Summary

Economic data for the week was mixed, with positive reports for retail sales, while industrial production and housing starts declined. Jobless claims were decent, considering the negative weather- and labor-related impacts.

Equities were mixed globally, with gains in the U.S. on net, and declines abroad, tied with a pullback in China's recent rally. Bonds were flattish with little change in the yield curve. Commodities were down for the most part, with lower perceived geopolitical risks pulling down oil prices.

Economic Notes

(+) **Retail sales** for September rose by 0.4%, exceeding median expectations of 0.3%. The decline in gas station sales of nearly -2% was the primary headline driver, while removing autos bumped the gain to 0.5%, and core/control sales rose 0.7% when all volatile components were removed. Overall, 10 out of 13 sectors saw gains, led by misc. stores (4%, which includes florists/office supply/gift shops/pet supply and others not easily categorized), clothing (1.5%), restaurants/bars (1%), and health/personal care helped push net results into the positive for the month, offset by a decline in electronics/appliances (over -3%). Year-over-year, total retail sales are up just under 2%, which represents little change on an after-inflation basis, but just under 4% when excluding volatile autos/parts/gasoline.

(-) **Industrial production** fell -0.3% in September, in a reversal from the gain the prior month, and just below the -0.2% drop expected. Within the report, utilities production rose 0.8%, with manufacturing down -0.4% (as auto production fell nearly -2%, being offset partially by production of high-tech equipment rising nearly 2%), and mining (including oil) activity down -0.6%. For the month, it appeared that several tenths of the decline could be blamed on the two hurricanes in the Southeast U.S., in addition to several tenths due to the Boeing strike, affecting airplane production. For the trailing year, total industrial production fell -0.7%, with 10% gains in high-tech offset by declines in most all other areas. **Capacity utilization** fell by -0.3% to 77.5%. While a few one-off events were behind the monthly decline, the overall trend remains negative, as has been the case for the manufacturing environment generally relative to services.

(-) The **Empire Manufacturing Index** fell by a dramatic -23.4 points back to a contractionary level of -11.9, well below the 3.6 level expected. New orders fell by nearly -20 points back down to a contractionary -10 level, in addition to weakness in shipments. Employment, however, rose by nearly 10 points back into expansion, while prices paid again strengthened further into solid expansion. The six-month-ahead business conditions index rose by 8 points to nearly 40, which was the highest level in three years. This survey has been exceptionally volatile, which has caused some of its usefulness to erode a bit.

(+) The **Philadelphia Fed manufacturing index**, on the other hand, rose 8.6 points to further expansionary 10.3 level in October, above the 3.0 expected. New orders and shipments both rose substantially in the expansionary zone, while employment fell back in the double-digits into contraction. Prices paid also fell but remained solidly expansionary. The six-month-ahead business conditions index rose by over 20 points to nearly 40 here as well.

(-) **Housing starts** declined -0.5% in September to a seasonally-adjusted annualized rate of 1.354 mil. units, just below the -0.4% decrease expected. While single-family starts rose by 3%, the overall drop was led by a multi-family decline of -9%. By region, the Northeast saw gains, while all other areas fell back. Relative to a year ago, housing starts are down almost -1%, which represents a split between a 6% gain in single-family and -16% decline in multi-family (which appear to be overbuilt in some areas, according to some folks in the REIT world). The positive news is that housing completions are continuing to run at a strong pace, cheered by many wanting relief from tight housing inventory, though new construction starts remains depressed. **Building permits** fell by -2.9% to a rate of 1.428 mil. units, further below expectations of a -0.7% drop, with gains in the West offset by declines elsewhere, especially in the South. While Hurricane Helene began in late Sept., it's likely Oct. results will be those more heavily affected.

(0/+) **Initial jobless claims** for the Oct. 12 ending week fell by -19k to 241k, well below the 259k forecast. **Continuing claims** for the Oct. 5 week rose by 9k to 1.867 mil., just above the expected 1.865 mil. The impact from Hurricanes Helene and Milton was significant, albeit isolated to a smaller geographic area, along with the impact from the Boeing strike in OR and WA, along with falling claims in various states in the Midwest.

Market Notes

Period ending 10/18/2024	1 Week %	YTD %
DJIA	0.98	16.55
S&P 500	0.87	24.33
NASDAQ	0.80	23.87
Russell 2000	1.87	13.50
MSCI-EAFE	-0.38	10.31
MSCI-EM	-0.37	15.33
Bloomberg U.S. Aggregate	0.05	2.98

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
10/11/2024	4.73	3.95	3.88	4.08	4.39
10/18/2024	4.73	3.95	3.88	4.08	4.38

U.S. stocks saw continued gains last week, led by continued reinvigorated strength in small cap stocks over large. By sector, utilities, financials, and materials led the way with gains of roughly 2% or more. Energy was the laggard, falling by nearly -3% upon continued weakness in oil prices. Real estate also gained several percent.

Earnings reports for Q3 continued to roll in with 14% of S&P 500 firms having now reported. Per FactSet, of those nearly 80% have reported a positive earnings surprise and just under two-thirds a positive revenue surprise. The blended earnings growth pace for the quarter Q3 (actual plus expected) has fallen by about a percent from quarter end to now 3.4%. Of the total S&P figure, the 'Magnificent 7' companies are expected to grow at a rapid 18.1% clip, with the 'other 493' stocks at a meager 0.1%—again demonstrating continued strength from that concentrated technology and communications group—which is expected by FactSet to continue into 2025. In keeping with this, Q3 earnings growth is anticipated to be strongest in technology (16%) and communications (11%), while energy (-26%, along with a similar decline in oil prices) and industrials (-8%) are bringing up the rear. Q3 looks a bit weaker than Q2, but the season is early yet.

Foreign stocks were down for the most part last week, not helped by the stronger U.S. dollar, with gains in the U.K. offset by declines in Europe, Japan, and the emerging markets on net. The ECB cut their key interest rate by another quarter-percent to 3.25%, as expected, representing their first back-to-back easing meetings in over a decade. Noted by the ECB were a disinflationary process moving in the right direction (recently under 2%), but coupled with downside surprises in economic data. Japan has seen falling inflation rates as well, which are seen as making any further monetary tightening this year perhaps less likely. EM nations were mixed but pulled down by decline of several percent in China, which has experienced a sharp degree of both positive and negative volatility in recent weeks as investors attempt to decipher the central government's plans for stimulus—how much and where it's targeted. China GDP for Q3 also came in at 4.6% on a year-over-year basis, due to a slowing in exports; this was a tenth below the prior quarter, but a bit better than expected. The stock index in Taiwan fared positively, dominated by Taiwan Semiconductor Manufacturing (20%+ of it), due to continued optimism over artificial intelligence-related names.

Bonds were little changed on the week, with an almost identical U.S. Treasury yield curve as the prior Friday. High yield and floating rate bank loans eked out a slightly better return due to their yield advantage. Foreign bonds were mixed, with the offsetting impact of the dollar.

Commodities generally fell back, along with the stronger dollar, with sharp declines in energy and narrower declines in industrial metals and agriculture, offset by a gain in precious metals. Crude oil prices dropped -8% last week to $69/barrel, as it was reported that Israeli leadership announced to the U.S. that they'll only strike Iranian military targets, as opposed to nuclear or oil facilities—this immediately lowered the embedded risk premium.

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, 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.