Summary

Economic data for the week included U.S. GDP growth showing another strong quarter, as did personal income and spending. Manufacturing data continued to contract, as has been the trend over the past several years. The monthly employment situation report was far weaker than prior months, below lower expectations, due to the impacts of hurricanes and a major labor strike.

Equities fell back last week with mixed company earnings call commentary and higher interest rates. Bonds fell back as yields continued to move higher, with concerns over fiscal spending. Commodities fell back as geopolitical concerns related to the Middle East faded a bit.

Economic Notes

(+) The advance **U.S. GDP** report for the 3rd quarter showed growth of 2.8%, a tenth below expectations and two-tenths below Q2's final version of 3.0%. The underlying composition included a 6% gain in goods spending (adding 1.3% to the GDP number, with help from AI data centers and other incented activities), services up nearly 3% (adding 1.2%), and government up 5% (adding 0.9%, nearly a third of the total growth, from rebuild of the defense stockpile). On the other hand, net exports removed -0.6% from GDP, and inventories took off -0.2%. The GDP price index rose at an annualized rate of 1.8% for the quarter, below expectations, while the core PCE price index rose at an annualized 2.2% pace, down from the 2.8% rate in Q2.

The Atlanta Fed's GDPNow measure was again quite accurate, with the final Q3 estimate of 2.8% coming in a day before the official release, having fallen by a few tenths over the prior few weeks where it had drifted to over 3%. The initial estimate for Q4 came in at 2.7% but was quickly revised down to 2.3% by the end of the week. Consumer spending is assumed to make up 1.7% of the total, with positive contributions from non-residential fixed investment and government, offsetting the negative influences of residential investment and inventories. The Blue Chip economist consensus came in at a level of 1.75-2.00%, between a range of 1.5% and 2.5% for the top and bottom ten estimates, respectively. So, the average estimate out there remains close to the Fed and CBO long-term estimate, and a just bit below trend.

(0/+) **Personal income** rose 0.3% in September, a tenth higher than expectations, with gains in wage and rental income of a half-percent each offset by lower interest income (as cash rates have fallen). **Personal spending** rose by 0.5%, matching expectations, and led by goods as opposed to services for that month. The personal saving rate came in at 4.6%. Both income and spending are up just over 5% during the past year, equating to continued positive 'real' growth after inflation. In the month, **PCE** inflation came in 0.2% higher at a headline level, and 0.3% for core, ex-food and energy, each on par with expectations. On a year-over-year basis, headline PCE decelerated by two-tenths to 2.1%, while core was unchanged from the prior month at 2.7%. The main difference between headline and core was lower energy prices, while core stayed higher due to areas with a few seasonal adjustment effects, such as airline fares. While inflation by that latter measure hasn't deteriorated further, progress toward the Fed's 2.0% policy target has stalled.

(-) The **ISM Manufacturing index** fell by -0.7 of a point to 46.5 in October, but below the gain to 47.6 expected, and remaining in contraction. Under the hood, new orders rose a point to 47 and employment gained half a point, although both remain in contraction. Production fell by several points, from near neutral back into contraction. Prices paid rose by over six points back into expansion, while supplier deliveries fell slightly, but stayed in expansion. Formally, the ISM noted subdued demand, as companies "continue to show an unwillingness to invest in capital and inventory" along with concerns about possible resurgence in inflation and high fiscal spending by both political parties. Anecdotal commentary from several respondents noted that demand had softened over the past several months, with others mentioning potential drags from the recent hurricanes, which have caused a variety of disruptions. (Goods manufacturing has tended to experience a catch-up effect after extreme weather events, due to fulfilment of pent-up demand; this is more difficult for services, as one can't double up on missed haircuts or restaurant meals.) In a separate report, the final **S&P U.S. Global manufacturing PMI** report was revised up by 0.7 of a point to 48.5, still in contraction, but slightly improved, with similar underlying tendencies, such as improved new orders.

(0) **Construction spending** in September rose 0.1%, in keeping with the prior month's gain and a tenth better than expectations of no change. It also featured upward revisions for July and August from declines to flattish growth. In September, public construction led the way, with gains in residential of several percent, while private residential and non-residential were little changed and offset each other. Construction costs fell nearly a half-percent in the month, resulting in positive real spending gains.

(+) The Conference Board's **index of consumer confidence** for October rose by 9.5 points to 108.7, above the minor expected increase to 99.5. The improvement was broad, with assessments of present conditions rising 14 points and future expectations rising 6 points. The labor differential also rose by nearly 6 points, with jobs continuing to be seen as plentiful as opposed to hard to get. Consumer perceptions of a recession in the next 12 months fell by -2% to 64.5%, which is the lowest level in two years (despite consumers being continuously pessimistic).

(+) **Initial jobless claims** for the Oct. 26 ending week fell by -12k to 216k, well below the expected increase to 230k. **Continuing claims** for the Oct. 19 week fell -26k to 1.862 mil., below the 1.880 mil. expected. As expected, the largest gains for claims were in FL, which were hurricane-related, as were substantial declines in NC and VA. Hurricane impacts aside, claims remain well within normal ranges.

(-) The **JOLTS** job openings report for September fell by -418k to 7.443 mil., below the 8.000 mil. expected. By segment, the strongest declines were in health care/social assistance (-178k), trade/transports/utilities (-134k), state/local government ex-education (-79k), and federal government (-28k), but rose in finance/insurance (85k) and professional/business services (77k). The job openings rate fell by -0.2% to 4.5%, while the hiring rate rose a tenth to 3.5%; on the departure side, the layoff rate rose by 0.2% to 1.2%, while the quits rate fell by a tenth to 1.9%. The bulk of declines in openings (-325k) were in the South region, which alludes to weather effects that have likely distorted a lot of data over the past several weeks, while most job layoffs/quits were in the Northeast.

(-) The employment situation report for October was a lot weaker than recent months, certainly compared to recent months, with the negative influences of the Gulf Coast Hurricanes Helene and Milton, in addition to the Boeing airplane manufacturing strike. Each of those was assumed to pare 40-50k off of the headline jobs number. **Nonfarm payrolls** rose a meager 12k for the month, below the 100k gain expected, in addition to downward revisions totaling 112k for the two prior months. Gains were strongest in healthcare (51k) and government (40k), while the weakest results were in durable goods manufacturing (-47k, most of which was tied in with the Boeing strike) and professional/business services (-47k, most of which were temporary positions). The **unemployment rate** was unchanged at 4.1%, largely as expected, as was the U-6 underemployment rate at 7.7%. The household survey showed a -368k decline, severely influenced by idiosyncratic factors. In addition to a multi-decade low response rate, the number of workers not at work due to weather rose by 460k. **Average hourly earnings** rose 0.4%, a tenth higher than expected, while the year-over-year change ticked up a tenth to 4.0%. **Average weekly hours** were unchanged at 34.3.

Market Notes

Period ending 11/1/2024	**1 Week %**	**YTD %**
DJIA	-0.15	13.28
S&P 500	-1.35	21.47
NASDAQ	-1.50	22.21
Russell 2000	0.11	10.23
MSCI-EAFE	-1.05	7.00
MSCI-EM	-1.21	11.94
Bloomberg U.S. Aggregate	-0.61	1.40

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
10/25/2024	4.73	4.11	4.07	4.25	4.51
11/1/2024	4.61	4.21	4.22	4.37	4.57

U.S. stocks fell back as a whole last week, with notable weakness in large cap growth offset by lesser declines in value and minimal change in small cap stocks. By sector, communications gained over a percent (mostly Alphabet/Google) to lead, while technology (Apple, Microsoft, and NVIDIA), utilities, and energy all lost several percent for the week. Real estate also fell by -3% along with higher long-term interest rates. On Thursday, markets took a downward turn after quarterly reports from Microsoft and Meta especially. Despite decent Q3 numbers, this appeared to be due to continued concern over high levels of AI infrastructure spending, and an uncertain timeline for this capex to translate into sales. Obviously, the higher the price ratios rise for such companies, the greater the market sensitivity to potential disappointment. Sentiment on Friday improved dramatically as a weak jobs report (albeit weather- and strike-driven) provided more hope again for keeping Fed rate cuts on track. With such a close national election race, removing the uncertainty will be a key theme of the coming week.

For those keeping track of the 30 stocks in the Dow Jones Industrial Average, NVIDIA and Sherwin-Williams will replace Intel and Dow Inc. on Fri., Nov. 8. (Notably, stocks with rising financial market dominance and/or strong recent price performance may find themselves in a better position to be added; and vice versa.) The index is tweaked periodically in attempts to make it look representative of the overall economy, but the tight concentration, arbitrary selection of stocks, and price-weighted construction continue to make the DJIA less popular of a bogey for institutional investors than the S&P 500. But, it's been in existence since 1896, back when indexes were painstakingly calculated with paper and pencil, so some likely feel compelled to keep the brand and return history intact. The popular media continues to report on its levels as the headline number, with the S&P 500 only a secondary mention in many cases.

Speaking of the S&P 500, it was a busy week for earnings with nearly half of member firms reporting last week. Per FactSet, 70% of the index has now reported, with three-quarters seeing a positive earnings surprise and 60% a positive revenue surprise. The blended year-over-year growth rate current falls at 5.1%, which would represent five straight quarters of growth, but only about half the pace of the especially-strong double-digit Q2-2024 reading. The term 'bottom' has been used increasingly by executives in earnings calls, which traditionally has been a positive sign for upcoming earnings recoveries (as FactSet expects for Q4 and 2025 as a whole).

Foreign stocks fared similarly to U.S. equities, with negative returns, aside from Japan, which gained. European GDP growth improved (0.4% in Q3), which tended to lower expectations for a more dovish ECB rate cut policy looking ahead. In the U.K., yields rose as a new budget was announced. It included a variety of expected actuarial-like adjustments to assets and liabilities that allowed for increased spending; while taxes were also increased, markets perhaps felt spending was not directed to areas thought to be productive. The response could be enough to suspend at least one BOE planned rate cut. Japanese stocks rose sharply on Monday, as the ruling party failed to secure a majority of seats in the House of Representatives. This was considered a strong upset, in a nation where political surprises are considered unusual. While it was assumed this might result in an easier Bank of Japan, which has been prone to avoid tighter policy under uncertain conditions, comments were less dovish, where higher implied rates supported the yen. Emerging markets were less China-driven for a change, with declines in Brazil and Mexico related to weaker commodities and trade policy uncertainty surrounding the U.S. election, and in South Korea and Taiwan, with poor returns for U.S. tech stocks, to which those markets tend to be correlated.

Bonds lost ground as interest rates continued to tick higher during the week, along with concerns over sticky inflation and loose post-election fiscal spending. Floating rate bank loans and high yield outperformed traditional bonds with minimal declines. Foreign bonds were also weak, due to a stronger U.S. dollar.

Commodities lost ground for the week, led downward by energy and industrial metals, while ag was little changed. Crude oil prices fell over -3% last week to $69/barrel, which mostly occurred early in the week as Israeli strikes on Iran were generally insignificant, with the likely intent of de-escalation.

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.

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