Summary

Economic news for the week included the U.S. Federal Reserve cutting the Fed funds rate by another quarter-point. In terms of data, ISM services ticked higher, remaining in strong expansion, and productivity saw gains in Q3, although labor costs rose as well.

U.S. stocks gained ground for the week following the conclusion of the Presidential election, while foreign stocks saw mixed results. Bonds fared positively as yields pulled back from recent highs. Commodities were mixed, with gains in energy offset by a decline in metals.

Economic Notes

(0) The **FOMC** unanimously voted to cut rates by a quarter-percent to 4.50-4.75%, although the future path of rate hikes has become cloudier since the election, with the formal FOMC statement language little changed. At the post-meeting press conference, Chair Powell noted the economy has made significant progress towards its goals over the last two years. Inflation itself was asked about—the persistent 2.7% trailing 12-mo. core PCE figure in particular. Powell noted the annualized pace of more recent months being far lower, in the low 2's, as inflation readings for non-housing services/goods prices have fallen back to levels seen under prior 2%-ish inflation regimes. Housing remains the measurement problem, though, particularly in capturing the effects of new leases. Inflation expectations were noted as being well-anchored, which is a future-looking metric the Fed tends to find important. Economic growth was acknowledged as stronger since the last meeting. He also reiterated the importance of the Fed not being on a "pre-set course," but everything is reviewed meeting to meeting with a goal of "making sensible decisions" as they go, but that they're on a "path" to a much more "neutral stance." It wasn't quite a declaration of victory, but perhaps as close as the Fed gets to that. The data dependency may also seem obvious, but the Fed feels the need to clarify it, especially to take away too much expectation baked into Fed funds futures markets, which can go out a year or more, during which a lot can change in either direction.

While refusing to comment on the election results specifically, in regard to new policies, he reiterated they'll have "no effect" on near-term decisions, as nothing concrete is yet assembled. As Powell put it in regard to the difficulty in forecasting, "We don't guess, we don't speculate, and we don't assume," noting the wide range of possible outcomes of legislation that could eventually be passed. However, this could represent a time of greater uncertainty looking forward, which takes away their willingness to put out more specific forward guidance. He did note that as policies are formalized, impacts would be added to their internal models, which do help educate FOMC members on their policy decisions. Powell conjectured that higher long-term Treasury yields are likely more a matter of stronger growth and lessened downside risks rather than higher inflation fears, although he reminded watchers again that the Fed doesn't comment on current or future fiscal policy options (in response to a question about higher deficits being a possible cause of higher bond yields). Lastly, the response was curt when asked about whether he would resign if asked ("no") or if any Fed committee members could be fired or demoted at will ("not permitted under the law").

(+) The **ISM services/non-manufacturing** index rose 1.1 points to 56.0 in October, above the expected decline to 53.8. This remains in expansion, in fact the fastest pace in several years. Within the index, new orders and business activity each fell back by 2-3 points but remained solidly in expansion at levels over 57. On the other hand, employment rose by nearly 5 points back into expansion at 53. Prices paid fell by a point to a still-expansionary 58, while supplier deliveries rose 4 points to 56. From anecdotal commentary, a variety of respondents noted a negative impact from the hurricanes and port strikes, although the latter were short-lived. From another provider, the **S&P Global U.S. Services** PMI fell by -0.3% to 55.0 in its final reading for October. In short, the service sector continues to remain in expansion and represents the largest part and key driver of the economy, sustaining the current soft landing by offsetting the persistent negativity in manufacturing.

(+) The preliminary **Univ. of Michigan index of consumer sentiment** for November rose by 2.5 points to 73.0, beating expectations of a minor increase to 71.0. While assessments of current conditions fell by a half-point, expectations for the future rose by over 4 points. Inflation expectations for the coming year fell a tenth of a percent

to 2.6%, while those for the next 5-10 years rose a tenth to 3.1%. The survey cutoff occurred on Nov. 4, so just missed the election, with anecdotal commentary in reaction to that was limited.

(+) The preliminary **nonfarm productivity** report for Q3 showed a 2.2% annualized increase, a bit below the 2.5% expected and just above the 2.1% of Q2. However, the year-over-year productivity pace decelerated by -0.4% to 2.0%, including revisions. Interestingly, productivity has grown at a similar rate of 1.8% since Q4 of 2019, just before the pandemic. **Unit labor costs** (defined as compensation divided by output) rose at an annualized 1.9% for Q3, nearly double the expected pace, but below the 2.4% rate of the prior quarter. For the trailing 12 months, unit labor costs ticked up by 0.2% to 3.4%. Compensation per hour fell by -0.3% to an annualized rate of 4.2% in the quarter, while the year-over-year measure declined by -0.2% to 5.5%. Revisions for the past year resulted in an upward push in unit labor costs, which is considered inflationary, so runs counter to the Fed's easing efforts.

(-/0) **Initial jobless claims** for the Nov. 2 ending week rose by 3k to 221k, just below the expected 222k. Continuing claims for the Oct. 26 week rose by 39k to 1.892 mil., above the 1.873 mil. median forecast. It appeared that some auto sector layoff activity in the Great Lakes region offset a drop back towards normal in recent hurricane-affected states in the South.

Market Notes

Period ending 11/8/2024	**1 Week %**	**YTD %**
DJIA	4.61	18.50
S&P 500	4.69	27.17
NASDAQ	5.76	29.25
Russell 2000	8.61	19.72
MSCI-EAFE	0.07	7.07
MSCI-EM	1.21	13.30
Bloomberg U.S. Aggregate	0.78	2.20

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
11/1/2024	4.61	4.21	4.22	4.37	4.57
11/8/2024	4.63	4.26	4.20	4.30	4.47

U.S. stocks were little changed in the early part of the week, before the results of Tuesday's general election. The strong Republican showing resulted in a strong rally starting Wednesday, with votes still being counted to determine the composition of the House and possible red sweep. The general hope for markets with this political arrangement is lower corporate taxes, a light-touch regulatory environment, and stronger upcoming earnings growth. The ends of election seasons have also tended to prompt a 'relief rally' of sorts historically. The FOMC rate cut was icing on the cake, although expectations for next year have become less dovish. Small caps fared especially well, as would be expected in such an environment.

Every S&P 500 sector saw a gain last week, with more cyclical groups leading with returns of well over 5%, including consumer discretionary, energy, industrials, financials, and technology; laggards included the lower-beta defensive group of consumer staples, health care, and utilities. Real estate also rose several percent along with lower interest rates.

Foreign stocks were little changed on net, with slight gains in Japan offset by weakness in Europe and the U.K. Aside from disappointing earnings, there has been rising concern in Europe surrounding proposed detrimental trade policy/tariffs in the next U.S. administration, adding to already challenging slow economic growth conditions on the continent. This was highlighted by Germany moving up their planned election by six months. The Bank of England cut rates by a quarter-percent to 4.75%, though it was a bit hawkish in language noting potentially higher inflation in the next year due to the U.K. budget. The Bank of Sweden dropped rates by a half-percent along with

sluggish economy and slowing inflation concerns, while the central bank of Norway kept rates unchanged. Emerging markets were also mixed, as markets digested the impacts of the election on individual countries, through trade, currency impacts, and U.S. re-shoring efforts away from China.

Bonds fared well as yields moderated from the prior week, led by high yield and investment-grade corporates, which outperformed U.S. Treasuries. The 10-year Treasury yield fell back a bit on the week but remains well above the lows for the year of 3.6% in mid-September. Foreign bonds were mixed, with the U.S. dollar higher.

Commodities were mixed last week with stronger agriculture and energy, offset by softer industrial and precious metals. Crude oil prices rose about a percent last week to $70/barrel, along with hopes for a more accommodative petroleum environment in the U.S. but tighter sanctions on several other producers, like Iran, although supply and demand continue to see mixed influences.

Have a good week. To the veterans, thank you for your service.

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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.