

## KEY TAKEAWAYS

We examine the economic, political, and market landscape through the lyrics of Bob Dylan, who won the Nobel Prize for Literature last week.

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# BOB'S BEIGE BOOK

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American singer-songwriter Bob Dylan was awarded the Nobel Prize in Literature for “having created new poetic expressions within the great American song tradition” last Friday, October 14, 2016. In our view, that’s yet another win for “Good Old American Know-How,” the United States’ remarkable ability to successfully and consistently export our ideas—along with our manufactured goods—to the rest of the world. Dylan has been one of our great exports for over 50 years now.

This week, the Federal Reserve (Fed) will issue its Beige Book—a qualitative assessment of business, banking, consumer, and agricultural conditions on Main Street in each of the Fed’s 12 regional districts, including the Minneapolis district (Dylan’s home district), ahead of the November 1–2, 2016 Federal Open Market Committee (FOMC) meeting. We expect the Fed’s Beige Book to reflect an economy that’s growing modestly, accompanied by rising wage and price pressure amid growing consumer and business anxiety ahead of the U.S. presidential election next month.

Although Dylan is notoriously press-shy and has never thought of himself as a “topical songwriter,” his catalogue of more than 500 songs provides even the casual listener with plenty of observations on life, love, and, if you look hard enough, even the economy and financial markets! This week, we take a look at the state of the U.S. economy, global economy, and financial markets through some of the more famous—and not so famous—lyrics from Bob Dylan’s songbook. We’re calling it Bob’s Beige Book.

—We sit here stranded, though we’re all doing our best to deny it—

Visions of Johanna | Blonde on Blonde (1966)

This line could really be sung by any central banker these days. From Fed Chair Janet Yellen to Mario Draghi, head of the European Central Bank (ECB), central bankers continue to look to fiscal policy to aid in reinvigorating the global economy. Markets will hear from Draghi this Thursday, October 20, 2016, after the ECB’s policy meeting. While markets don’t expect much out of the ECB this week—with some market participants expecting Draghi to signal the scaling back of its quantitative easing program—we expect Draghi once again to make a plea to governments in Europe to enact some pro-growth spending policies soon.

## —Your old road is rapidly aging—

The Times They Are A-Changin' | The Times They Are A-Changin' (1964)

Increased infrastructure spending would very likely be part of any increase in government spending in the United States and perhaps overseas as well. Both Donald Trump and Hillary Clinton have talked about initiating infrastructure spending if elected, although they have proposed vastly different ways to pay for it. Clinton plans to raise taxes to fund the infrastructure build, while Trump will likely cut spending elsewhere and increase borrowing to fund his infrastructure proposals. We will hopefully hear more specifics on these plans in the third and final presidential debate, set for this Wednesday, October 19, 2016, in Las Vegas.

## —Come senators, congressmen, please heed the call, Don't stand in the doorway, don't block up the hall—

The Times They Are A-Changin' | The Times They Are A-Changin' (1964)

Generally speaking, financial markets prefer gridlock in Washington, D.C., and if the current polls are accurate, gridlock is likely next January as a new

president is sworn in and the 115th Congress takes its seats in the Capitol. As we noted in our *Midyear Outlook 2016: A Vote of Confidence* [Figure 1], while history shows that gridlock is good for markets, gridlock may limit policy action at a time when it is needed on several fronts (taxes, entitlement reform, immigration, infrastructure, national security, etc.). With three weeks left until Election Day, markets continue to assess the outcome of the race for the White House and Congress, looking ahead to the legislative and policy agenda for 2017 and beyond. A key test for any new bipartisan spirit may come in mid-March 2017, when the U.S. hits the debt limit, forcing Congress to cooperate to avoid yet another wrenching debt ceiling debacle.

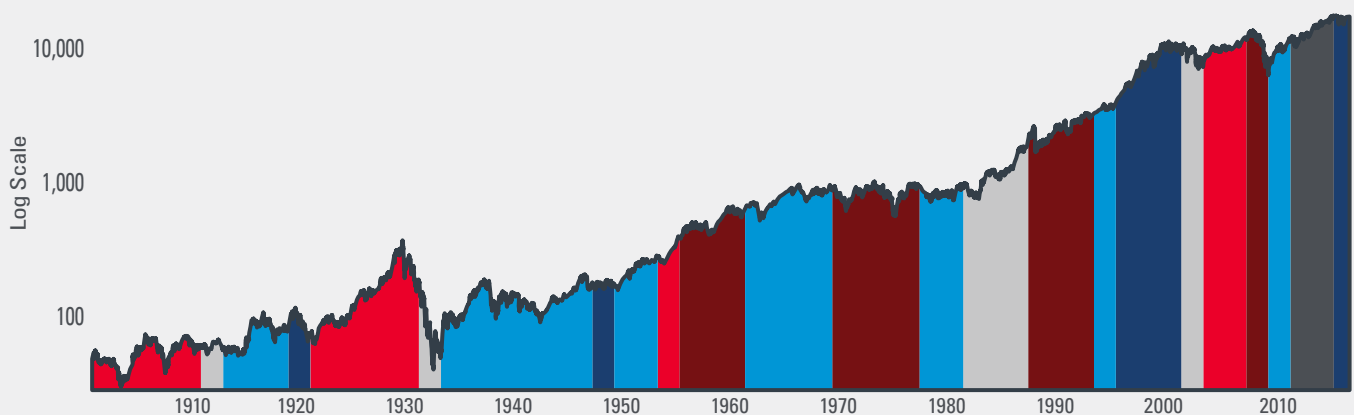
## —It's all new t' me, like some mystery, It could even be like a myth—

I Don't Believe You (She Acts Like We Never Have Met) | Another Side of Bob Dylan (1964)

The Congressional Budget Office (CBO) is the non-partisan arm of Congress charged with "scoring" any tax and spending bills proposed by Congress. In mid-2015, Congress passed a resolution that

### 1 STOCK MARKET PERFORMANCE UNDER PRESIDENTIAL AND CONGRESSIONAL PARTY COMBINATIONS

● Dow Jones Industrial Average, Log Scale



Source: LPL Financial, Bloomberg, Ned Davis 10/17/16

The Dow Jones Industrial Average Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

required the CBO to incorporate “macroeconomic feedback” into its scoring of tax and spending bills. This is known as “dynamic scoring.” Since its inception in the 1970s, the CBO has used “static scoring,” so this shift to dynamic scoring represents a big change to how the CBO, and ultimately Congress, views the federal budget. Although there is wide disagreement among market participants, government officials, and academics alike, dynamic scoring would make it easier to cut taxes without offsetting those tax cuts with spending cuts elsewhere in the budget. This ability may help to pave the way for a substantial tax reform deal in Congress in 2017.

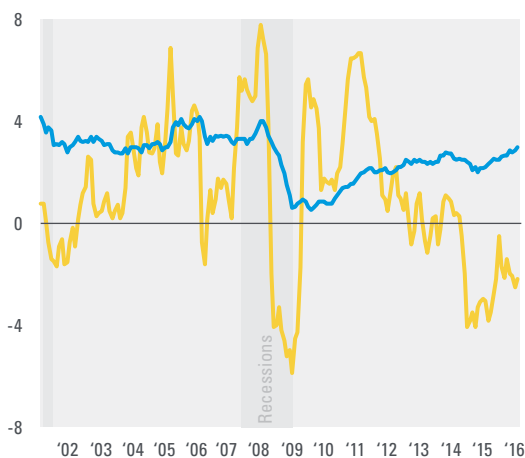
—Because something is happening here,  
But you don't know what it is,  
Do you, Mister Jones?—

Ballad of A Thin Man | Highway 61 Revisited (1965)

This Tuesday, October 18, 2016, the Bureau of Labor Statistics (BLS) will release the September data on the Consumer Price Index (CPI). According to the consensus of economists compiled by Bloomberg

## 2 HIGHER ENERGY PRICES POTENTIALLY POISED TO PUSH INFLATION HIGHER IN COMING MONTHS

- CPI-U: Services, Year-to-Year % Change, 1982–84=100
- CPI-U: Commodities, Year-to-Year % Change, 1982–84=100



Source: LPL Research, Bureau of Labor Statistics, Haver Analytics 10/17/16

News, the market expects the CPI to accelerate from 1.1% year over year in August 2016 to 1.5% in September, led by an increase in energy prices. Inflation in services (two thirds of CPI) is also expected to accelerate and move further above 3%. Service sector inflation has been accelerating since late 2009, but overall headline CPI has been held down by the collapse in goods inflation (one third of CPI), led by lower food and energy prices [Figure 2]. With oil prices stabilizing near \$50 per barrel, gasoline prices remain near \$2.40 per gallon, well above the \$2.26 average price in the fourth quarter of 2015 and the \$2.00 average in the first quarter of 2016. Thus, if gasoline prices stay where they are today through the end of the first quarter of 2017, the goods portion of CPI will quickly move from deflation to inflation and push the overall CPI above the Fed's target of 2.0%.

—There's too much confusion,  
I can't get no relief—

All Along the Watchtower | John Wesley Harding (1967)

Although the version of this song performed by Jimi Hendrix at the Isle of Wight concert in August 1970 may be better known than Dylan's own version, the message is the same one that we expect to see from business owners and consumers in this week's Beige Book. Business uncertainty has been a major restraint on business capital spending in recent years, despite the positive backdrop of low interest rates, an aging capital stock, banks' increased willingness to lend, and very low odds of a recession in the next few years. Businesses of all sizes have been reluctant to do any capital spending, citing concerns over the regulatory environment, healthcare costs, and more recently, the uncertainty surrounding next month's election. The election was cited 7 times in the September 7, 2016 Beige Book, all in a negative context. The presidential election campaign has turned even more combative and divisive since then, so we'd expect that the election will once again get plenty of attention from business owners and consumers in this week's Beige Book.

## CONCLUSION

In the last stanza of Dylan’s “Talkin’ World War III Blues” (The Freewheelin’ Bob Dylan, 1963), Dylan sang:

—Half of the people can be part right all of the time,  
Some of the people can be all right part of the time  
But all of the people can’t be all right all of the time—

That line reminds us that historically, the U.S. has often preferred pragmatism to ideology. No one

knows it all, so we’re willing to be a nation of compromise, even if it means we occasionally need to be a nation of gridlock as we work out some of the thornier issues. It’s part of where the spirit of “know-how” comes from. We like our truths bottom up. If it works, there’s a truth in there, and that’s always a good start to knowing more. And that’s why we keep coming back to the Beige Book—our window on Main Street, the economist’s folk music. It doesn’t read like Dylan; but then, no one really does. ■

### IMPORTANT DISCLOSURES

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