

THE

OPTIMAL

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Rioting Rates

During the Great Recession the Federal Reserve engaged in the large-scale purchase of assets such as U.S. treasuries and bonds. For the six years that followed, the Board of Governors continued such purchases through cycles known as Quantitative Easing in an effort to keep low interest rates and catalyze growth. The total of \$4.5 trillion of accumulated asset holdings now in possession of the Fed need to be dwindled as the American economy recovers smoothly. However, unemployment at consistent lows pushing inflation up to its 2% target might be a more pressing issue. Investors are anxiously wondering if the central bank will set a timeframe for another interest rate hike prior to the end of this year. With the current conditions and unemployment on the lower end of the Fed's projections, a rate increase is unlikely. The Chicago Mercantile Exchange has already projected a slim 33% chance of it occurring. -NG



Fog from Foggy Bottom

Reaction from investors to the Fed shrinking its balance sheet has been surprisingly muted. WSJ analysts believe markets are more eager to see President Trump's appointment to the Board of Governors.

Target Lowers Prices

This week Target announced in a blog post that they would be permanently slashing prices on thousands of items in store and will have fewer sales throughout the year. Target also announced stopping of their 'Weekly Wow!' and 'Bonus Offer' positions. This appears to be in direct reaction to Amazon's announcement to cut prices at Whole Foods days after the merger.



In 2014, the Target Corporation launched TargetExpress™, a brand which stores like this one in central Chicago seek to attract urban consumers in an effort to adapt in a rapidly changing retail industry.

Amazon's recent purchase of Whole Foods had a severe impact on Target's stock price, falling by 10% on the day of the announcement. In May, Target also announced a new overnight shipping feature--a feature that Amazon has been offering for years. It seems that Target and other retailers are trying to make it in an ever more competitive market. Target has a lot to overcome given their low holiday sales in 2016. Will Target (and other grocers) need to improve their customer experiences and reduce prices or are they doomed? -VP

Hackers Gonna Hack

Equifax, one of the three credit reporting agencies in the United States, suffered a tremendous data breach that exposed the private information of over half of the adult American population. The sensitive information that leaked included names, social security numbers, credit card numbers, addresses, and birth dates, putting millions at risk for identity theft. While the breach may have happened as early as May 2017, Equifax did not discover it until July 29th and subsequently did not inform the public until nearly six weeks later on September 7th. Additionally, the agency reacted rather poorly to the attack, offering no effective method for consumers to validate whether their information has been compromised or not. The publicity of the breach strongly emphasized the importance for firms that hold confidential information to maintain an effective and robust cybersecurity presence. -MM

<https://goo.gl/LGgk1i>

Central Banks on Thin Ice

The leading cause of worry for investors is a "policy mistake" by the Federal Reserve or the European Central Bank, according to the global fund manager survey published by Bank of America Merrill Lynch. The second biggest risk is the crash in the global bond market, quite possibly triggered through a 'policy misstep' by one of the central banks. Last week, following the unusually candid remarks of the ECB president Mario Draghi, the Euro strengthened 14 percent against the dollar, thereby also increasing the risk of such a blunder actually taking place. The stronger currency has brought an unwelcome tightening in financial conditions in European markets,

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making it even harder for the ECB to hit its 2 percent inflation target. The Bank of America™ Survey has revealed that the global fund managers are at a point where they are hypersensitive to any shifts in monetary policy. Because of this dynamic, if central bankers fail to convince the global investors of the soundness of their policies or worse, 'frighten' the markets, it is likely that it could result in an investor panic as it did in February 2013. -AS

<https://goo.gl/jvo3EV>



The ECB headquarters on the banks of the River Main in Frankfurt. Its head, Mario Draghi has said that the "Euro's recent surge is an unwelcome source of uncertainty".

Earthquake in Mexico

Juchitan, an indigenous city in southern Mexico, is in a state of despair following an 8.2 magnitude earthquake that severely wrecked the region on Thursday night. The death toll currently stands at 90, with 71 in the state of Oaxaca alone. This comes just as Hurricane Katia hit the state of Veracruz on Friday night. President Pena Nieto declared three days of national mourning as volunteers, rescue workers, and aid flow into Juchitan. In Chiapas, Mexico's poorest state, 700 schools and 1,700 homes were damaged by aftershocks. Devastation was limited by strict construction laws which were enacted after the historic 1985 earthquake which killed 9,500 people, and injured 30,000. Neighboring countries such as Guatemala also felt a tremor although there was little to no damage to infrastructure. - AC

<https://goo.gl/ptKMHZ>