Summary

Economic data for the week included a decline in overall durable goods, mixed results in housing sales, as well as higher continuing jobless claims, due to a variety of weather and labor issues.

Equities declined globally, with higher interest rates and less certainty about central bank rate easing looking forward. Bonds fell back along with rising yields at the longer end of the curve. Commodities gained, largely due to energy, despite a stronger dollar.

Economic Notes

(0/+) The **S&P Global U.S. manufacturing PMI** rose by 0.5 of a point to 47.8, above the small expected gain to 47.5, although overall conditions remain in contraction. By component, output, new orders, and employment improved, although all stayed in contraction. Input and output prices each declined but remained strongly expansionary in the mid-50s. This continues the well-worn path of where manufacturing data generally has fallen over the past several years, remaining in the shadow of services.

(+) The **S&P Global U.S. services PMI** rose by 0.1 of a point to 55.3, exceeding the 55.0 expected, and shows a move into further expansion. Under the hood, new business saw gains further into expansion, while employment was flat, just under the neutral 50 level. Input and output prices fell by several points but remained in expansion. This mid-50s level for services is indicative of it continuing to run at a strong level, in line with other services metrics.

(-/0) **Durable goods orders** declined -0.8% in September, just ahead of the median forecast of -1.0%, including a revision downward by nearly a percent for the prior month. Removing transportation bumped this up to a 0.4% increase, due to the commercial and defense aircraft orders falling in the month, with gains from fabricated metal products leading the way. Core capital goods orders rose 0.5%, a bit better than the prior month, while core capital goods shipments fell by -0.3%. Transportation has been the most volatile sector, as usual, with activity inching along elsewhere, led by computer/electronic products, while meager in most other groups. Year-over-year, total durable goods remain down -2%, while they've risen 1% when transportation is removed, which does not point to overly robust activity.

(-) **Existing home sales** fell by -1.0% in September to a seasonally-adjusted annualized rate of 3.84 mil. units, below the expected increase of 0.5%. Single-family sales fell by nearly -1%, while condos/co-ops fell by over -5%. Regionally, the West saw gains of 4%, while sales fell elsewhere, with the largest decline in the Northeast. For the past year, existing sales overall were down -3.5% nationally, although, like many housing statistics these days, it's a study in contrasts (lower-cost home categories under $250k fell 10-20%, while those priced at over $500k rose 5-8%). The median existing home sales price fell by -2.3% over the prior month but maintained a gain of 3% over the past year to $404,500. Inventory came in at 4.3 months' supply, up 0.9 from a year prior. The National Association of Realtors reiterated a more bullish narrative—"Home sales have been essentially stuck at around a four-million-unit pace for the past 12 months, but factors usually associated with higher home sales are developing. There are more inventory choices for consumers, lower mortgage rates than a year ago and continued job additions to the economy."

(+) **New home sales** rose 4.1% in September to a seasonally-adjusted annual rate of 738k, above the 719k expected, but included several revisions downward for prior months. By region, this was led by sales in the South up 6%, while the Midwest saw a minor decline. Nationally, sales are up 6% from a year ago, with a steady upward trend in houses for sale. The median new home sales price was $426,300, up just a fraction of a percent from a year ago, and again kept in check due to changes in home sizes (smaller). Months' supply came in at 7.6, continuing in a downward trend over recent months, but virtually unchanged from a year ago. As this is a government-generated U.S. Census Bureau report (as opposed to the realtor association-based existing home sales numbers), it is more data-focused with less of a narrative included.

The 30-year fixed Freddie Mac moving average mortgage rate has come down from 7.8% a year ago to 6.5%, so there is progress in the right direction. However, careful observers will note the rise from recent lows of around 6.0% in late September. This is in direct conflict with the Fed's cutting of interest rates, which many mortgage-watchers assume should cause loan rates to follow right along. Rather, the spread between the 30-year fixed rate and 10-year U.S. Treasury note has stayed wider (at 2.3%) than its long-term average of 1.5-2.0%. As these rates are driven by MBS markets, higher yield premiums demanded have been due to higher interest rate volatility, lower refinancing activity, lesser Fed buying participation, etc.

(0) **Initial jobless claims** for the Oct. 19 ending week fell by -15k to 227k, well below the unchanged 242k expected. Continuing claims for the Oct. 12 week rose by 28k to 1.897 mil., well above the 1.875 mil. median forecast. The claims effects of Hurricanes Helene and Milton continued to be significant in affected states (especially FL), as were effects from the Boeing strike (OR and WA), and some auto layoff activity (MI and OH).

(-) The Conference Board's **Index of Leading Economic Indicators** fell by -0.5% for September, a bit further than the -0.3% decline the prior month, and again moving into a signal of recession. For the month, negative inputs included the still-inverted 10 year minus Fed funds part of the yield curve, ISM new manufacturing orders, and building permits; these offset gains in the S&P 500 (stocks being an important forward-looking indicator), tight credit spreads, and low jobless claims. Over the trailing six months ending in Sept., the LEI fell by -2.6%, which was further than the -2.2% drop in the prior six months ending Mar. 2024. Inputs for the last six months were largely like those noted for the past month, especially the ISM new orders and inverted curve. Per the Conference Board, "Weakness in factory new orders continued to be a major drag on the US LEI…as the global manufacturing slump persists," in addition to the above-mentioned factors such as the yield curve, building permits, and negative sentiment. Importantly a recession remained off the table—"Overall, the LEI continued to signal uncertainty for economic activity ahead and is consistent with The Conference Board expectation for moderate growth at the close of 2024 and into early 2025."

Market Notes

Period ending 10/25/2024	**1 Week %**	**YTD %**
DJIA	-2.66	13.45
S&P 500	-0.96	23.14
NASDAQ	0.16	24.06
Russell 2000	-2.99	10.11
MSCI-EAFE	-1.98	8.13
MSCI-EM	-1.75	13.31
Bloomberg U.S. Aggregate	-0.92	2.03

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
10/18/2024	4.73	3.95	3.88	4.08	4.38
10/25/2024	4.73	4.11	4.07	4.25	4.51

U.S. stocks lost ground for the first time in six weeks, as higher interest rates associated with an assumed more drawn-out Fed rate cut cycle and perhaps higher future deficits post-election weighed on sentiment. By sector, consumer discretionary experienced a percent gain (led by a 20%+ return for Tesla, upon better than expected earnings and vehicle sales projections) and a small gain for technology, while negativity was most pronounced in materials, industrials, and health care. Large cap fared better than small cap. Real estate fell about -2% upon the rise in yields.

A good deal of speculation is continuing based on the potential outcome of the Nov. 5 election. Typically, pre-election weeks have experienced a higher degree of volatility, particularly in close races. The good news is that post-election rallies have also been historically frequent, as have a tendency of November and December to be

two of the best-performing months of the year—of course, such historical tendencies are never guaranteed in any given single year.

Per FactSet, 37% of companies in the S&P 500 have now reported Q3 earnings, bringing the total year-over-year blended growth rate down almost a percent from quarter-end to 3.6%, though revenue growth has ticked up a few tenths to 4.9%. Earnings growth gains continue to be led by technology and communications (up in the double-digits), with energy earnings now having weakened to -27%. The year-over-year comparative is assumed to significantly improve by Q4, with expected market earnings growth of over 13%, and over 15% expected for calendar year 2025, which has kept markets buoyant. A bulk of firms, including five of the Magnificent 7 report this coming week, which will provide more clarity on things.

Foreign stocks lost ground as well, with the added impact of a stronger U.S. dollar, up about a percent for the week. Japan underperformed, with Europe, U.K. and emerging markets faring slightly better. Sentiment largely was focused on the pace of U.S. Fed rate cut movements, as well as continued weak economic growth in Europe, yet more divisiveness over the pace of ECB policy easing.

Bonds lost ground as interest rates continued to tick upward, with floating rate bank loans the only winning sector. As noted, yields have been rising along with stronger economic and labor data, and perhaps what seem to be recently higher odds of a Trump election victory—with the implication being higher deficits and larger expected Treasury debt supply in coming years. Foreign bonds lagged, as the U.S. dollar gained.

Commodities gained despite the stronger dollar, led by energy, while precious metals were also higher. Crude oil prices rose over 4% last week to $72/barrel, with continued Middle East concerns and indications of some demand improvement.

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.