Summary

Economic data included slight improvement in ISM manufacturing, but a slight deterioration in ISM services. The November employment report saw gains, as negative one-off conditions from the prior month normalized, although the unemployment rate rose a bit. Consumer sentiment rose slightly but was split along political lines around the election.

Equities saw gains in both the U.S. and abroad. Bonds also rose, as interest rates fell back. Commodities were mixed, with agricultural prices higher but energy lower.

Economic Notes

(0) The **ISM Manufacturing Index** for November rose by 1.9 points to 48.4, beyond the smaller expected increase to 47.5, and staying in contraction for the 8th straight month and where it's largely been for the past two years. New orders rose by over 3 points to 50.4, now back into expansion, while production and employment also rose by up to several points, but each remained in the high 40's—still in contraction. Supplier deliveries, on the other hand, fell by -3 points back into contraction as well, and prices paid fell by nearly -5 points but stayed just above the neutral 50 level. The final **S&P Global US manufacturing PMI** result for November came in at 49.7, up 0.9 from the prior month, showing a similar upward pattern. Overall, while there has been some improvement on the edges, manufacturing overall remains in a contractionary environment, albeit slightly less so.

(0) The **ISM Services/Non-Manufacturing Index** declined by -3.9 points in November to 52.1, below the expected 55.7 level but remaining in expansion. Underlying components were also weak, with business activity, new orders, and employment all falling by a few points, but staying expansionary. Supplier deliveries fell by -7 points, down into a slight contraction, while price paid ticked up a tenth within the 58 level of expansion. The ISM specifically noted that "election ramifications and tariffs were mentioned often, with cautionary outlooks related to the potential impact on respondents' specific industries." A separate survey, the **S&P Global US services PMI** also fell, by only -0.9 of a point, to 56.1. Overall, services remained in expansion, but at an apparently less robust pace, likely affected by uncertainty over election results and policy ramifications on business.

(+) **Construction spending** for October rose by 0.4%, twice the expected 0.2% increase, and an acceleration up from the prior month's 0.1% increase. Private residential spending rising 1.5% led the way, while public residential and all non-residential spending saw declines of a few tenths for the month. As construction costs fell by a few tenths on a seasonally-adjusted basis, nominal spending was pushed even higher. Overall, this was positive news for the housing market, with extensive need for home inventory.

(+) The preliminary **Univ. of Michigan index of consumer sentiment** for December rose by 2.2 points to 74.0, just above the 73.2 level expected. While consumer assessments of present conditions rose by nearly 14 points, expectations for the future fell by -5 points. (As the survey period captured the election, notably, and unsurprisingly, the sentiment of Republican respondents rose by 12 points, while that of Democrats fell by -11 points.) Inflation expectations for the coming year ticked up by 0.3% to 2.9%, while those for the next 5-10 years fell by a tenth to 3.1%. Consumer sentiment indexes have been tracked primarily as a possible predictor of upcoming spending behavior, but in recent years, a generally sour mood (which may be related to political polarization and aftereffects of the pandemic) hasn't translated to slower spending, which one could take as a positive.

(0) **Initial jobless claims** for the Nov. 30 ending week rose by 9k to 224k, above expectations for an unchanged 215k. Continuing claims for the Nov. 23 week fell by -25k to 1.871 mil., well below the rise to 1.904 mil. expected. As this data period included Thanksgiving, there could have been normal holiday distortions, with no other trend apparent, and some hurricane effects dissipating. Overall levels remain contained.

(+) The **JOLTS** job openings report for October showed an increase of 372k to 7.744 mil., above the 7.519 mil. expected by consensus. The largest job gains were seen in professional/business services (209k), leisure/hospitality (129k), and information (87k); declines were most pronounced in 'other' services (-37k), trade/transports/utilities (-27k), and manufacturing (-13k). The job openings rate ticked up by 0.2% to 4.6%, while the hiring rate fell by -0.2% to 3.3%. On the departure side, the quits rate rose 0.2% to 2.1%, while the layoff rate fell a tenth to 1.0%. This shows a reasonable degree of health in the labor market, especially in reviewing composition and the higher level of quits activity and lack of layoffs.

(+) The employment situation report for November came in more in line with 'normal,' based on a rebound of prior month effects from labor strikes and hurricanes. **Nonfarm payrolls** rose by 227k, just above the 220k median forecast, along with 56k in upward revisions for the two prior months. By segment, gains were strongest in healthcare (72k), leisure/hospitality (53k), government (33k), and manufacturing (22k). On the other hand, retail jobs declined (-28k), although it appears that could be related to a later-than-normal Thanksgiving. The **unemployment rate** ticked up a tenth to 4.2%, beyond expectations for no change, along with a decline of -355k in household employment, led by drops in agricultural employment and the self-employed. The U-6 **underemployment rate** also rose a tenth to 7.8%. Interestingly, having triggered in the summer, the recession predictor 'Sahm rule' is no longer 'on.' **Average hourly earnings** rose 0.4%, at the same pace as the prior month and a tenth better than expected. The year-over-year pace was unchanged at 4.0%. **Average weekly hours** rose a tenth to 34.3. While a positive report on the surface, core numbers show a steady slowing in labor activity relative to the prior year, with most job gains related to the areas of state/local government and health care, pointing to less overall market balance.

Market Notes

Period ending 12/6/2024	**1 Week %**	**YTD %**
DJIA	-0.53	20.57
S&P 500	0.99	29.34
NASDAQ	3.36	33.19
Russell 2000	-1.02	20.34
MSCI-EAFE	1.71	8.05
MSCI-EM	2.45	10.29
Bloomberg U.S. Aggregate	0.45	3.40

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
11/29/2024	4.58	4.13	4.05	4.18	4.36
12/6/2024	4.42	4.10	4.03	4.15	4.34

U.S. large cap stocks continued their gains last week, with the S&P, Dow, and NASDAQ reaching more all-time highs, while small caps fell back. Growth outperformed value by the largest margin in over a year, led by the concentrated Magnificent 7 group. By sector, strong gains in consumer discretionary of 6% (led by Tesla and Amazon), technology, and communications offset declines elsewhere, notably declines of -4% in energy and utilities. Real estate also fell back despite the small drop in yields.

Foreign stocks also saw gains last week, led by strength in Europe and Japan, as well as emerging markets to a lesser degree. European stocks experienced a bit of a relief rally after the French Parliament held a no-confidence vote (for the first time in 60 years, after a record-short three months in office), following budget disagreements, with the ultimate announcement that a new prime minister that appealed to multiple factions would be appointed, which reduced some of the concerns. Otherwise, weak industrial data in Germany and general recession-like conditions in that key country led to further assumptions of more ECB rate cuts. The Chinese government unveiled a 10 tril. RMB local government debt swap plan, intended to reduce 'hidden' debt and strengthen local finances, which helped sentiment there. If it was assumed the U.S. was the only nation with strong political polarization at the moment, actions in France and South Korea (not to mention Syria) over the past week reiterated that this has been a global phenomenon. In the Korean case, the President imposed martial law (albeit lasting for only a few hours, after being immediately vetoed by parliament) in reaction to political disagreement and protests, seen as a surprise and undesirable move in light of several decades of democratic rule after prior authoritarian leadership. In emerging markets (South Korea being considered on the fringe between developed and emerging, like Taiwan), such events can erode market confidence, at least temporarily, but serve as a reminder of why they demand higher risk premiums. Rising government disagreement in several developed markets (France and U.K. being examples) has been more nuanced, but a common theme has been the sizes of next year's budgets, in an era of already inflated debt-to-GDP ratios post-pandemic.

Bonds fared positively, with U.S. Treasuries and investment-grade corporates ending up with similar gains of around a half-percent, while high yield and floating rate bank loans earned smaller gains. Developed market bonds were held back by a stronger U.S. dollar, while emerging market debt was mixed.

Commodities were mixed with agricultural and industrial metals prices higher, offset by declines in energy and precious metals. Crude oil declined -1% last week to $67/barrel, as demand uncertainty for 2025 outweighed the OPEC+ decision to postpone production increases until next year as well, seemingly for the same reason. (The ouster of the Bashar al-Assad regime in Syria after a decade-long civil war elevated prices early this morning, not because of the country's role as a key producer, but more due to the uncertainty of Middle East power dynamics looking ahead, in addition to a Chinese stimulus announcement.) Natural gas prices fell by nearly -10% with lowered concerns about potentially reduced Russian exports to Europe.

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.