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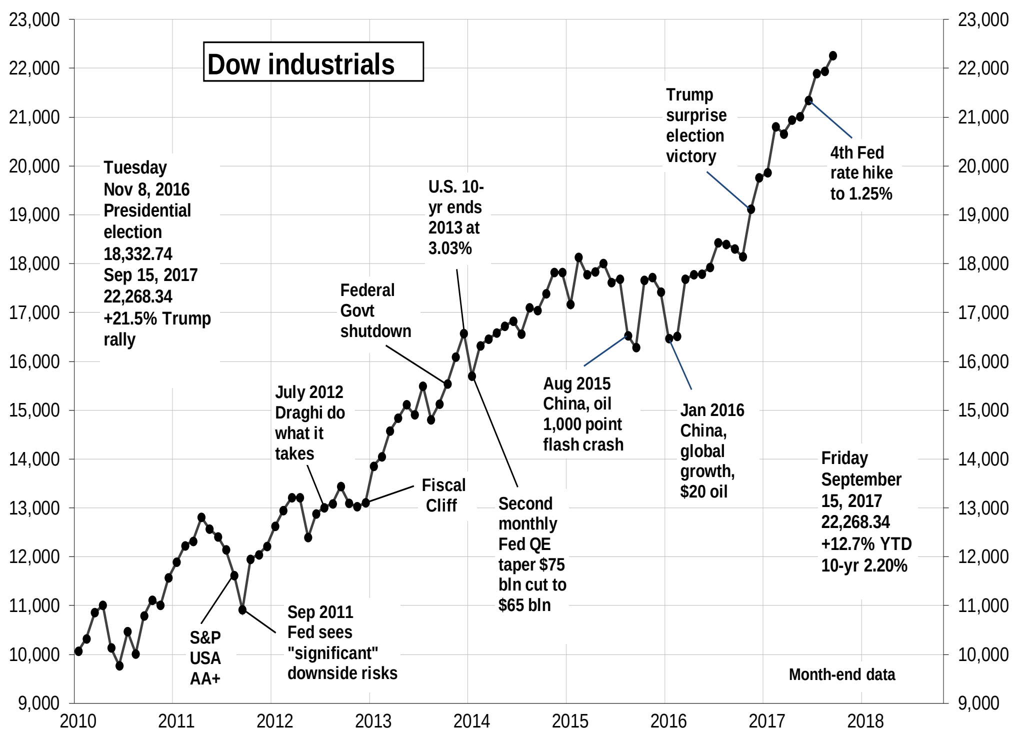
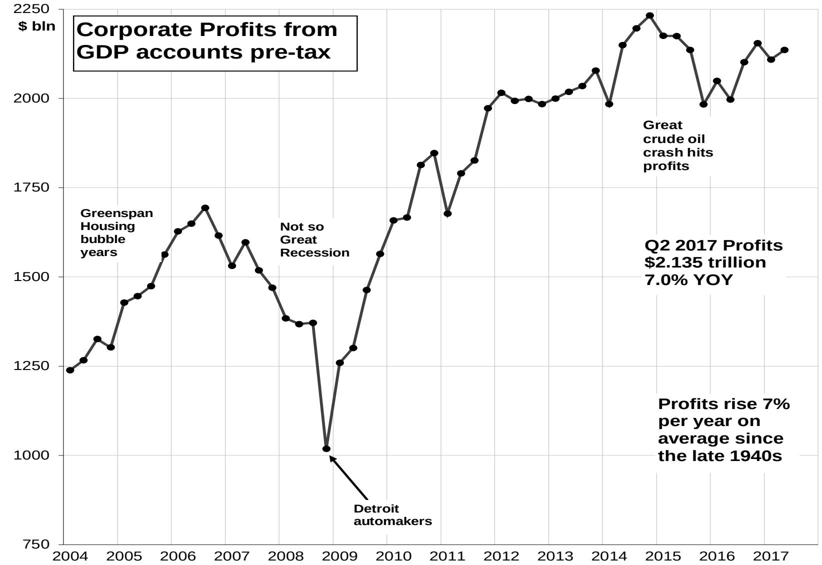
"EQUITY PRICES WERE HIGH WHEN JUDGED AGAINST STANDARD VALUATION MEASURES."



The Federal Reserve thought the stock market was high back in June as detailed in the meeting minutes; where are stocks now? Well, the Dow industrials stock market average made a new high this week, closing Friday up 12.7% year-to-date after 2016's 13.4% increase. Ca-ching. Money in the bank for some lucky investors, or perhaps money not in the bank but still money good. Yes, equity prices are high and have moved higher since the Fed said this back in June, and thank goodness for the rally in stocks, at least some financial assets are providing a decent return on monies set aside for investment. Savers, as in those with money in the bank, still remain "thrown under the bus" with a Fed funds rate of 1.25%. Senator Corker told Bernanke way back in February 2013 that his low interest rate policy had done nothing to aid the economy and had merely thrown hard-working American savers under the bus. Bernanke replied defensively then that the economy could not withstand higher interest rates and if they tried to do so it would cause a recession and we would have low interest rates forever like the Japanese do. There might have been good reasons for Bernanke/Yellen to keep rates low back in early 2013 with the unemployment rate at 7.9%. There are no good reasons to keep rates below normal levels right now with unemployment at 4.4%. The battle is over, you won, retreat from the markets.

> June 13-14 Fed meeting minutes
> Participants discussed possible reasons why financial conditions had not tightened. Corporate earnings growth had been robust; nevertheless, in the assessment of a few participants, equity prices were high when judged against standard valuation measures.



The committee, well a few participants anyway, thought stocks were high at the June 13-14 FOMC meeting this year, and today they are higher still with the Dow industrials tacking on another 4.2% since June 14. Corporate earnings had been robust as they say which helps to support these higher prices.

Corporate earnings released with the quarterly GDP data show Q2 pre-tax corporate earnings are up 7.0% from prior year levels, even if earnings remain below the peak set prior to the global commodity price crash in 2015.

Stocks certainly show no sign of retreating. Market sell-offs have been modest since early 2016. This year, on a Friday close basis, the Dow industrials only fell 2.6% from early-March to mid-April, and then again fell a modest 1.9% for a couple of weeks in the first half of August. Looking ahead, there doesn't appear to be any serious clouds on the horizon. Prior reasons for stock market sell-offs were questions and concerns about world economic growth, the S&P downgrade of the U.S. to AA+, China, Ebola, Syria, Brexit, fiscal cliff, etc. Corporate earnings have risen about 7% per year historically and as long as that holds up, it is reasonable to assume stocks will continue to appreciate in the years ahead. Even the Fed is not talking about "tightening" or taking away the punch bowl. They see rates simply going up to "normal" 3% levels but no higher through the end of 2019. It will be interesting to see their forecast for the end of 2020 when they give their latest update on the path of rates after next week's Fed meeting at 2pm EDT Wednesday, September 20.

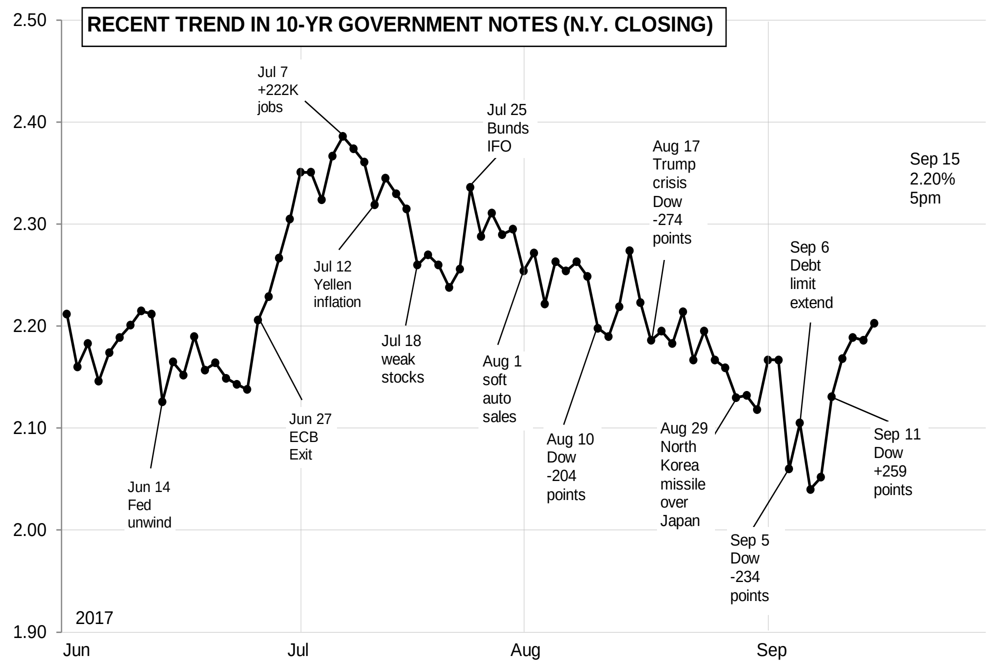
Dow industrials market sell-offs

Week ending Fridays

Chg %	Points	High	Low	High	Low	Reason
-15.1	-1909.7	7-22-11	9-23-11	12681.2	10771.5	S&P USA AA+, Fed sees "significant" downside risks
-8.4	-1109.7	4-27-12	6-1-12	13228.3	12118.6	European sovereign debt crisis pre-Draghi do whatever
-7.5	-1021.8	10-5-12	11-16-12	13610.2	12588.3	Fiscal cliff
-5.4	-848.05	8-2-13	8-30-13	15658.4	14810.3	Bond yields taper tantrum, Syria
-5.2	-899.33	9-19-14	10-17-14	17279.7	16380.4	Ebola, IMF cuts world growth forecast
-11.9	-2170.2	5-15-15	9-4-15	18272.6	16102.4	China, oil, 1,000 point flash crash Monday, Aug 24
-10.8	-1936.5	11-6-15	2-12-16	17910.3	15973.8	Fed liftoff, China, $20 oil, world growth, Japan negative rates
-5.3	-947.99	June 2016		18011.1	17063.1	Brexit: Two days June 23 close to Monday, June 27 low

MARKETS OUTLOOK

	30-Jun 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
30-Yr Treasury	2.83	3.10	3.20	3.40	3.60	3.70	3.80	4.00	4.10	4.10	4.10
10-Yr Note	2.30	2.50	2.70	3.00	3.20	3.40	3.50	3.70	3.80	3.90	3.90
5-Yr Note	1.89	2.10	2.40	2.70	3.00	3.20	3.30	3.50	3.60	3.70	3.70
2-Yr Note	1.38	1.60	1.85	2.10	2.40	2.60	2.85	3.10	3.35	3.35	3.60
3-month Libor	1.30	1.65	1.90	2.20	2.45	2.70	2.95	3.20	3.45	3.35	3.70
Fed Funds Rate	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.25	3.50
2s/10s spread	92	90	85	90	80	80	65	60	45	55	30
Libor/funds spd	5	15	15	20	20	20	20	20	20	10	20



Bond yields rose 19 bps at this week's close from the 2.01% rally low hit on Friday, September 8. The biggest jump came on Monday when the world didn't end from Hurricane Irma and no stray North Korean missiles either. 10-yr Treasury yields jumped 8 bps on Monday to 2.13% as the Dow industrials rallied 259 points. Other than Fed policy which sets 10-yr yields more than officials think, there's always inflation. And core CPI inflation rose from the dead on Thursday with a 0.2% rise in August being reported. It was that rare 0.1% drop in core CPI for March on Good Friday, April 14 when markets were closed that cemented the case for the market thinking the Fed could skip a December rate hike.

FEDERAL RESERVE POLICY

The Fed meets September 19-20 to consider its monetary policy. We are expecting the formal announcement of the wind down of the balance sheet. They already told us how they would proceed. After a year phase-in, the Fed's Treasury holdings would decline $360 billion per year (keep in mind full strength 2013 QE was $540 billion per year) which will add $360 billion per year to the Treasury's auction schedule. Brainard said a week ago the wind down would send bond yields 40 bps higher over the next couple of years. Wait for it. The MBS maturities will be $240 billion per year and it's a mystery what this will do to the cost of buying a home. The Fed will also announce its latest rates forecast including 2020 now.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	13-Sep	6-Sep	30-Aug	23-Aug	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2465.468	2465.289	2465.300	2465.273	479.782
Federal agency debt securities	6.757	6.757	6.757	6.757	0.000
Mortgage-backed securities	1782.346	1767.553	1767.553	1778.699	0.000
Primary credit (Discount Window)	0.002	0.001	0.004	0.005	23.455
Term auction credit (TAF auctions)	0.000	0.000	0.000	0.000	150.000
Asset-backed TALF	0.000	0.000	0.000	0.000	
Maiden Lane (Bear)	1.708	1.708	1.708	1.708	29.287
Maiden Lane II (AIG)	0.000	0.000	0.000	0.000	0.000
Maiden Lane III (AIG)	0.000	0.000	0.000	0.000	0.000
Central bank liquidity swaps	0.087	0.035	0.036	0.036	62.000
Federal Reserve Assets	4518.1	4500.0	4498.4	4510.5	961.7
3-month Libor %	1.32	1.32	1.32	1.32	2.82
Factors draining reserves					
Currency in circulation	1580.720	1578.477	1570.551	1566.641	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	125.668	145.128	146.086	169.793	0.000
Reserve Balances (Net Liquidity)	2360.190	2357.048	2331.956	2338.169	24.964
Treasuries within 15 days	0.000	0.000	3.197	3.197	14.955
Treasuries 16 to 90 days	38.559	38.559	30.691	30.691	31.549
Treasuries 91 days to 1 year	323.378	323.379	310.316	310.315	69.272
Treasuries over 1-yr to 5 years	1144.904	1144.907	1163.518	1163.479	170.807
Treasuries over 5-yrs to 10 years	325.435	325.239	324.365	324.394	91.863
Treasuries over 10-years	633.193	633.205	633.213	633.197	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

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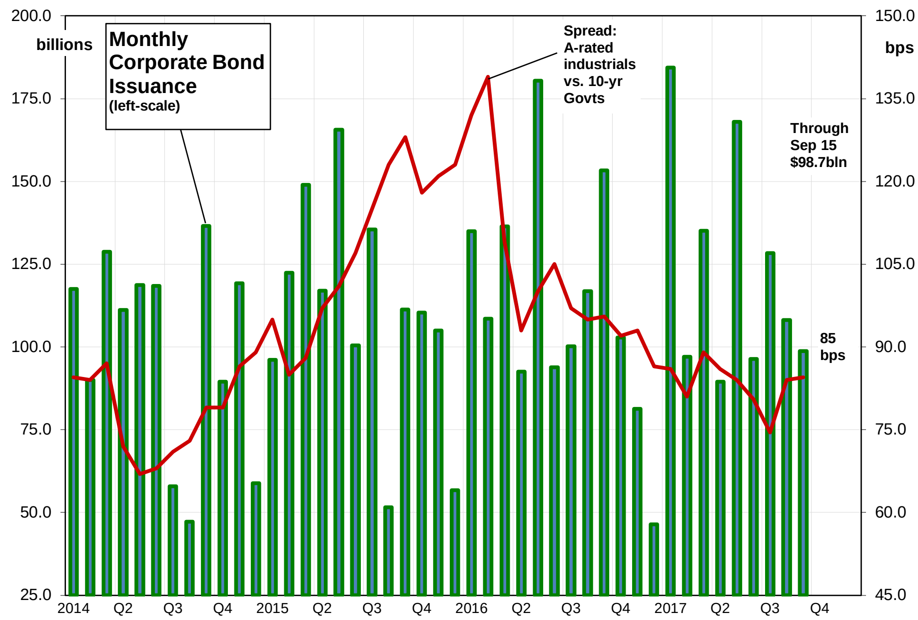
CORPORATES: BP, GILEAD SCIENCES, HEWLETT PACKARD, UNION PACIFIC

Corporate offerings were $49.5 billion in the September 15 week versus $49.0 billion in the September 8 week. On Monday, General Dynamics Corp. sold $1.0 billion 7s/10s. It priced $500 million 2-5/8% 10-yrs (m-w +15bp) at 75 bps (A2/A+). The global aerospace and defense company will use the proceeds to repay its 1.0% notes due in 2017. Corporate bonds (10-yr Industrials rated A2) were 85 bps above 10-yr Treasuries on Friday versus 86 bps last Friday.

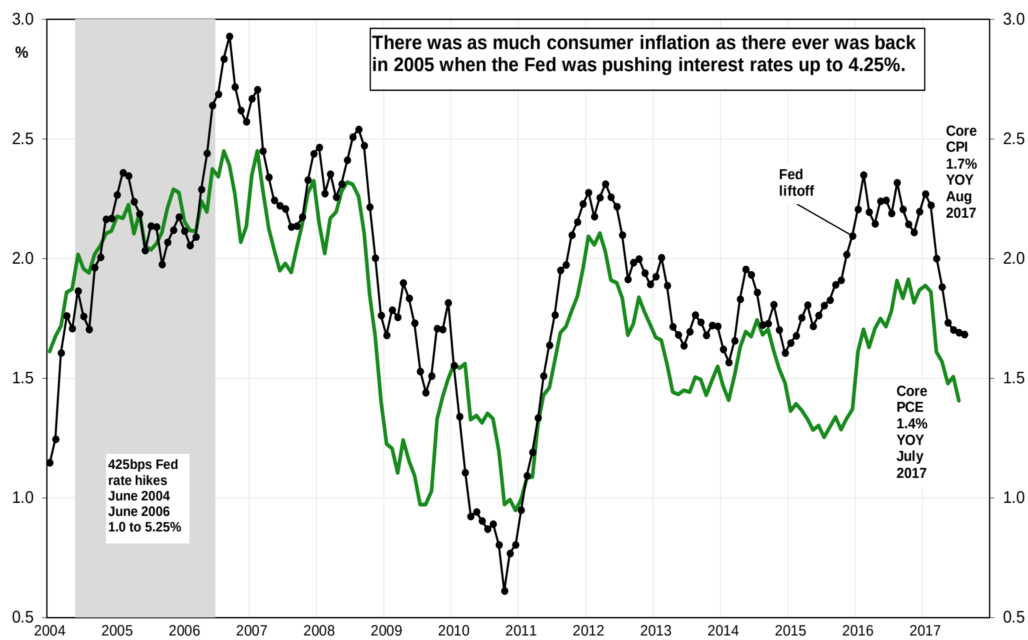


OTHER ECONOMIC NEWS THIS WEEK

Inflation breaks losing streak, puts Fed back on track

Breaking economy news. CPI inflation is out and rising again which puts the Fed back on track for that final rate hike later this year. The Inflation trend wasn't as slow as we thought even if core inflation came back today largely on the strength of that great big 0.5% jump in shelter costs. We certainly can't find a place to live that we can afford and either can millions of others. Shelter won't rise 0.5% every month but then it also won't rise just 0.1% like it did the month before. Shelter costs are running 0.2 or 0.3 percent per month for an annual rate of 3 percent. That's the trend.

Inflation isn't dead. We know the bond market thinks so after getting that rare 0.1% drop in core CPI inflation back in March. There is no deflation, there is no deflation that is the result of a stagnant economy. Wake up bond market. Anyway, core CPI rose 0.2% in August today which beats that long string of soft patch core inflation data after that shot-across the bow, what on earth is happening, 0.1% drop in March which as Yellen told us was



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due to the cell phones in your pockets, you are getting more free browsing time… for nothing. More free time to do nothing that costs nothing even while at your desk at work. Sweet.

Core inflation rising 0.2% today breaks that losing streak since March. Inflation is back from the dead. Core CPI changes 0.1s for four months in a row April, May, June, July. Well, it's over with today's report of 0.2% in August.

What's a policymaker to do? Stay the course. Headline CPI is rising 1.9% year on year, and core CPI is rising 1.7% year on year. It's not 2%, the Fed's target, but it is close enough. Stop worrying the public by saying you are worried that you are still missing on your inflation target. Follow the course. Put rates back to normal like they were in 2007 before your policies sent the economy into a recession.

Core CPI Inflation monthly and year-on-year changes

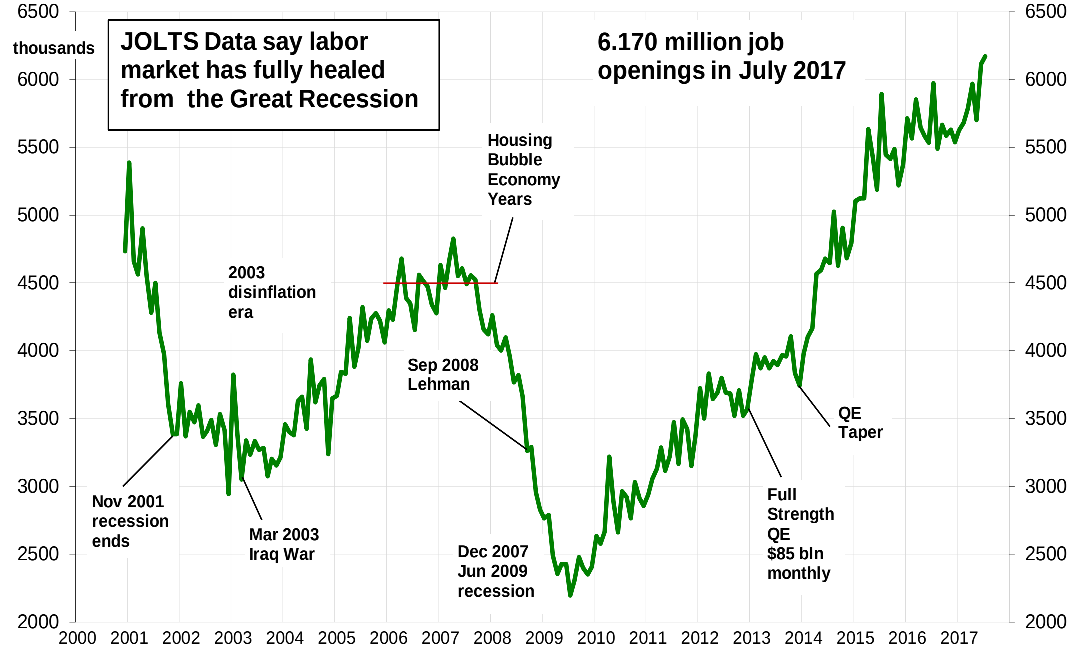
2017	% chg	YOY	2016	% chg	YOY
Dec			Dec	0.2	2.2
Nov			Nov	0.2	2.1
Oct			Oct	0.1	2.2
Sep			Sep	0.1	2.2
Aug	0.2	1.7	Aug	0.3	2.3
Jul	0.1	1.7	Jul	0.1	2.2
Jun	0.1	1.7	Jun	0.1	2.2
May	0.1	1.7	May	0.2	2.2
Apr	0.1	1.9	Apr	0.2	2.1
Mar	-0.1	2.0	Mar	0.1	2.2
Feb	0.2	2.2	Feb	0.2	2.3
Jan	0.3	2.3	Jan	0.3	2.2

Net, net, the laws of economics have not been repealed yet with this steady expansion of the economy in its ninth year bumping up against full employment this is just the time that inflation should start to rear its ugly head. You want to talk income inequality? There is nothing like inflation to rob real earnings spending power from worker's paychecks, especially those who aren't in on the gravy-train rally in the stock market. Today's rise in inflation will give even the more cautious Federal Reserve officials the confidence that inflation pressures are still building, and that the correct course for policy is that gradual rate hikes are still required. Inflation isn't dead. The economy is normal and interest rates need to move to normal levels. There is no justification for monetary stimulus this late in the expansion. The economy is stronger than Fed officials think. Inflation is too. Bet on it.

Job offerings huge and set another record in July

Breaking economy news. JOLTS data for July, job openings and labor turnover. Job openings at another record high of 6.170 million in July. This makes us question the Trump economics team's goal to lower corporate taxes to create more jobs, jobs, jobs, when the Jolts data illustrate well how few applicants there are to fill the jobs available out there right now. 6.170 million job openings against 7.132 unemployed. If there wasn't the biggest skills mismatch in history and the unemployed sought out those job openings, the unemployment rate would drop from 4.4% to 0.6%. The rhetoric from the Trump Administration isn't matching the reality of this labor market and where the U.S. economy is in the overall business cycle. Get an economist in there and have him tell the president. The country is still waiting for a Senate vote on Kevin Hassett as Chairman of the Council of Economic Advisers. Nine months in office and no chief economist brought aboard yet, no wonder policy is adrift. Everyone needs an economist.

There is no need for Washington to take steps either reforms or outright tax cuts to produce more jobs. Jobs aren't needed, people are needed to fill the jobs currently available. This is exactly what the economy looks like at full employment and it is really just a fool's errand for Washington to provide more fiscal stimulus. This economy does not need more jobs. The Administration's outdated employment goals seem to be the ones used in the last couple of Presidential campaigns when there was massive unemployment. The economy of today is not the one that President Obama inherited in January 2009, nor the one he faced in his second Administration in January 2013 when the unemployment rates were 7.8% (on its way up to 10.0%) and 8.0% respectively. President Trump inherited one of the strongest economies of any president in recent memory with an unemployment rate of just 4.8% in January this year. You can't fix it if it isn't broken.



Net, net, the job openings data show millions of jobs are available out there, a record number that makes one question the need for additional Washington stimulus either from the Trump economics team and Congress or from the Federal Reserve in this the ninth year of an economic expansion. There is a great big labor shortage out there, that's the problem and it may just be the one risk out there that halts the economy's current upturn. Money is free, there isn't a shortage of capital, it's labor that's the weakest link in this expansion. Think retail is dead? Well there are 625 thousand for hire signs hanging in storefront windows. Bring back those factories from overseas? There isn't anyone to work in them as currently there are 390 thousand job openings in manufacturing. The Fed can continue to dismantle the most accommodative policy in its history as it is plain to see that stimulus is simply not required at this stage of the economic cycle. A Fed hike is not expected in September but with data like these perhaps it ought to be. The economy is stronger than Fed officials believe. Bet on it.

Analyst Certification

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