Summary

In a holiday-shortened week, economic data included the index of leading economic indicators continuing their slide downward over the past half-year. Durable goods orders also declined, as did existing home sales. On the positive side, jobless claims fell back.

Equities were slightly higher last week, on light volume in the U.S. and few dramatic data releases. Bonds were mixed as interest rates ticked slightly higher, but spirits were boosted by a decent auction for long-term U.S. Treasuries. Commodities were also mixed with gains in metals offset by a slight drop in oil prices.

Economic Notes

(-) The Conference Board's **Index of Leading Economic Indicators** fell -0.8% in October, a tenth of a percent worse than both the prior month and expectations of a -0.7% decline. Over the past six months ending in October, the LEI fell by -3.3%, which was actually a slight improvement over the prior six months of -4.5% (Oct. 2022 to Apr. 2023). For the most recent period, consumer sentiment, falling ISM new orders, and lower stock prices weighed most heavily on results. This largely held true over the 6-month period as well, with the added factor of the negative interest rate spread. While the data in this index isn't new, the correlation of these factors to recession has been historically high, with a 3-for-3 record over the past 25 years, with today's level still falling solidly in the range pointing to upcoming recession in the near-term.

(-) **Durable goods** orders for October reversed course from the prior month by falling -5.4%, beyond the -3.2% decline expected. Removing transports improved this to a flat reading, due to commercial aircraft falling back in the month, along with autos and metals, while core capital goods orders fell only -0.1%. Core capital goods shipments were unchanged. Durable goods orders are up 0.3% from a year ago, while excluding transportation boosts that to 1.3%. This series remains lackluster, reflecting weak manufacturing activity.

(-) **Existing home sales** fell -4.1% in October to a seasonally-adjusted annualized rate of 3.79 mil., beyond the expected decline of -1.5%. By segment, single-family fell by -4%, while condos/co-ops declined over -2%, with the Midwest outperforming as sales were flat, while the South lagged with a -7% decline. In fact, October represented the slowest sales month nationally since August 2010. Overall sales are down -15% from a year ago, while the median existing home sales price is up over 3% from last year to $391,800. Per the NAR, the inventory of unsold homes grew nearly 2% from Sept., equivalent to 3.6 months' supply, with the narrative of many homeowners with low-cost mortgages continuing to stay put for now, as opposed to moving and picking up far more expensive financing today. Some good news included 30-year mortgage rates falling further from highs to 7.44%, although this remains 0.80% higher than last year.

(+) **Initial jobless claims** for the Nov. 18 ending week fell by -24k to 209k, below the 227k median forecast. Continuing claims for the Nov. 11 week fell by -22k to 1.840 mil., below the expected 1.875 mil. level. It appears the timing of Veteran's Day the prior week resulted in adjustments back toward normal, in addition to other seasonal factors affecting these readings as of late. Overall, claims have been little changed in the path of meaningful deterioration.

(0) The November **FOMC meeting minutes** again showed that 'all' participants felt keeping rates unchanged was appropriate, with the consensus view that data in 'coming months' would help clarify the path of any extra tightening needed. The committee seemed surprised (as were many others) about the strong pace of economic growth in Q3, but also continued to feel that a 'period of below-trend growth' and softening of labor markets were necessary for a better balance to be achieved. A projection of core PCE inflation of 3.5% for year-end was presented, which was a bit lower than the Sept. estimate, with 2% expected to be reached by 2026. However, inflation continued to be described as 'unacceptably high,' with 'limited progress' made in lowering indexes the core segment, such as services ex-housing. Risks to the downside were focused on as well, including possible stickier-than-expected inflation resulting from a longer Middle East conflict, resulting in higher oil prices, as

well as continued weakness in commercial real estate and regional bank balance sheets; these were offset by potential upside risks from continued robust consumer spending. In short, the Fed doesn't have any unique information not known by the rest of the financial markets, and remains 'data dependent' based on new information to arrive in coming months. However, they do appear to be pushing back on some calls for 'insurance' or 'adjustment' interest rate cuts in early 2024, especially with inflation running still above target, as such cuts would undo some of the tightening created by the past 20 months of intentional policy. The ECB could be closer than the U.S. Fed is to such cuts, considering the more fragile condition of the European economy, and likely recession.

Market Notes

Period ending 11/24/2023	**1 Week %**	**YTD %**
DJIA	1.29	8.84
S&P 500	1.02	20.52
NASDAQ	0.90	37.20
Russell 2000	0.56	4.05
MSCI-EAFE	1.06	12.12
MSCI-EM	0.47	4.96
Bloomberg U.S. Aggregate	-0.09	0.46

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
11/17/2023	5.50	4.88	4.45	4.44	4.59
11/24/2023	5.54	4.92	4.49	4.47	4.60

U.S. stocks ended the light volume holiday week slightly higher, with minimal economic information to review. Every sector ended in the positive, led by health care and consumer staples, while energy lagged with minimal gains, following minimal change in petroleum prices. The closely-watched earnings news from Magnificent 7 member Nvidia resulted in a beat of earnings and revenue expectations, but a stock price decline related to forward-looking guidance related to China. Otherwise, the drama for the week included the conclusion of the OpenAI executive suite drama, following the firing of the CEO, his move to primary investor Microsoft, and then a return to the artificial intelligence firm by Thanksgiving after an employee revolt. The newsworthiness of this is less financial in the near-term, but remains tied to excitement about which firms become most dominant in AI and the battle over commercialization—much of which remains to be determined.

Foreign stocks gained last week, with continued hopes of central banks perhaps cutting rates in the first few quarters of 2024, with additional help in developed markets from a weaker dollar, while emerging market currencies experienced little impact on net. Emerging markets were boosted by hopes for additional Chinese stimulus measures, with the underlying story being whether the government will provide enough to satisfy markets. Stocks in frontier market Argentina shot up 25% on the week upon the election of a far-right libertarian as president, with market hopes that a shake-up will finally get the country back on track after years of financial challenges.

Bonds fell back slightly on the week, with interest rates ticking up minimally on the shortened trading week and lighter volume. Investment-grade corporates outperformed governments, as spreads tightened and issuance remained tight, and high yield outperformed all other groups. Domestic sentiment at least was boosted a bit by a successful auction of 20-year U.S. Treasury bonds earlier in the week. These auctions have been increasingly watched for signs of weakening demand for U.S debt relative to expected rising supply from higher deficits, but no catastrophe has unfolded yet. Foreign bonds outperformed U.S. thanks to a decline in the U.S. dollar.

Commodities were little changed during the light trading week, with slight gains in precious and industrial metals offset by mixed results in energy. Crude oil fell a fraction of a percent to $76/barrel for the week, with further declines in natural gas contracts.

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, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, National Association of Realtors, 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.

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