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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"He who awaits much can expect little." Gabriel Garcia Marquez

MARKETS

Macro Recap: This week was significant for earnings and economic news. The U.S. economy continued to show resilience in the third quarter, despite high interest rates and ongoing inflation concerns. The annual GDP growth rate for the latest quarter was 2.8%, slightly below the second quarter's 3.0% but well above the first quarter's 1.6%.

The Federal Reserve's preferred inflation measure indicated a gradual easing of price pressures. The Personal Consumption Expenditures (PCE) Index increased at an annual rate of 2.1% in September, down from 2.3% in August, marking the lowest rate since February 2021. Excluding energy and food prices, the core PCE Index rose by 2.7% in September. The main takeaway is that core PCE inflation remains persistently above the Fed's 2% target, dampening expectations for another aggressive rate cut and fueling ongoing debate about future rate cuts.

In October, the labor market showed signs of weakening, with only 12,000 jobs added, the smallest increase since December 2020, and significantly lower than the previous month's strong performance. Additionally, job gains for August and September were revised downward. The unemployment rate remained steady at 4.1%. The job data was negatively impacted by the Boeing strike and the effects of Hurricanes Helene and Milton, which were estimated to have reduced job numbers by around 100,000. The combination of these factors and the downward revisions to previous months' payroll figures suggests a softening in hiring activity.

Equity Recap: A relatively calm week of trading turned turbulent on Thursday as stocks plummeted due to renewed concerns about the growth potential of technology stocks and artificial intelligence. Despite a recovery in major indexes on Friday, the S&P 500 and NASDAQ ended the week with declines of over 1%, while the Dow's decline was minimal. The Russell 2000 managed a slight gain of 0.1%.

In October, the S&P 500 fell by 1.0%, ending a streak of five consecutive monthly gains. Over the past year, this was only the second negative month compared to ten positive ones. The NASDAQ and the Dow also posted losses in October, dropping 0.5% and 1.3%, respectively.

Bond/Rate Recap: U.S. government bond yields increased for the sixth time in the past seven weeks, though the pace of the rise has slowed. The 10-year note's yield closed at 4.37% on Friday, up from 4.24% the previous week and significantly higher than the recent low of 3.62% on September 16.

Week Ahead: Besides Tuesday's U.S. election, the week will feature a two-day U.S. Federal Reserve meeting, concluding on Thursday—an unusual shift from the Fed's typical Tuesday-Wednesday schedule for policy meetings. It is widely anticipated that the Fed will approve a quarter percentage point interest-rate cut, following the half-point cut made in September.

INDICES

	Oct 25 Close	Oct 21 Open	Weekly Change	Dec 31 2023	YTD Change
DJIA	42,052	42,114	-0.1%	37,690	11.6%
S&P 500	5,729	5,808	-1.4%	4,770	20.1%
NASDAQ	18,240	18,519	-1.5%	15,011	21.5%
Russell 2000	2,210	2,208	0.1%	2,027	9.0%
KBW Bank Indx	121.5	120.7	0.6%	96.0	26.5%
VIX	21.9	20.3	7.6%	12.5	75.7%
Oil (WTI)	$69.49	$68.75	1.1%	$72.57	-4.2%
Gold	$2,737	$2,738	-0.1%	$1,973	38.7%
Prime	8.00	8.00	0.00	8.50	-0.50
Effective Fed Funds	4.83	4.83	0.00	5.32	-0.49
3m Tbill	4.50	4.63	-0.13	5.33	-0.83
2yr UST	4.21	4.10	0.10	4.25	-0.04
10yr UST	4.38	4.24	0.14	3.88	0.50
2-10yr UST Spread	17	13	4	-37	54
2y AAA Muni/10y UST	63.8%	64.8%	-1.1%	58.9%	4.9%
10y AAA Muni/10y UST	69.3%	70.9%	-1.7%	58.5%	10.8%
5yr Inflation Rate	2.38	2.31	0.07	2.15	0.22

Week Ahead

- **Monday:** Factory orders
- **Tuesday:** U.S. election, ISM non manufacturing, Trade balance, Cons confidence
- **Wednesday:** No major reports
- **Thursday:** FOMC rate decision, Concumer credit, Wholesale inv
- **Friday:** UofM Cons sent, Treasury budget

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