Summary

Economic data in a busy pre-holiday week included the Federal Reserve cutting interest rates, as expected, although assumptions for next year have tightened. U.S. GDP for Q3 was revised higher by several tenths, while retail sales rose with strong holiday spending, and existing home sales rose. Also positive was the Index of Leading Economic Indicators turning positive for the first time in nearly three years. On the other hand, industrial production and housing starts fell back. PCE inflation for the month was weaker than expected, although the year-over-year pace was little changed.

Equities fell globally for the week, along with the assumptions for less accommodative future policy. Bonds declined for similar reasons, as long-term yields climbed. Commodities fell back across the board, along with a stronger U.S. dollar.

Economic Notes

(0) The December **FOMC** meeting ended with a quarter-percent rate cut, with one dissent. The dissent wasn't surprising in that conditions appear balanced enough to perhaps not need additional stimulus. The most telling update was that of the dot plots from September, which alluded to stronger-than-expected conditions for growth and labor, with inflation also assumed to be stickier over the next several years, in fact. These pointed to a higher ending Fed funds rate, assumed to be around 4.0% or so by next year, and 3.0% eventually, although obviously a lot can change over that time and dots aren't known for precise accuracy. It may be a moot point trying to determine where the neutral rate lies, and it may vary by cycle, according to the back and forth between a variety of economists and strategists.

Chair Powell's post-meeting press conference appeared more dovish, in perhaps an attempt to soften the more hawkish formal FOMC language for next year's reduced rate of cuts. Powell noted that current policy remained "meaningfully restrictive," and is confident about seeing the return to their inflation target as "still broadly on track," with goods inflation already lower and more normal, and services having been affected by catch-up effects. He also mentioned the labor market having cooled and is less tight than pre-pandemic. In terms of future policy, Powell noted that the group has taken different approaches to incorporating items like tariffs into their models, which is not unusual (especially considering the lack of clarity about any tariff policy at this very early stage).

(+) The third and final report for third quarter U.S. **GDP** showed an upgrade in growth from 2.8% in the second edition to 3.1%. Per the BEA, the update primarily reflected revisions higher for exports (less negative), consumer spending (by 0.2% to 3.7%), and government spending (0.1% to 5.1%); these were partly offset by downward revisions to private inventory investment and residential fixed investment. The most consistent driver of GDP growth this year has been private services, showing gains in every quarter, offsetting the lumpier private goods and government segments. Most other stats were unchanged, including headline PCE inflation at an annualized 1.5%, while the core PCE price index was revised up a tenth to an annualized 2.2% pace. The Atlanta Fed's **GDPNow** measure continues to show a strong expected result for Q4, in fact, having strengthened in recent weeks to 3.2%—more similar to the Q3 figure.

(+/0) **Personal income** rose 0.3% in November, a tenth below the median forecast, and half the pace of the prior month, led by employee compensation more than other factors that had seen strength. **Personal spending** rose 0.4%, also a tenth below expectations, led by consumer spending, in keeping with the Holidays. Accordingly, the personal saving rate ticked down to 4.4%. Headline **PCE** and core PCE were each up just over 0.1% for the month, about half the increase expected. Year-over-year, headline PCE and core PCE were up 2.4% and 2.8%, respectively, which was actually up a bit from the prior month, but continued the pace of 'not radically worse,' and the November single month number was certainly cheered by markets.

(+) **Retail sales** rose 0.7% in November, exceeding the median forecast by a tenth of a percent, and included a small revision upward from the prior months. As auto sales rose 3% in the month, removing that segment reduced the gain to 0.2%, while core sales (removing autos, gasoline, and building materials) rose 0.4%. Otherwise, non-

store/online retail saw the strongest gains of 2%, followed by sporting goods and electronics (obviously holiday-oriented), while declines occurred in misc. retail (-4%), clothing, and food/beverage. Year-over-year, retail sales are up 4%, which results in 'real' growth when inflation is considered. Seasonal adjustments matter at this time of year, with an overwhelming proportion of consumer spending taking place around the holidays. While this smoothing captures some of the anomalies, which would make the data almost unintelligible otherwise, it doesn't capture everything, so numbers can sometimes look a bit more extreme in the later part of the year.

(-) **Industrial production** fell by -0.1% in November, in contrast to an expected gain of 0.3%, in addition to a revision downward for the prior month. Manufacturing production rose by a few tenths, led by autos (over 3%, which strength in assemblies) and high-tech equipment (up almost a half-percent, largely related to AI investment), which offset declines in aerospace (despite the Boeing strike resolution earlier in the month), as well as mining (which includes oil production) and utilities (of over a percent, which tends to be a weather-related factor month-to-month). On a year-over-year basis, total industrial production is down about a percent, with high-tech equipment up 7%, offset by declines everywhere else, mostly in motor vehicles, down nearly -4%. This continues to reiterate the strength of specific areas of high-end technology manufacturing, while other manufacturing segments continue to run weak. **Capacity utilization** fell by a few tenths to 76.8%.

(0/-) The **Empire manufacturing index** for December had another dramatic move, falling -31.0 points to a barely-positive 0.2 reading, below median forecast calling for 10.0. Sizable declines were seen in new orders, shipments, and employment, but only the latter fell into contractionary territory. Prices paid also fell, but continued to remain strongly expansionary, per recent trend. On a less negative side, expected business conditions six months out fell by -9 points but remained solidly expansionary at 25. This series has been exceptionally volatile compared to other manufacturing data points, such as the ISM.

(+) **Existing home sales** rose 4.8% in November to a seasonally-adjusted pace of 4.15 mil. units, above the 3.0% increase expected. Single-family unit sales rose by 3%, while condos/co-ups rose just under 3%. By region, the Northeast saw the largest gains of nearly 9%, followed by the South and Midwest at 5-6%, while the West was little changed. The median existing home sales price rose at a year-over-year rate of 4.7% to $406,100, representing the 17th straight month of price increases. The inventory of unsold homes fell by -2.9% from the prior month, to end at about 3.8 months' supply, still below what's considered normal. The underlying challenge of homeowner 'lock-in' persists—the lack of interest in selling for fear of giving up an ultra-low mortgage rate.

(-) **Housing starts** fell by -1.8% in November to a seasonally-adjusted rate of 1.289 mil. units, in the opposite direction of the 2.6% expected increase. Despite single-family starts rising 6% for the month, the total figure was pulled down by a decline in multi-family, which fell by -23%. Regionally, gains in the Northeast and South of 10% each (the latter in a bit of a hurricane reversal) were offset by a -28% decline in the Midwest. **Building permits**, on the other hand, rose 6.1% to a level of 1.505 mil. seasonally-adjusted units, exceeding the 1.0% increase expected, led by a sharp increase in multi-family. New apartments appear to be amply supplied around the country, making that part of the pullback less of a surprise.

(+) **Initial jobless claims** for the Dec. 14 ending week fell by -22k to 220k, below the 230k median forecast. Continuing claims for the Dec. 7 week fell by -5k to 1.874 mil., well below the expected 1.892 mil. forecast. This appears to show some normalization of prior-week Thanksgiving weekend distortions, but little meaningful layoff activity around the country—a continued positive sign.

(+) The Conference Board's **Index of Leading Economic Indicators** for November turned the corner by rising 0.3%, the first positive monthly result since Feb. 2022, and no longer signaling an impending recession. The monthly gain was aided by higher building permits and rising stock prices for the S&P 500, which offset weaker readings for ISM manufacturing new orders and a continued inverted U.S. Treasury yield curve (using their measure of 10-yr. minus Fed funds). Over the past six months from May to Nov. 2024, the LEI declined -1.6%, an improvement from the -1.9% decline of the prior six-month period, ending May 2024. For the most recent semiannual stretch, stocks and credit strength outweighed the cyclically weak new orders, yield curve inversion, and consumer confidence. The Conference Board downplayed some of the homebuilding data, noting that "gains in building permits were not

widespread geographically or by building type; they were concentrated mainly to the Northeast and Midwest, and on buildings with 5+ units rather than single-family dwellings." But they also remained positive over the longer haul, mentioning that the board "currently forecasts US GDP to expand by 2.7% in 2024, but growth to slow to 2.0% in 2025."

Market Notes

Period ending 12/20/2024	1 Week %	YTD %
DJIA	-2.23	15.79
S&P 500	-1.97	26.03
NASDAQ	-1.77	31.30
Russell 2000	-4.43	12.07
MSCI-EAFE	-3.58	2.60
MSCI-EM	-3.12	7.12
Bloomberg U.S. Aggregate	-0.69	1.27

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
12/13/2024	4.34	4.25	4.25	4.40	4.61
12/20/2024	4.34	4.30	4.37	4.52	4.72

U.S. stocks ended the week in the negative, following a dramatic Wednesday drop of -3%, yet a recovery rally by Friday. The Wednesday Fed announcement of a rate cut was coupled with some hawkish implications, which pulled down sentiment somewhat. The Fed move was not a surprise, but the language and dot plots alluded to fewer cuts next year, taken by markets as less dovish than hoped, although the press conference leaned a bit more dovish to offset this. The risk of a government shutdown loomed later in the week, with a rejected spending package, and comments from the President-elect about ultimately abolishing the debt limit. Positive spirits prevailed by Fri., along with a cooler PCE inflation report. Every sector lost ground for the week, with technology and utilities holding up best, with the former down less than a percent, while energy and materials fell by 4-6%. Real estate also declined by nearly -5% along with the rise in interest rates.

The Dec. 20 funding deadline for the government had not been resolved by market close, but later in the day, a small extension until March was agreed upon. There appeared to be no clear path for a long-term extension, with plenty of disagreement about debt (and potential repeal of the perpetually-troublesome debt limit) in 2025, despite the upcoming Republican majority in both the Senate and House, albeit not by a wide margin for the latter.

Foreign stocks fell back to a similar degree as domestic for the week, with Japan and emerging markets slightly outperforming Europe and the U.K. The Bank of England elected to hold policy rates at 4.75% last week (in a typical split vote, of 6-3), as higher wage growth and inflation readings offset softer economic growth numbers. Other central banks including Japan, Norway, and Sweden also held steady. Across the non-U.S. landscape, concerns over higher-for-longer interest rates and the potential for new Trump tariffs continue to weigh on sentiment. Although most EM countries ended deep in the negative for the week, China held the group up with minimal declines, despite weaker data, which may prop up hopes for additional stimulus measures.

Bonds fell back for the week, as yields rose—the 10-year U.S. Treasury moved sharply in response to the more hawkish FOMC statement about rates staying higher than expected through 2025. While long-term bond rates aren't joined at the hip to short-term policy rates, a connection remains, with long bonds still driven by sticky inflation expectations and assumptions of higher-than-trend GDP growth. Senior floating rate bank loans outperformed with minor losses for the week. Unhedged foreign bonds were down sharply, with a stronger dollar, as were emerging market bonds.

Commodities were broadly down for the week, in keeping with a stronger dollar, with industrial metals leading the way downward, followed by energy and precious metals. Crude oil prices fell by nearly -2% last week to $69/barrel upon fears of continued weaker Chinese demand into next year. On the other hand, natural gas prices spiked by 10% with a forecast for a colder January across the U.S., being a notoriously volatile and fickle time of year for gas spot prices. A small piece of commodity indexes when it is included, cocoa, has rallied 40% over the past month and 185% year-to-date, with adverse weather in West Africa a key culprit, yet robust demand hasn't slowed, being top of mind for stockings this time of year.

Have a good week and Happy Holidays.

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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.