Summary

On a holiday-shortened week, economic data included U.S. GDP coming in unchanged from the initial estimate, higher home prices, but a drop in durable goods and new home sales, with some negative hurricane effects.

Equities gained globally, with foreign outpacing U.S. due to a weaker U.S. dollar. Bonds also fared positively, as interest rates fell back upon a positive reaction to the new administration's Treasury secretary nominee. Commodities fell as fading Middle East concerns negatively affected the prices of oil and gold.

Economic Notes

(0/+) The second release of **U.S. GDP** growth for the 3rd quarter was unchanged from the prior estimate at 2.8%. There was some downward revision to personal consumption (from 3.7% to 3.5%) that was offset by upward shifts to non-residential investment (intellectual property) and inventories. Overall, the pace of economic growth has remained above-trend, seen by markets as a positive to domestic corporate revenue, but also perhaps a less loose Fed monetary policy than might have been expected a few months back. Nominal GDP (which includes GDP inflation) was unrevised at 4.7%, a rate which is historically seen as near where the 10-year U.S. Treasury note yield 'should' be. This isn't an exact measure, but bond yields have risen again to this rough range after being dislocated for so many years post-GFC.

The Atlanta GDPNow estimate for Q4 has stayed fairly consistent over the last few weeks, now lying at 2.7%, led by consumer spending representing 2.0% of the growth, followed by positive contributions from government, net exports, and residential investment.

(+) **Personal income** rose 0.6% in October, twice the median forecast, while **personal spending** fell a few tenths from the prior month to 0.4%. The personal saving rate increased to 4.4%. Both income and spending are up 5% over the past year, pointing to positive 'real' growth, with spending gains still far higher for services than on goods. The **PCE** inflation index rose 0.2% on the headline side, while core PCE gained just under 0.3%—both largely in keeping with expectations. Year-over-year, headline and core PCE were up 2.3% and 2.8%, respectively, with the latter driven higher from services, in areas such as airfares. Core PCE ended a tenth higher than the prior month, which disappointed financial markets a bit, with levels still well higher than the Fed's 2.0% mandate that is pegged to that inflation metric.

(0) **Durable goods orders** rose 0.2% in October, reversing the prior month's decline, but below the 0.5% median forecast. As commercial/defense aircraft orders led for the month, up into the double-digits in a traditionally lumpy series, removing transportation pulled the gain down to 0.1%, led by gains in electrical equipment, while core capital goods orders declined -0.2%. Core capital goods shipments rose 0.2%, a tenth better than expected. Year-over-year, total orders are up just under 3%, while removing transportation cuts those in half to under 2%.

(+) The **S&P/Case-Shiller 20-city home price index** rose 0.2% on a seasonally-adjusted basis in September. Year-over-year, the index rose 4.6%, which was a -0.6% deceleration from the pace of the prior month. By city, New York led on a year-over-year basis (of 8%), followed by Chicago and Cleveland, while Denver came in last place with a gain of just a few tenths of a percent for the trailing year.

(+) The broader and less urban-focused **FHFA house price index** for September showed a rise of 0.7% for both the month and third quarter, with Q3 gains led by New England and the East North Central (Great Lakes states). Year-over-year, national home prices rose 4.3%, with all nine census regions showing gains, led by the East North Central (up 7%) and West South Central lagging (OK/TX/AR/LA, up 2%). Per the FHFA, the pace of house price growth has decelerated over the past year—"While house prices continued to increase because housing demand outpaced the locked-in housing supply, elevated house prices and mortgage rates likely contributed to the slowdown in price growth." Little has changed fundamentally here, with mortgage rates rising back to 6.8% from 6.0% in late summer and continued very tight inventories for single-family homes.

(-) **New home sales** fell by -17.3% in October to a seasonally-adjusted annualized rate of 610 mil. units, below the below the -1.8% decline expected and a sharp reversal from the prior month. Regionally, the South saw a drop of -113k, with far less dramatic changes elsewhere, pointing to dramatic effects from the two hurricanes. The October result showed sales as -9% lower than at the same time last year. Though, the median new home sales price came in at $437,300, up 5% over the past year. Inventory pointed to 9.5 months' supply, a high point for the year, albeit distorted. As with a variety of October housing and other economic data points, this should likely be disregarded in favor of that for more typical weather conditions.

(+) The Conference Board's **Index of Consumer Confidence** for November rose by 2.1 points to 111.7, just below expectations of 111.8. Consumer assessments of present conditions rose by 5 points to lead, while expectations for the future rose by just under a half-point. The labor differential, measuring the ease in finding work, rose by two points, as fewer were saying jobs were hard to get, with the overall labor index falling to lows for the year and below-pandemic levels. Consumer guesses about a recession in the next year continued to fall, by over a point to the lowest level in a few years but remained high outright at 63% (at least compared to many economists who peg odds at a quarter or so based on recent data).

(0) **Initial jobless claims** for the Nov. 23 ending week fell by -2k to 213k, below the forecast calling for an unchanged 215k. Continuing claims for the Nov. 16 week rose by 9k to 1.907 mil., above the median forecast calling for 1.892 mil. Claims were mixed by state, with no dramatic pattern having settled down from recent weather disruptions.

(0) The **FOMC minutes** from the November meeting were not surprising, as usual, but did include a few noteworthy comments. In particular, participants felt "it would likely be appropriate to move gradually toward a more neutral stance of policy over time" if "data came in about as expected," which assumes inflation continued to move down toward their 2% target and labor conditions remained near maximum employment. Specifically for November, "some" participants mentioned that the FOMC could pause easing if inflation remained "elevated," while, at the same time, "some" also commented that easing could be "accelerated" if economic activity and/or labor markets "faltered" (although it appeared that risks of excessive labor market cooling had "diminished somewhat" over the last few months). They did acknowledge that the path to their inflation target might take longer than previously expected. Overall, the risks of forward-looking inflation were "roughly balanced." This alludes to an even more data-dependent meeting-by-meeting approach, as opposed to a set policy path, in contrast to the hiking and early easing meetings last year. On more of a technical note, they discussed the possibility of lowering the overnight reverse repo rate by -0.05% to better align it with the Fed funds rate, to incent movement of cash away from that facility into the financial system, as well as lower borrowing costs, in a continued easing move. The latter is not a critical matter, but more fine-tuning to align banking system incentives with the intended Fed monetary policy direction (a few basis points can add up on large dollar balances).

Market Notes

Period ending 11/29/2024	**1 Week %**	**YTD %**
DJIA	1.44	21.21
S&P 500	1.08	28.07
NASDAQ	1.14	28.86
Russell 2000	1.19	21.58
MSCI-EAFE	1.84	6.24
MSCI-EM	-0.79	7.65
Bloomberg U.S. Aggregate	1.39	2.93

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
11/22/2024	4.63	4.37	4.30	4.41	4.60
11/29/2024	4.58	4.13	4.05	4.18	4.36

U.S. stocks continued upward, with several indexes in large, mid, and small cap reaching further all-time highs. In an abbreviated trading week, Monday started positively, with the nomination of hedge fund manager Scott Bessent for Treasury secretary, which was seen as a conventional choice. Bessent is viewed as relatively market friendly and pragmatic, while also a promoter of lower fiscal deficits and more tempered/gradual tariff policy, which removes some risk of more extreme and unanticipated trade policy repercussions. At the same time, the president-elect surprised markets by posting the intention of imposing 25% tariffs on both Mexico and Canada, our largest trading partners, in addition to an extra 10% on China, all related to flows of illegal immigrants and fentanyl, and 100% tariffs on EM countries that supported attempts to replace the U.S. dollar as the global reserve currency. However, news of a cease-fire agreement between Israel and Hezbollah had a positive influence on sentiment.

Nearly every U.S. stock sector gained ground last week, led by consumer discretionary as well as communications and the defensive group of health care and utilities. The sole laggard was energy, down -2% in keeping with a drop in oil prices. Real estate also gained about 2% for the week, with relief from lower interest rates.

Foreign stocks fared positively for the week, with gains in Japan, U.K., and Europe all outperforming the U.S., with help from a weaker U.S. dollar. This was especially pronounced relative to the Japanese yen, which gained several percent upon expectations of a BOJ rate hike in coming weeks, which could close the yield differential somewhat. Economic data in Europe, particularly in Germany, has remained soft. This has resulted in mixed sentiment, but also higher chances of continued ECB easing, which markets are fond of. Emerging markets were down on net, with gains in China offset by declines in the rest of Asia and Brazil, as inflation came in far stronger than expected, with expected upward pressure on interest rates.

Bonds experienced gains last week, as U.S. Treasury yields fell along with the calming influence of the new administration's pick for Treasury secretary. Investment-grade corporates outperformed governments slightly, both of which outperformed high yield and floating rate bank loans, which ended with less dramatic gains for the week. Unhedged foreign bond indexes were several percent higher thanks to the weaker dollar, while hedged were largely in line with U.S. bonds.

Commodities generally fell back last week, despite the normally helpful influence of a weaker dollar. While industrial metals rose slightly, energy and precious metals led the downward move. Crude oil fell over -4% last week to $68/barrel, as, along with safe haven gold, prices retreated after the report of a cease-fire deal between Israel and Hezbollah that are seen as decreasing tensions in the region.

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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