Don’t sweat a shutdown

By BEN WHITE (bwhite@politico.com; @morningmoneyben), AUBREE ELIZA WEAVER (aweaver@politico.com; @AubreeEWeaver) 12/13/2018 08:00 AM EST

Editor's Note: This edition of Morning Money is published weekdays at 8 a.m. POLITICO Pro Financial Services subscribers hold exclusive early access to the newsletter each morning at 5:15 a.m. To learn more about POLITICO Pro's comprehensive policy intelligence coverage, policy tools and services, click here.

DON'T SWEAT A SHUTDOWN — Washington is rife with drama ahead of a potential partial federal government shutdown at the end of next week as President Trump and Congressional Democrats squabble over border wall funding. Wall Street has plenty of issues right now – trade fights, interest rates, Brexit – but a brief shutdown is not likely to be among them.

Historically, Wall Street tends to freak out around potential debt limit breaches (stay tuned...
Here’s LPL Financial’s Ryan Detrick on shutdowns and markets: “Although shutdowns get a lot of media hype, the reality is that stocks tend to take them in stride. In fact, the S&P 500 has gained during each of the five previous shutdowns ... Shutdowns rarely push stocks significantly lower and have corresponded with a flat median return in the previous 20 shutdowns going back more than 40 years.

“One would think shutdowns in December might be rare, but they’re actually fairly common. Three shutdowns in the same year, however, is not. Could this year be the first since 1977 with three separate shutdowns? If [Tuesday]'s drama was any indication, the odds may have increased.”

**SIREN: FINANCIAL DEREGULATION PACKAGE MAY BE DOOMED** — Our Zachary Warmbrodt this a.m.: “One of the House's major bipartisan achievements this year -- a sweeping financial deregulation package negotiated by Democrat Maxine Waters and Republican Jeb Hensarling -- may be doomed.

“As Congress prepares to leave town in the coming days, Democrats are opposing efforts to attach the legislation to a year-end government funding bill. GOP Senate leadership hasn't scheduled a standalone vote, which some expect would fail. The stalemate comes as disagreements have cropped up among lawmakers and the Trump administration over a number of provisions in the bill, which the House passed on a 406-4 vote in July. Hensarling is willing to negotiate, but that may not be enough.” More for Pros here.

**PELOSI CLOSES IN ON THE GAVEL** — Our Heather Caygle, Rachael Bade, and John Bresnahan: “House Minority Leader Nancy Pelosi struck a deal with Democratic rebels intent on denying her the speakership in a major step toward reclaiming the gavel ..

“The California Democrat has agreed to limit her time as speaker to four years at most. In return, several lawmakers who vowed to vote against her in the critical Jan. 3 House floor vote will support her ascent to the position she held eight years ago.” Read more.

**MEADOWS OUT FOR CHIEF OF STAFF** — Our Andrew Restuccia: “Rep. Mark Meadows (R-N.C.), chairman of the House Freedom Caucus, is no longer under consideration to be President Donald Trump’s chief of staff. ... Meadows, a staunch Trump ally, had been a top contender for the position after Nick Ayers — the president’s first chief of staff — resigned this summer.”
thought it best for him to remain in Congress, where he can continue to be a strong outside defender of the administration. ...

SO WHO WILL IT BE? — “Among those who have been talked about for the position: David Bossie, a former Trump campaign deputy manager; former Gov. Chris Christie of New Jersey; Mick Mulvaney, director of the Office of Management and Budget; U.S. Trade Representative Robert Lighthizer; Treasury Secretary Steven Mnuchin; and Republican fundraiser Wayne Berman. Mulvaney and Mnuchin have both signaled to the White House that they are not interested in the job.” Read more.

BREXIT IMPACT — University of Michigan’s Kyle Handley in a new NBER paper: “Increases in the probability of Britain’s exit from the European Union ... reduce bilateral export values and trade participation. These effects are increasing in trade policy risk across products and asymmetric for UK and EU exporters.

“We estimate that a persistent doubling of the probability of Brexit at the average disagreement tariff of 4.5% lowers EU-UK bilateral export values by 15 log points on average, and more so for EU than UK exporters.” Read more.

** A message from the American Council of Life Insurers: ** Americans work hard and deserve a secure retirement. Now is the time for Congress to act. The American Council of Life Insurers is joined by the Insured Retirement Institute, BPC Action, Church Alliance, and other leading voices in calling on Congress to pass retirement security legislation this year. Learn more. **

MAY SURVIVES — Our Charlie Cooper and Annabelle Dickson in London: “British Prime Minister Theresa May won a vote of confidence in her leadership on Wednesday, with 200 votes in favor and 117 votes against, senior Conservative MP Graham Brady said.

“The vote was triggered after Brady, chairman of the 1922 Committee of Conservative backbenchers, received letters from 48 Conservative MPs expressing no confidence in May’s leadership. Most of those who have publicly declared they want May out are hardline Brexiteers, who say her Brexit deal with the EU keeps Britain tied too closely to the bloc. May’s victory means she cannot face another confidence vote from Conservative MPs for another year.” Read more.

To give you the best possible experience, this site uses cookies. If you continue browsing, you accept our use of cookies. You can review our privacy policy to find out more about the cookies we use.
of fiscal policy, a persistent widening of fiscal deficits will push the federal debt and interest burdens to historic levels, which will ultimately weigh on the sovereign credit profile.”

GOOD THURSDAY MORNING — Thanks to Victoria Guida for the one-day fill. Email me at bwhite@politico.com and follow me on Twitter @morningmoneyben. Email Aubree Eliza Weaver at aweaver@politico.com and follow her on Twitter @AubreeEWoer.

YEAR AHEAD OUTLOOKS — Please keep them coming. Specific questions: 1.) Will the S&P end 2019 higher or lower? 2.) Will the U.S. and China make a significant trade deal? 3.) How many times will the Fed hike rates? 4.) Will House Democrats vote to impeach President Trump? 5.) What will be the year’s biggest surprise? Feel free to answer any or all. Email your answers to bwhite@politico.com

DRIVING THE DAY — Jobless claims at 8:30 a.m. expected to dip to 225K from 331K ... Import Prices at 8:30 a.m. expected to dip 1 percent ... Treasury budget at 2:00 p.m. expected to show deficit rising to $203B from $139B ...

FARM BILL HEADS TO FINISH LINE — Our Helena Bottemiller Evich and Catherine Boudreau: “The House on Wednesday easily passed the compromise farm bill by a vote of 369-47, sending the sweeping agriculture and nutrition measure to President Donald Trump to sign. ‘I have all the confidence in the world he’ll sign it,’ House Agriculture Chairman Mike Conaway (R-Texas) said before the vote.

“The overwhelming bipartisan vote for the bill caps an eight-month fight over the legislation, marking a quick turnaround for House and Senate negotiators who were deadlocked in efforts to resolve a dispute over food stamps as recently as a few weeks ago. House Republicans had sought to impose stricter work requirements on millions of food stamp recipients ... But Democrats unanimously opposed the House plan, and Senate leaders also rejected it” Read more.

SHUTDOWN LOOMS — Our Sarah Ferris and John Bresnahan: “House GOP leaders are wrestling with how exactly they’re going to keep the government open through Christmastime — while also affirming support for ... Trump’s border wall — in the final weeks of their majority.

“One option Speaker Paul Ryan and his deputies are considering is a short-term bill that
as other natural disasters. A broader, full-year funding package is also under discussion that includes $5 billion for the border wall” Read more.

SEC DEVELOPING CRYPTO GUIDANCE — Our Patrick Temple-West: “The Securities and Exchange Commission is developing guidance for cryptocurrencies that is likely to be published early next year, an agency official said today. Jonathan Ingram, deputy chief counsel in the SEC’s division of corporation finance, said the guidance is intended to help the industry determine if a particular digital asset is a security.

“If it is deemed a security, then the guidance would detail what a business should do to comply with securities regulations, he said. ‘We’re shooting for early next year for publication of that guidance,’ Ingram said at an event at the District of Columbia Bar.” Read more.

MARKETS

WALL STREET ENDS HIGHER — AP’s Marley Jay: “U.S. stocks couldn’t hang on to a big gain Wednesday, but they still finished broadly higher as technology and health care companies rose. That helped reverse some of the market’s big losses from the week before. Stocks initially rallied after the Wall Street Journal reported that China’s government could make changes to its ‘Made in China 2025’ economic development plan. That could be one step toward easing dispute between the world’s two largest economies. The Dow Jones Industrial Average surged as much as 458 points in morning trading, but gave later back much of that gain. ...

“After taking steep losses at the end of last week, stocks have gyrated this week: on Monday they rallied to erase a big early loss, while on Tuesday a big morning gain turned into a small decline. On Wednesday, most of the day’s gains evaporated in the afternoon. The hour-to-hour changes reflect investors’ nervousness about the health of the global economy: economic growth is expected to slow in 2019 and the U.S.-China trade dispute and rising interest rates could both make that slowdown more painful. Sonders said investors overlooked those threats for a time, but can’t ignore them anymore.” Read more.

STOCK VALUATIONS AT FIVE-YEAR LOW — WSJ’s Mike Bird: “The stumble in global equity markets this year has outrun a moderation in expectations for earnings growth, leaving stock valuations at their cheapest in about half a decade by some measures.

To give you the best possible experience, this site uses cookies. If you continue browsing, you accept our use of cookies. You can review our privacy policy to find out more about the cookies we use.
the world. The price to earnings ratio is a favorite among analysts and investors for valuing companies.” Read more.

**YIELD CURVE TO INVERT IN 2019, RECESSION TO FOLLOW** — Reuters’ Hari Kishan: “The U.S. Treasury yield curve will invert next year, possibly within the next six months, much earlier than forecast just three months ago, a Reuters poll showed on Thursday. Those expectations come on the heels of a deep sell-off in global stocks and the flattening of the U.S. yield curve, with the gap between longer-dated and shorter-dated yields narrowing to its smallest in more than a decade.

“Some maturities on the curve, notably yields on 2- to 5-year notes have already flipped. An inversion between 2- and 10-year yields is a closely watched signal as that has preceded almost all the American recessions off the past half century.” Read more.

**And many financial officers agree** — WSJ’s Sharon Nunn: “Almost half of U.S. chief financial officers believe a recession will strike the U.S. economy by the end of 2019, with the tight labor market and growing trade tensions driving economic jitters among corporate America. Additionally, more than 80 percent of U.S. CFOs think a recession will strike by the end of 2020, according to the Duke University/CFO Global Business Outlook survey released Wednesday.

“All of the ingredients are in place: a waning expansion that began in June 2009 — almost a decade ago — heightened market volatility, the impact of growth-reducing protectionism, and the ominous flattening of the yield curve which has predicted recessions accurately over the past 50 years,’ said Campbell Harvey, a director of the survey.” Read more.

**TIME TO DITCH THE DOLLAR?** — Bloomberg’s Sydney Maki and Austin Weinstein: “Strategists in the $5.1 trillion-a-day currency market are gearing up for a slumping dollar next year, while pinning their hopes for 2019 gains on the yen.

“A major driver of the dollar’s decline could be a downturn in the U.S. economy, especially in the second half of the year, JPMorgan Asset Management predicted. Others expect the Federal Reserve to slow down interest-rate increases, which they see as bearish for the greenback. Rising market volatility and capital demand abroad will also spur an outflow of funds from the U.S., according to Morgan Stanley strategists. Whatever the reason, a
BANKS GET GENTLER TREATMENT UNDER TRUMP — WSJ’s Lalita Clozel: “After years of acrimony, the nation’s top banking regulators are seeking a detente with the firms they oversee. Two Trump-appointed officials have spent several months touring the country, visiting bank examiners in regional offices and asking them to adopt a less-aggressive tone when flagging risky practices and pressing firms to change their behavior.

“The officials — the Federal Reserve’s Randal Quarles and the Federal Deposit Insurance Corp.’s Jelena McWilliams — aim to change policy in a subtle but significant way and reshape regulators’ relationship with banks, which officials have said was too contentious during the Obama years that followed the financial crisis. Changing the supervision culture ‘will be the least visible thing I do and it will be the most consequential thing I do,’ Mr. Quarles, the Fed’s vice chairman for supervision and regulatory point person, said in an interview. The banks should feel that their supervisor is going to be firm but fair.” Read more.

NATIONAL DEBT SURGING AT FASTEST PACE SINCE 2012 — Bloomberg’s Alexandre Tanzi: “U.S. government debt is on track this year to rise at the fastest pace since 2012, as a stronger economy fails to keep pace with the wave of red ink that’s rising under the Trump administration. Total public debt outstanding has jumped by $1.36 trillion, or 6.6 percent, since the start of 2018, and by $1.9 trillion since President Donald Trump took office, according to the latest Treasury Department figures. The latter figure is roughly the size of Brazil’s gross domestic product.

“If this year’s growth rate is sustained through the end of the year, it would be the biggest jump in percentage terms since the last year of President Barack Obama’s first term, at a time when the economy needed fiscal stimulus in the aftermath of the financial crisis. As of Monday, the nation’s debt stood at a record $21.9 trillion.” Read more.

ALSO FOR YOUR RADAR

FIGURING OUT OPPORTUNITY ZONES — Via Erin Robert, head of Capital Strategies for JPMorgan Chase’s Sustainable Finance team: “It’s not often a policy spurs equal interest and excitement across the public, private and non-profit sectors. But the Opportunity Zone program does just that.” Read more

To give you the best possible experience, this site uses cookies. If you continue browsing, you accept our use of cookies. You can review our privacy policy to find out more about the cookies we use.
Wednesday, launching an exploratory committee and saying he'd make a formal announcement in January.

“Castro, a Democrat who served as mayor of San Antonio before joining President Barack Obama's administration, made the announcement of his exploratory bid on Twitter. In a promotional video, Castro said the hard work and lessons of his grandmother and mother inspired him to run for public office.” Read more.

**A message from the American Council of Life Insurers:** Americans work hard and deserve a secure retirement. Now is the time for Congress to act.

The American Council of Life Insurers is joined by a broad coalition of advocates across industries in calling on Congress to pass comprehensive retirement security legislation this year. Legislation now before the House and Senate would help millions of Americans prepare for a financially secure future by expanding access to retirement plans and making it easier for employers to offer guaranteed lifetime income options. Enhancements to the retirement system are needed now more than ever—10,000 Americans turn age 65 every day, with many living 30 years or more in retirement.

Congress: Support workers, retirees, and business owners by passing retirement security legislation before year’s end. Learn more. **

About Us
Advertising
Breaking News Alerts
Careers
Credit Card Payments
Digital Edition
FAQ
Feedback

To give you the best possible experience, this site uses cookies. If you continue browsing, you accept our use of cookies. You can review our privacy policy to find out more about the cookies we use.