Summary

Economic data for the week included consumer inflation coming in better on the headline side, but remaining sticky on the core side, while producer prices continued to show moderation. Jobless claims rose following consecutive hurricanes impacting the Southeastern U.S.

Equities were mixed globally last week, with gains in the developed world and declines in emerging markets, due to varying economic results and central bank policy expectations. Bonds pulled back as yields moved higher along with sticky inflation. Commodities were mixed, with oil prices ticking a bit higher but industrial metals down.

Economic Notes

(0/+) The **Consumer Price Index** for September rose 0.2% on a headline basis, and 0.3% after removing food and energy—each a tenth of a percent higher than expectations. Headline prices were significantly affected by a -4% drop in the price of energy commodities/gasoline in the month. Other segments were mixed, including rises in airline fares (by 3%), apparel (by 1%), medical care, and auto insurance and repairs. Shelter costs increased only 0.2%, running at half the pace of the prior several months.

Year-over-year, headline CPI rose 2.4% (the slowest pace since early 2021), while core CPI increased by 3.3%. Digging deeper, calculated CPI of 'all items less food, shelter, and energy' rose only 2.1% for the past year, while 'services less rent of shelter' rose 4.4%, explaining much of the underlying divergences. Energy prices falling -15% for the year dramatically affected headline results, but also helped by declining prices for new and used cars. On the other hand, shelter (up 5%), medical care services (up 4%), and auto insurance (up 16%) were strong on the upside. This report was considered a bit 'hotter' than expected, notably on the core side, with lower crude oil prices largely considered the uncontrollable variable. This inflation persistence implies perhaps a Fed easing policy that could end up being slower in nature than was earlier hoped for.

There are other implications here from a financial planning perspective. A monthly averaging period ending each September is the cut-off used for calculating cost-of-living adjustments (COLA) for the coming calendar year, with the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W, as opposed to the urban-focused CPI-U more widely quoted) pointing to a 2025 Social Security benefit increase of 2.5%. Similar calculations are used to adjust other government metrics, such as tax brackets, 401(k) and IRA contribution limits, etc., which tend to be formalized, rounded off, and announced during October. Retirees may not be as thrilled with the smallest COLA increase in four years, but it obviously reflects a normalization in broader inflation trends, which is a net positive.

(0) The **Producer Price Index** for September was unchanged on a headline basis, a tenth below expectations, while core prices ex-food and energy rose 0.2%, on par with expectations. Goods prices fell -0.2% (led by lower oil prices), offsetting a 0.2% in services prices, each on a seasonally-adjusted basis. Year-over-year, headline PPI rose 1.8%, while core PPI increased 2.8%. By broad group, final demand goods prices fell -1% over the year, while services prices rose 3%—the latter in keeping with the increase in wage costs. Along with an obvious deflationary impact of falling petroleum prices over the past year, overall producer inflation has shown better trends back toward normalcy, especially on the goods side.

(0) The preliminary Univ. of Michigan **index of consumer sentiment** for October fell by -1.2 points to 68.9, below the 71.0 level expected. This was primarily driven by a several point drop in expectations for the future, as opposed to current conditions. Per the surveyors, concerns about the upcoming election appeared to be more of a concerning factor than other global events, such as Ukraine and the Middle East. Inflation expectations for the coming year ticked up by two-tenths to 2.9%, while those for the next 5-10 years fell by a tenth to 3.0%.

(0) **Initial jobless claims** for the Oct. 5 ending week rose by 33k to 258k, well above the 230k median forecast. Continuing claims for the Sep. 28 week rose by 42k to 1.819 mil., below the consensus call for 1.830 mil. Several factors appeared to be behind the sharp bump in claims, including the obvious effects of Hurricane Helene

(roughly half of claims increase), auto plant layoff activity, as well as impacts from a Boeing strike (mostly in OR and WA). No doubt, effects from Hurricane Milton could be sizable from FL in coming weeks, although less so in other states, as opposed to the broader footprint of Helene.

(0) The **FOMC minutes** from the September meeting showed a wider range of views than usual, in keeping with the change in policy and rare dissent from one member. By the time minutes are released, the formal statement, press conference, and later clarification comments have been analyzed ad nauseum, but the minutes provide some tidbits as to the background of member opinions. Notably, a "substantial majority" favored a -0.50% cut, while "some" noted that they preferred only -0.25% and "could have supported such a decision." (At the same time, several members had also been in favor of a -0.25% in July that wasn't ultimately implemented.) Importantly, it was mentioned that the larger initial cut "should not be interpreted" that the pace of future cuts "would be more rapid" than what was noted in the Sept. dot plot, which implied two additional quarter-percent cuts this year. (Hence, that path has become the base case for many economists and strategists.) More specifically, participants noted that the labor market was "less tight than it had been just before the pandemic" with conditions near the FOMC's goal of maximum employment, although some were worried about the recent rise in the unemployment rate. On the inflation side, "almost all" had greater confidence that it was moving toward the 2% target, as labor forces were in balance and economic growth had slowed, which has tended to bring down inflation organically.

Market Notes

Period ending 10/11/2024	**1 Week %**	**YTD %**
DJIA	1.22	15.42
S&P 500	1.13	23.25
NASDAQ	1.13	22.89
Russell 2000	0.99	11.42
MSCI-EAFE	0.25	10.73
MSCI-EM	-1.66	15.76
Bloomberg U.S. Aggregate	-0.46	2.93

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2023	5.40	4.23	3.84	3.88	4.03
10/4/2024	4.73	3.93	3.81	3.98	4.26
10/11/2024	4.73	3.95	3.88	4.08	4.39

U.S. stocks reached new record highs again last week. Sector results were mixed, with technology and industrials leading with gains of over 2% for the week, followed by financials, while utilities pulled back by over -2%. Real estate saw a small decline, as interest rates ticked upward a bit. In the closely-monitored tech and communications segment, strength in NVIDIA offset a decline in Alphabet/Google, as it appears the Department of Justice is considering a legal push for a breakup of the company. Tesla also fell back by double digits as investors appeared less impressed with the lack of detail concerning their new 'robotaxi' products.

Earnings season for Q3 has begun, with a handful of S&P 500 companies having reported. Per FactSet, earnings growth expectations for the quarter are currently at 4.1%, although upward revisions of a few percent have been the norm for recent quarters. Q3 features expected leadership again from technology, communications, and health care—expected to run at 10-15% growth rates—while laggards include energy (-24%) and materials (-4%), based on the difficult commodity pricing environment. Revenue growth is expected to come in at a year-over-year pace of 4.6%, with overall S&P profit margins continuing to exceed a historically-high 12%.

Foreign stocks were down on net, with a gains in Europe and Japan offset by declines in U.K. and emerging markets. The U.K. appeared to reverse back into showing positive economic growth, while trade-focused Germany showed deterioration, although both rounded to just a few tenths above or below zero. Emerging markets stocks were driven downward by a declines of around -5% in China. After a strong two weeks, stocks there fell back due to

a lack of clarity on announced fiscal stimulus measures, as markets were dubious of sufficiency and timeline. It's assumed that added measures, and a speed-up in spending of earlier announced stimulus, will be required to make progress in moving the economy closer to 5% GDP growth goals and moving consumers out of their pessimistic state. Announcements last week were lackluster (with another planned for Sat.), although many of the problems the government are attempting to solve are not easily done so through macro stimulus, as opposed to targeted activities.

Bonds pulled back as interest rates moved up along the intermediate- and long-term parts of the U.S. Treasury curve, along with a sticky CPI report that cast further doubt on the Federal Reserve cutting rates by more than a quarter-percent at the November meeting. Floating rate bank loans outperformed, eking out a small gain, in contrast to traditional bonds. Foreign bonds also fared negatively, along with the headwind of a stronger dollar.

Commodities were mixed, with gains in energy and precious metals offset by declines in agriculture and industrial metals (the latter tied to sentiment around China). Crude oil prices rose nearly a percent last week to $76/barrel, with continued offsetting supply and demand impacts keeping volatility in check.

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. 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.

The information above has been obtained from sources considered reliable, but no representation is made as to its completeness, accuracy, or timeliness. All information and opinions expressed are subject to change without notice. The information provided in this report is not intended to be, and should not be construed as, investment, legal or tax advice; and does not constitute an offer, or a solicitation of any offer, to buy or sell any security, investment, or other product. FocusPoint Solutions, Inc. is a registered investment advisor.

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