Summary

Economic data for the week included Q3 GDP being revised slightly higher, while PCE inflation continued to decelerate. Manufacturing data remained contractionary on net, and new and pending home sales fell back.

Stocks gained globally as falling inflation and central banker comments led to hopes for lower interest rates next year. Bonds fared especially well, due to a drop in long-term rates leading to a strong duration effect. Commodities were mixed to down, with higher gold prices offset by weaker crude oil, despite OPEC+ production cuts.

Economic Notes

(+) The second release of U.S. **GDP** for the third quarter was revised up from 4.9% to 5.2%, above expectations for 5.0%, and reiterating the strength in the period. However, personal consumption growth was revised down from 4.0% to 3.6%, while structures investment was revised upward, as was government spending. Inflation news also showed a positive trend. Headline PCE for the quarter was revised down by over -0.10% to an annualized rate of 2.8%, as was core to 2.3%. The year-over-year headline PCE rate declined to 3.4%, while core fell back to 3.9%.

After having bounced around the ~2% area most of the prior month, the Atlanta GDPNow estimate for Q4 declined from 1.8% to 1.2% last week. This now matches the more pessimistic Blue Chip economist consensus, which fell at just over 1%, with the spread of top and bottom 10 forecasts ranging from 0.5% to just under 2.0%. Almost all of the GDPNow estimate (1.2% of the total, with offsetting other categories) continues to be driven by consumer spending, while inventories represent a drag of about -0.6% of the total number. Real-time analysis becomes more meaningful the deeper we get into the quarter, with the general direction of growth fairly accurate in these measures. The conclusion is growth remains trend-like to a bit lower, but no recessionary drop-off apparent as of yet.

(0/+) **Personal income** and **spending** for October each rose at a 0.2% pace, in keeping with expectations. For the first time in years, personal income has been positively driven not only by wages (the normal driver) but also asset income earned, as yields have risen. The personal saving rate ticked up a tenth to 3.8%. Year-over-year, income is up over 4%, with spending up just over 5%. Finally, with inflation falling back, these are again moving into positive 'real' gains. The headline PCE inflation figure slowed to flat for the month, while core PCE ex-food and energy rose 0.2%—each about a tenth lower than expected. Year-over-year, headline and core PCE are up 3.0% and 3.5% respectively—each several tenths below last month's pace, largely due to a decline in energy prices. Goods prices are only up 0.2% over the last 12 months, while services prices have risen 4.4%. The Fed's recent favorite inflation version, 'super core,' which is focused on services and removing housing, is up 3.9% from a year ago, so also remains a bit sticky. For inflation generally, recent months have continued to show a deceleration toward the Fed target of 2%, although we continue to take time in getting there. Regardless, there has been a financial market sigh of relief at the progress and lack of any upturn.

(0/-) The **ISM manufacturing index** came in unchanged at 46.7 for November, despite expectations for a small increase to 47.8. This remains below the neutral 50 level, thus in contraction for the 13th straight month (in fact, the longest stretch since the 1980-81 era). Underlying components fared a bit better than the headline, with new orders rising several points, closer to neutral, but remaining in contraction. On the other hand, production and employment each fell further into contraction. The inventory sub-index and prices paid each rose by a few points but remained in contraction. Anecdotally, labor strikes were mentioned as contributing to the weak month, which could transform into a bit of a recovery in December, absent other factors.

(+) **Construction spending** rose by 0.6% in October, exceeding the 0.3% rise expected, including a revision down for the prior month. By category, both private and public residential spending rose by over a percent each, while non-residential spending barely ticked higher. However, as construction costs rose by over a percent in the month, on a seasonally-adjusted basis, real spending fell about a half percent.

(+) The **S&P Case-Shiller 20-city home price index** rose 0.7% in September, just a tenth of a percent short of the median forecast and continuing a string of strong results. Every city saw a gain during the month, led by 1%+ results in Las Vegas, Detroit, and Phoenix. Year-over-year, national price growth re-accelerated from 2.1% to 3.9%. A few caveats include the delayed nature of the data, with summer a far stronger seasonal period than fall or winter, as well as the rise in mortgage rates after this report period by about a percent, which would have weighed on subsequent activity.

(-) **New home sales** in October fell by -5.6% to a seasonally-adjusted annualized rate of 679k units, just beyond the -5.1% expected by consensus, and reversing the sharp gain the prior month after revisions were taken into account. By region, the West saw the deepest declines, while the South and Northeast saw small gains. Over the last 12 months, sales were up 18%, and lie 25% over last summer's low, reflecting the homebuilder reaction to severe housing shortages around the country. Interestingly, the median home price is down -18% from a year ago at $409,300, part of which is due to a change in housing mix from high-end to more affordable stock being produced. The months' supply inventory level increased by 0.6 to 7.8, with the average listing time for a new home at 2.5 months. High mortgage rates certainly haven't helped recent sales, but pricing is offset somewhat by the extremely tight existing home inventories.

(-/0) **Pending home sales** in October fell by -1.5%, a bit better than the -2.0% median forecast, but in a reversal of small gains the prior month. Gains in the Northeast region were offset by declines elsewhere, notably in the West, down -6%. The trailing 12-month pending sales number improved to -7%. This October decline points to lower existing home sales in the coming few months.

(+) The Conference Board's index of **consumer confidence** in November rose by 2.9 points to 102.0, a point above the expected 101.0 reading. While assessments of present conditions deteriorated somewhat, expectations for the future improved by over 5 points. The labor differential ticked up slightly, with opinions that jobs were more plentiful than hard to get. Interestingly, consumer perceptions of an upcoming U.S. recession over the next year fell to 67%, which is the lowest in over a year, although obviously still higher than 50/50.

(-) **Initial jobless claims** for the Nov. 25 ending week rose by 7k to 218k, below the 220k forecast. Continuing claims for the Nov. 18 week rose by 86k to 1.927 mil., above the lesser rise to 1.865 mil. level expected by consensus. Rising and falling claims were mixed by state, with few differences. There continue to be assumed seasonal adjustment issues with claims data, but the general trend has not shown dramatic change in a negative direction.

Market Notes

Period ending 12/1/2023	**1 Week %**	**YTD %**
DJIA	2.60	11.68
S&P 500	0.83	21.52
NASDAQ	0.41	37.76
Russell 2000	3.12	7.29
MSCI-EAFE	0.40	12.57
MSCI-EM	0.20	5.17
Bloomberg U.S. Aggregate	2.04	2.51

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2022	4.42	4.41	3.99	3.88	3.97
11/24/2023	5.54	4.92	4.49	4.47	4.60
12/1/2023	5.43	4.56	4.14	4.22	4.40

U.S. stocks fared positively to end November. In fact, the month's S&P total return of 9.1% was the best single month in over a year. Positive sentiment was related to slower PCE inflation reading during the week, showing further deceleration in prices. More so, this was tied to some optimistic comments from Fed board member Waller, who has been seen as hawkish up until now, having updated his view of inflation ultimately getting back to 2% with current policy, and better chances of even 'lowering the policy rate' over the next 3-5 months. Markets jumped on the news, as this provided some hope for even more substantial rate cuts next year. However, before this exuberance got too out of hand, Chair Powell attempted to quash these dovish expectations, hinting at the still-possible chance of rate hikes 'if' data demands it. Seemingly now that probabilities are high that we're at 'peak' Fed funds rate, the question of year-end has turned to rate cuts.

By sector, only communications lost ground, while cyclical materials, industrials, and financials led by gaining several percent. Real estate also gained nearly 5% on the hopes for lower interest rates, as one of the most rate-sensitive groups. U.S. small cap stocks fared especially well, with the Russell 2000 up over 3% as easing rates are expected to help that segment to an even greater degree than large cap.

Foreign stocks also fared positively with European consumer price inflation falling from 2.9% to 2.4%, a surprise on the downside, and core falling to 3.6%. Speaking of rate cuts, Europe has signaled that they're further into the cycle than is the U.S., due to recessionary conditions. Expectations are for a faster timeline into easing—perhaps as early as Q1 or Q2 2024. Chinese stocks bucked the rest of the globe, by declining several percent as PMI data continued to contract; authorities also shared a 25-point plan to boost financial support in the private sector.

Bonds fared quite positively, up several percent, as the 10-year Treasury declined by a quarter-percent, with fading inflation fears. Investment-grade corporates fared best, with additional help from the credit spread, while floating rate bank loans were flat on the week. Foreign developed market debt performed similarly, while emerging market USD bonds outpaced local.

Commodities fell back generally, with declines in energy outweighing gains in precious metals, while industrial metals were little changed. Crude oil fell over a percent last week to $74/barrel, with price weakness over the past few months remaining focused on higher supplies running stronger than expected, as well as the removal of a geopolitical 'risk premium' in the Middle East. OPEC meetings last week (which had been postponed) were focused on two key issues: how they can share the burden of additional production cuts (by 2.2 mil. barrels/day early next year, albeit voluntary, leading to a muted price response) and a technical debate on 2024 output targets for West Africa. These appear to be niche issues, but all revolve around keeping supply manageable in order to sustain prices at a certain level with an uncertain global growth outlook.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, Investing.com, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.