Pioneer Bank & Trust
Trust & Investments
Local.

704 7th Ave, PO Box 729
Belle Fourche, SD 57717-0729
Phone (605) 892-3494
Fax (605) 892-2115

2001 W Omaha St, PO Box 9189
Rapid City, SD 57709-9189
Phone (605) 341-2265
Fax (605) 341-7425

140 E Jackson Blvd, PO Box 10
Spearfish, SD 57783-0010
Phone (605) 642-2725
Fax (605) 642-1736

Stronger dollars

October 1—Although economic growth remained less than robust, the financial markets did well in the third quarter. The S&P 500 stock index rose 0.6%, while the Dow Jones Industrial Average gained 1.3%. The price of 10-year U.S. Treasuries rose as the yield slipped to 2.51%. (Prices and yields move in opposite directions.)

Many had expected the markets to be more jittery as the date for the Fed's ending of its Quantitative Easing approaches. No one is quite certain what effect that will have, although Federal Reserve officials have indicated that they do not expect interest rates to increase this year, and perhaps not next year either. One part of the answer may be that just as the Fed is tightening, European central banks are loosening, cutting interest rates in order to stimulate private sector growth. Accordingly, the dollar is strengthening against both the euro and the yen, by 8% for both in just the third quarter. That makes U.S. stocks and bonds more attractive to foreign investors, as they may reap currency gains in addition to the performance of the securities themselves.

Negative interest rates

The European Central Bank has started to charge eurozone banks for keeping their deposits. This has pushed some interest rates below zero. For example, Ireland's two-year bonds were yielding minus 0.01% as the fourth quarter began. Germany, the Netherlands, Austria, Finland, Belgium and France also were flirting with negative interest rates on short-term borrowing.

The policy objective is to make borrowing ultra-cheap in order to stimulate more economic growth and employment throughout Europe, which continues to perform below capacity. The usefulness of the policy remains to be seen.

Consumer confidence

After touching a seven-year high in August, capping a four-month rising run, consumer confidence dropped sharply in September. The Conference Board's reading of sentiment fell from 93.4 to 86. One might have expected the drop in gasoline prices to boost consumer spirits, but a perception of a weakening job market seemed to be the dominant factor.

The number of optimists, those who expect improving business conditions, fell from 20.8% to 18.6%. Naturally, the number of pessimists expecting worse conditions rose, from 9.9% to 12%. Only 15.2% expect significant job growth in the months ahead.

A drop in consumer confidence can foreshadow a drop in consumer spending, leading to a recession. On the other hand, some economists dismissed the reading as a blip, given the steady, if slow, growth in the economy.

(October 2014)