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ASSET MANAGEMENT GROUP, LLC

Economic Indicators | November 2023 | By Kim W. Suchy

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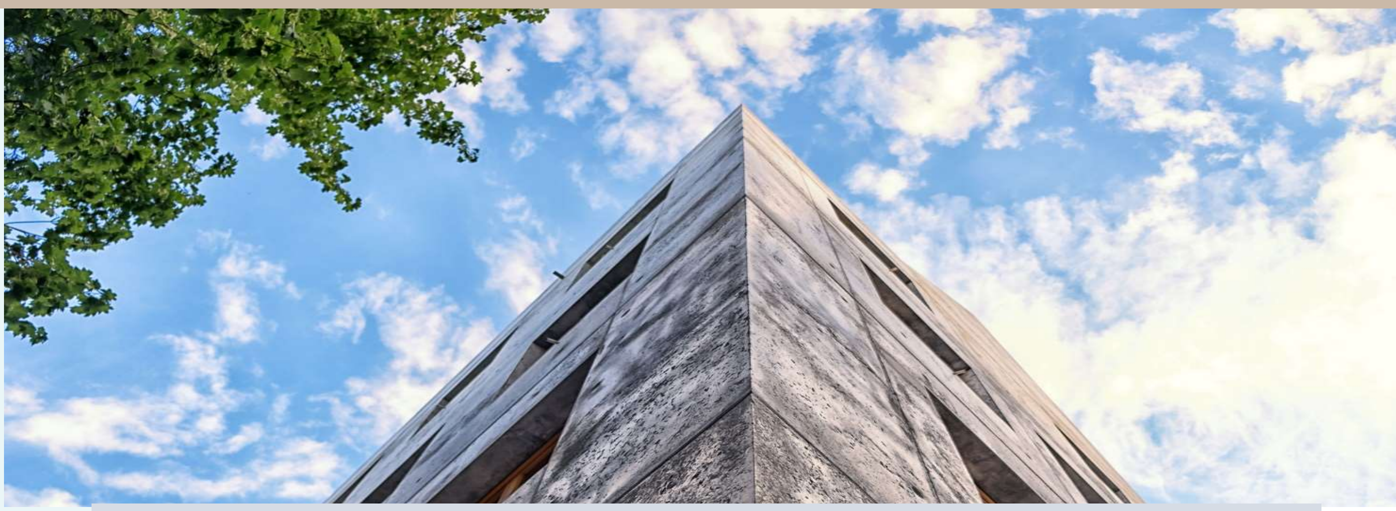


Halloween came early in October as a series of events managed to drawdown the SP500 roughly 10% from its high reached in late July, the biggest correction of the year. Quite frankly, given the Middle East conflict, political discord stemming from the search for a House Speaker, rising energy prices and rising interest rates, we are surprised the market downdraft was not more extensive.

From a historical perspective, 10% intra-year declines are not that unusual as they happen every 1.6 years, on average. Giving the market some ballast during this confluence of downside pressure has been an air of optimism in that inflation continues to decline, productivity is edging higher, and the strength of the labor market and economic growth have outpaced expectations.

So, if we must identify the catalyst that has contributed to the recent decline, we firmly believe it can be found in the bond market. The lockstep stock/bond decline since July occurred because the 10-year Treasury bond yield spiked from around 4.00% to 5.00% over this period. It did so because Janet Yellen and the Treasury announced in late July that the government needed to raise $1.0T during Q3. Immediately following this announcement Fitch Ratings downgraded US government debt from AAA to AA+. This is still reasonable from a credit quality perspective but the message it sends to bond investors is not good. Further, given the growing fiscal expenditures associated with aid for foreign conflict and U.S. border security, financing requirements are surging. With the budget deficit expected to get much worse in 2024, especially as interest rates rise and debt service on the $33+T in public debt increases, it is no wonder why investors have waning confidence in the markets.

Bond yields rise when you move down the rung in quality and when supply appears likely to exceed demand. Yields rise to the point where investors develop an appetite for the instrument. As we have noted before, Treasury rates are often used to discount future cash flows on company revenue streams. Thus, higher yields of late have sent stock valuations lower.

By the time you have read this letter, The Fed will have met (11/1) and decided on whether to raise rates. As we write this, the futures market indicated that there was a zero % chance that the Fed would raise rates, and this has really been confirmed when Fed Chair Powell noted in a recent presser that the bond market has taken care of some of the Fed's heavy lifting.

We believe the direction of the market will be dictated by the direction of interest rates. If fiscal restraints can be put in place as Congress establishes its 2024 budget and inflation continues its trek lower, keeping the Fed on the sidelines, we could see a market rally as we close out 2023.

Here is your look at developments in the global marketplace.

POSITIVE DEVELOPMENTS

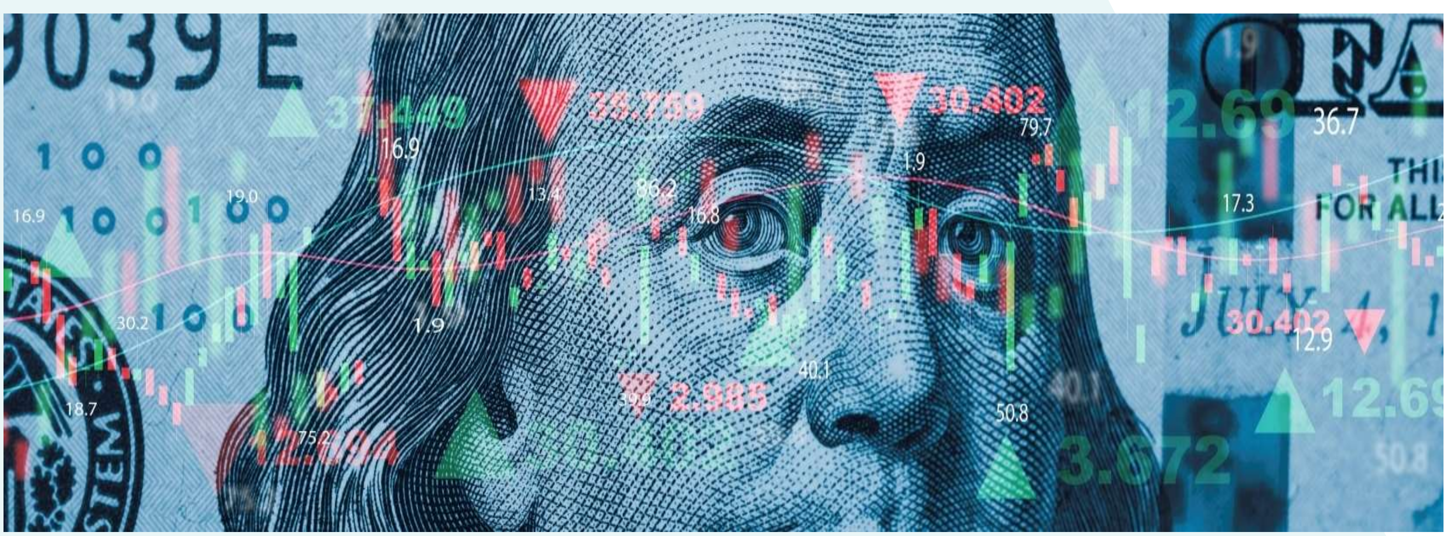
- The September Producer Price Index (PPI) rose by 0.5%, and 2.2% in the past 12 mos. Much of the monthly increase was due to a 5.4% rise in wholesale gasoline prices in September. Excluding food, energy and trade, the core PPI rose 0.2% in September and 2.8% in the past 12 months. Overall, wholesale goods prices remain soft due to a stronger U.S. dollar.

- Industrial production surprised to the upside in September, driven by broad-based gains across nearly every major category….the auto strike having little impact. Note, industrial activity has been accelerating recently, rising at a 5.2% annualized pace in the past 3 mos. versus just 1.8% annualized over the past 6 mos. and 0.1% in the past year.

- The consumer continues to spend! Retail sales once again was a surprise to the upside in September, and August sales were revised higher. Total retail sales jumped 0.7% (more than double the 0.3% expected) in September, following an upwardly revised 0.8% (from 0.6%) gain in August.

- Durable goods orders surged 4.7% in September, with growth across most major categories. A surge in commercial aircraft (+92.5% last month) was the major contributor to growth in new orders, following large declines in these aircraft orders the prior 2 mos. Strip out the typically volatile transportation category and orders for durable goods still rose a healthy 0.5% in September.

- The headline Personal Consumption Expenditures (PCE) inflation rate remained at 3.4% y/y during September. The core rate continued to moderate down to 3.7%. Goods inflation has turned out to be transitory as it was only 0.9%, with durable goods down 2.3% and nondurable goods inflation up 2.7%. The biggie was that the inflation rate for housing and utilities peaked at 8.3% in June and fell to 7.2% in September while still high, this is trailing lower at a good pace.



NEUTRAL DEVELOPMENTS

- Foreigners are still buying U.S. Treasuries. According to Treasury International Capital (TIC) data, over the 12 mos. through August, their net purchases of US bonds was $582B. The concern is if foreigners sell or curtail buying, Treasury yields will surge due to over supply. Couple this with a mounting deficit and shrinking tax revenues (limited capital gain taxes) and bond dynamics become quite problematic.

- Despite some healthy beats to earnings estimates, the price reaction of SP500 sectors has been broadly negative. Stocks have been "spooked" by a small data point in results or guidance, responding with sharp sell-off's for what normally has been considered solid results in prior quarters. The percentage of beats on earnings is coming in below the 75% long run average (FactSet), at only 67% of companies beating estimates. This may serve as dry powder for upside movement once markets settle.

NEGATIVE DEVELOPMENTS

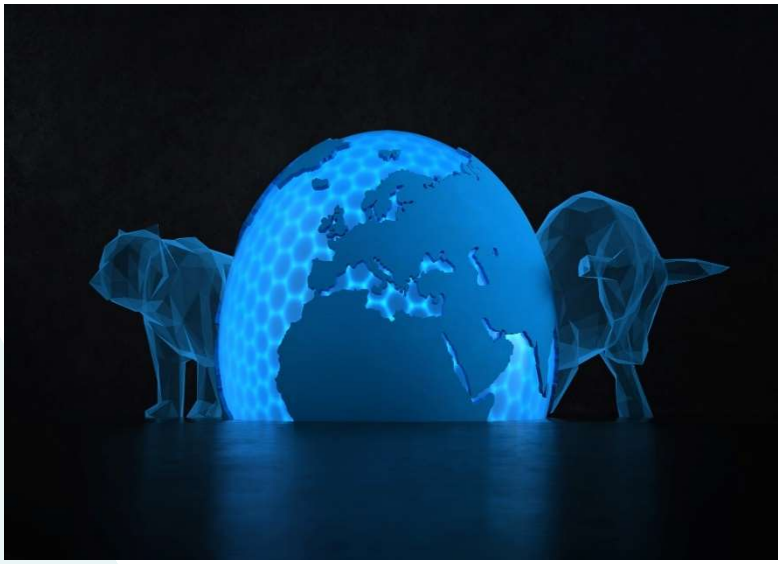
- The Labor Department announced that the Consumer Price Index (CPI) rose 0.4% in September and 3.7% in the past 12 mos.. The core CPI, excluding food and energy, rose 0.3% in September and 4.1% in the past year. Unfortunately, owners' equivalent rent (shelter costs) surged 0.6% in September, up from 0.3% in August. This is a stubborn problem since shelter represents approximately 1/3 of the CPI. Hourly earnings only rose 0.2% in September, so wages trailed inflation once again.
    - Following soft PPI and poor CPI reports, the Fed released its Federal Open Market Committee (FOMC) minutes, and they were definitely hawkish, as these minutes said that the Fed will keep key interest rates high for the foreseeable future. Specifically, the FOMC minutes said that public communications "should shift from how high to raise the policy rate to how long to hold the policy rate at restrictive levels."

- Homebuilders' confidence fell in October for the third month in a row. "Builders have reported lower levels of buyer traffic, as some buyers, particularly young ones, are priced out of the market because of higher interest rates. Higher rates are also increasing the cost and availability of builder development and construction loans, which harms supply and contributes to lower housing affordability," noted NAHB Chairman Alicia Huey.

- *Existing* home sales fell for a 4th consecutive month in September, hitting the slowest pace since the 2008-9 Financial Crisis. The recent surge in benchmark interest rates like the 10-yr Treasury yield which banks often price mortgages after, has translated into 30-yr fixed mortgage rates at the 8% level for the first time in more than 20 years. Assuming a 20% down payment, the rise in mortgage rates since the Fed began raising rates in March 2022 amounts to a 40% increase in monthly payments on a new 30-yr mortgage for the median existing home.

- Economic conditions weakened as China's real GDP expanded 2.9% y/y through Q4-2022. This was one of its slowest growth rates in years and missed the government's goal of around 5.5%. The Chinese economy was depressed by the country's stringent zero-Covid policy that restricted people's movements and slowed supply chains. Further, China's economic recovery has been hampered by a slump in its real estate sector, with major property developers stuck with heavy debts. The real estate market accounts for some 30% of China's GDP.

THE MARKETS



The U.S. equity markets were weak across the board this past month with no capitalization spared. From a sector perspective, utilities were the only bright light with tech and consumer staples only modestly better. The laggards were real estate, consumer discretionary and energy.

Once again, European, and Asian markets logged negative monthly returns. Inflationary concerns and economic growth remain headwinds in both Europe and Asia, particularly in China. While the U.S. remains steadfast in its inflationary battle, Central Bankers abroad are having a tougher fight. Japan, which has been a nice oasis in Asia year to date, struggled in October as the Nikkei logged a -2.8% return.

The Treasury market has seen yields across curve (3 years and longer in particular) climb much higher this past month. As noted earlier, this has been the primary culprit as to why both stocks and bonds posted weak performance in October.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	-2.2	9.2
Dow Jones	-1.1	-0.3
NASDAQ Comp	-3.4	22.8
Russell 2000	-5.8	-5.7

Source: https://tradingeconomics.com/stocks

Chart of the Month: October 15th - 30th Airline Travel Passenger Volume By Year

TSA Checkpoint Travel Numbers (current year versus prior year(s) / same weekday)

Date	2023	2022	2021	2020	2019
10/30/2023	2,287,637	1,925,030	1,992,577	846,138	2,403,304
10/29/2023	2,513,086	2,241,429	1,845,965	936,092	2,459,525
10/28/2023	2,015,907	1,832,252	1,518,020	618,476	1,836,781
10/27/2023	2,615,422	2,328,910	1,982,773	892,712	2,319,906
10/26/2023	2,619,848	2,310,460	1,927,041	873,636	2,047,910
10/25/2023	2,243,974	2,057,463	1,547,075	666,957	2,066,516
10/24/2023	2,133,622	1,981,651	1,503,587	648,517	1,910,506
10/23/2023	2,603,743	2,322,640	1,989,373	898,735	2,347,017
10/22/2023	2,760,352	2,493,556	2,107,839	983,745	2,478,287
10/21/2023	2,161,733	2,005,688	1,626,185	755,287	1,931,971
10/20/2023	2,671,897	2,444,488	2,108,582	958,437	2,594,337
10/19/2023	2,684,362	2,429,966	2,046,694	934,386	2,541,581
10/18/2023	2,333,408	2,110,090	1,647,089	694,150	2,245,199
10/17/2023	2,212,049	2,012,185	1,446,353	662,484	2,126,637
10/16/2023	2,623,372	2,358,741	2,001,297	921,031	2,514,673
10/15/2023	2,785,829	2,501,080	2,213,296	1,031,505	2,606,266

Source: https://www.tsa.gov/travel/passenger-volumes

The memory of the $1.2 trillion travel market's collapse during the global pandemic has been difficult to shake off. According to the Transportation Security Administration (TSA), between October 2019 and October 2020, passenger volumes dropped by over 50%. Despite a gradual increase in air travel post-pandemic peak, the return to pre-pandemic passenger volumes was unexpectedly slow due to challenges such as new COVID variants, staffing shortages, and severe winter weather disruptions.

However, recent data indicates a significant resurgence in air travel. The week ending October 23rd, 2023, saw approximately 2.5 million people pass through airport screenings a day, signaling a remarkable rebound and an evident boom in air travel. Strong demand and enthusiasm for air travel still lingering from a lost year, as well as growing confidence in the safety and reliability of airline services, has contributed to the resurgence.

If you're planning to fly over Thanksgiving, brace yourself for a more hectic airport experience. Airports will be crowded, and flights are most likely sold out, or could face delays or cancellations. And, if you haven't yet arranged your Thanksgiving travel, be ready to spend some money or redeem considerable points. It’s time to return to the pre-pandemic travel preparation timeline; book flights well in advance and give adequate time to make it to your gate.

NEWS YOU CAN USE

The Illinois State Treasurer's "Enhanced Money Match" program, which was launched in August 2023 to improve returning unclaimed money to their rightful owner, paid back $45 million to almost 62,000 people in the first go around. The next batch of letters/checks (estimated to be $28.8 million in total) will soon be sent to people in line to receive up to $5,000 owed to them. Recipients are told it is as simple as opening your mailbox and cashing the check, so be on the lookout.

https://www.nbcchicago.com/news/local/illinois-unclaimed-property-checks-cash-state-treasurer-enhanced-money-match-program/3264303/

This week Taylor Swift's Eras Tour concert film crossed $200 million at the global box office, just three weeks after its release. On its debut, the movie generated $92.8 million in the US, which makes it the fifth-largest opening day theatrical release this year. Of the $200 million raked in so far, $150 million was generated domestically. However, in early November, Swift's concert movie will expand into more international markets including India, Hong Kong, Malaysia, Brazil, South Korea, Taiwan, and Turkey. As a result of the box office hit, Swift's net worth breached $1 billion this month.

https://www.msn.com/en-in/entertainment/hollywood/taylor-swift-eras-tour-concert-film-grosses-over-200-million-worldwide/ar-AA1j5xbD

The National Retail Federation's annual Halloween consumer survey revealed 2023 Halloween spending is expected to reach a record $12.2 billion in the US. This easily topples last year's record of $10.6 billion & $10.1 billion in 2021, which had rebounded strongly off a pandemic contraction. A record 73% of survey participants said they will participate in Halloween-related activities this year, and per person spending is estimated to be $108.24 between costumes, food, decorations, and several candy runs to the local Walgreen's (after eating the first two batches of candy intended for trick-or-treaters).

https://nrf.com/media-center/press-releases/halloween-spending-reach-record-122-billion-participation-exceeds-pre

As always, if I can be of additional guidance, please feel free to call me at 312.485.6847.

Best regards,

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