is a great indication of the world's economic health. Copper is used throughout the supply chain in manufacturing and transportation. Rising interest rates are ultimately caused by commodity inflation, which is caused by demand outstripping supply. Interest rates having bottomed is also consistent with buying in commodities.

If China can begin to catch up with the developed markets, either as a result of resolving the trade issues with the U.S. or as a result of improving general economic conditions, look for commodities of all types to move higher (along with interest rates).

December is always volatile due to light trading, end of year tax harvesting and window dressing by professional investors as they try to make their portfolios close the year as strong as possible. Even so, it appears we have a good shot of closing at all-time highs across the board. After all the worrying, complaining and talks of imminent recession this year, the market always focuses on what matters - interest rates and earnings. Price aggregates such information and predicts, but it never guesses!

Last week's commentary can be found [here](#).



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