Summary

Economic data for the week included U.S. GDP growth for Q3 coming in over double that of the prior quarter. Durable goods orders also came better than expectations. In housing, new home and pending home sales both exceeded estimates.

Equities fell back as several growth metrics led investors to assume continued higher interest rate policy. Bonds fared positively as yields actually fell back. Commodities were mixed with a small decline in crude oil offset by a spike in natural gas.

Economic Notes

(+) The first release of **U.S. GDP** for the third quarter showed growth of 4.9%, representing the fastest pace in two years, far better than the Q2 pace of 2.1% and above the 4.5% consensus estimate. This primarily reflected increases in consumer spending (growing an annualized 4.0%, contributing 2.7% to GDP outright), interestingly with faster growth in durable goods than in services, although services contributed more to GDP due to its larger size. Also, private domestic investment rose 8.4% (contributing 1.5%, mostly due to inventories adding 1.3%). However, inventories tend to be variable and often self-correcting quarter to quarter, particularly as it appeared the strike-affected auto sector was a key factor. Government consumption also grew 4.6%, adding 0.8% to the GDP total, with both Federal and state/local rising. On the negative side, business fixed investment in equipment declined, demonstrating potential business caution. As far as inflation goes, the core PCE price index rose at an annualized pace of 2.4% for Q3, down from the Q2 pace of 3.7%, showing substantial improvement. The GDP price index rose by 3.5% at a quarterly annualized rate, nearly a percent above expectations.

Overall, growth was strong throughout the report. This reading was unusual, as a variety of estimates had pegged growth at near zero early in the quarter, but steadily ramped up to around the actual growth rate as the weeks wore on. The U.S. economy continues to surprise on the upside in terms of overall activity, notably the spending of consumers, although it continues to be assumed that the tightening caused by higher interest rates will eventually weigh on results in Q4 and into early 2024. But these remain assumptions, with timing difficult to peg precisely.

The Atlanta GDPNow measure had pegged growth for Q3 at 5.4%, so this ended up being fairly accurate. For Q4, the initial estimate points to 2.3%, driven almost exclusively by still-strong consumer spending growth. The Blue Chip economist consensus is betting on between 0.5% and 1.0%, within a low-high range of around -0.5% to 1.5%.

(0) **Personal income** for September rose by 0.3%, a tenth of a percent below forecast, led by gains in rental income, with wage income remaining strong, while transfer receipts barely ticked higher—all largely resulting in little ‘real’ after-inflation gains. Personal income is up nearly 5% over the past 12 months. **Personal spending** for the month gained 0.7%, beating expectations calling for 0.5%, and nearly double the rise of the prior month, and showing positive ‘real’ gains, largely due to the goods side. Spending is up 6% over the past year. Accordingly, the personal saving rate fell back by -0.6% to 3.4%. On the inflation side, PCE rose by a rounded 0.4% and 0.3% on a headline and core level, respectively, generally in line with expectations. This took trailing 12-month headline PCE to 3.4% and core PCE to 3.7%. PCE core inflation remains above Fed target, but has been improving, with the consideration that the equivalent CPI runs about a quarter-percent higher than PCE.

(+) **Durable goods** orders for September rose by 4.7%, exceeding the 1.9% median forecast and improving on the prior month's minimal change. Commercial aircraft orders surged 93% in the month; removing the strong transportation orders portion, ex-transports rose 0.5% and core capital goods orders rose 0.6%, also beating expectations. Machinery, metals, computers, and electrical equipment all rose around a percent to lead all core sectors. Core capital goods shipments were unchanged, versus expectations for a 0.2% rise. Over the past year, headline durable goods orders were up 8%, while removing transportation pared that back to 2%. Removing inflation, of course, takes that real small gain down.

(+) **New home sales** in September rose by 12.3% to a seasonally-adjusted annualized rate of 759k units, reversing the decline the prior month, resulting in the best month in over a year and half, and exceeding the median forecast calling for a 0.7% rise. Every region saw gains, led by the South and West. Compared to a year ago, new home sales were up 34%, in the opposite direction of existing home sales, in a reflection of adding much needed new housing supply. The median price of new homes is still down -12% from a year ago at $418,800, while the average price was down -5% to $503,900. For inventory, the months' supply of new homes fell by -0.8 to 6.9, as the pace of sales picked up, absorbing all new additions. Naturally, while high mortgage rates (around 8%) continue to pressure monthly payment levels upward, new homes are not caught up in the consternation of existing homeowners losing low-rate mortgages, so are staying put.

(+) **Pending home sales** rose 1.1% for September, outpacing the median forecast decline of -2.0% and improving upon the sharp decline the prior month. By region, sales rose by the most in the Midwest, up 4%, while the West saw a -2% drop. This bodes well for upcoming existing home sales for the next several months, which have struggled.

(0/-) **Initial jobless claims** for the Oct. 21 ending week ticked up by 10k to 210k, just above the 207k median forecast. Continuing claims for the Oct. 14 week rose by 63k to 1.790 mil., above expectations of 1.740 mil. Based on some reports, seasonal effects may be distorting the latter a bit, as initial claims remain relatively flat and not showing signs of any distress.

Market Notes

Period ending 10/27/2023	**1 Week %**	**YTD %**
DJIA	-2.14	-0.51
S&P 500	-2.52	8.66
NASDAQ	-2.62	21.59
Russell 2000	-2.60	-5.91
MSCI-EAFE	-0.76	2.59
MSCI-EM	-0.61	-1.65
Bloomberg U.S. Aggregate	0.68	-2.48

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
10/20/2023	5.58	5.07	4.86	4.93	5.09
10/27/2023	5.59	4.99	4.76	4.84	5.03

U.S. stocks fell most of last week, ending in the negative, with mixed corporate earnings reports and continued worries about potentially higher interest rates. The robust GDP report also poured cold water on sentiment, as this raises the chances of the Fed either raising rates further or pausing for longer, and certainly reduces the odds of rate cuts any time soon. It's safe to say that the Fed funds situation continues to outweigh any other market factors. Despite the long-awaited election of a Speaker of the House, odds of a government shutdown after Nov. 17 remain high, as there is little common ground between the parties. However, another temporary extension remains in the cards as well, buying a few more months.

For followers of charts, the S&P's 200-day moving average gave way on the downside, with the overall decline since late July coming in at close to the -10% correction for the most part. Additionally, the approximate 4150 level marks as a -50% retracement point from the Oct. 2022 to Jul. 2023 recovery rally, which is also technically significant. By sector, utilities saw the only gains last week, with declines most severe in energy and communications services, followed by health care. Real estate also fell back a percent, despite interest rates falling back.

Roughly a third of the S&P 500 reported last week, bringing the cumulative total to about half of the index completed so far, with blended earnings growth improving from a negative -0.3% year-over-year last week to a positive 2.7% (per FactSet). Revenue growth similarly improved from last week's 1.6% to now 2.1%. Earnings of the 'Magnificent 7' mega-cap tech firms were in special focus, with expectations for that select group of firms continuing to be demanding, especially in light of higher costs. Microsoft gained after beating expectations and the announcement of more artificial intelligence tools, while Alphabet, Amazon and Meta each fell back initially with slower-than-expected cloud growth and/or management caution about the economic environment ahead despite decent overall company performance. The bulk of earnings season wraps up after this coming week.

Foreign stocks declined last week, but fared better than U.S. markets, with similar global concerns of economic growth, interest rates, as well as the uncertainty surrounding the Middle East conflict. The ECB decided to keep rates unchanged at 4.0%, for the first time in ten meetings, noting that this was likely the end of hikes, but also that such a high level might be required to return inflation back down to 2%. In addition to weaker PMI results, this likely also contributed to sentiment somewhat, relative to U.S. equities. In EM, gains in China and Mexico of several percent each offset declines in India and South Korea and Taiwan. In China, stronger industrial profits improved sentiment.

Bonds reversed their negative trend by having a positive week with interest rates declining. Investment-grade corporate outperformed government only slightly, while floating rate loans fell back. A stronger dollar caused developed market foreign bonds to end flat, while emerging market debt ended strongly positive.

Commodities were mixed, with gains in industrial metals offset by declines in energy and agriculture. Crude oil prices fell back -3% last week to $86/barrel, while natural gas prices spiked by 7% with winter weather approaching in large sections of the country. Petroleum prices remain in sharp focus, being seen as the largest global carryover of the Israel-Gaza conflict, and any potential escalation.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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, 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. Census Bureau, 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.

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