



Economic Indicators | December 2023 | By Kim W. Suchy

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What a difference a month makes! In late October, the 10-yr note yield was hovering in the 5.00% neighborhood, the SP500 was about to break below 4,100, and the Volatility Index was north of 20.00 and the Fed left us without a hint as to what its next move may be.

As we write, the 10-yr note yield sits at 4.33%, the SP500 is at 4568, and the CBOE Volatility Index is under 13 and most investment pundits suggest the Fed will need to cut rates as yields on short term Treasuries are now well-below Fed Funds rates. Add to this, an easing, of sorts in the geopolitical arena as President Xi of China has taken steps to make amends with the U.S. as his economy needs vital support and the situation in Israel is progressing towards a truce; at least for now.

What is perhaps the most impressive is that market breadth finally expanded in November as small caps and mid caps (both growth and value) surged higher. Looking at the best market performers, year-to-date we see that the Mega 8 have really carried the freight. In fact, the Mega 8's capitalization is close to a new record high. The group of eight stocks (i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla) collectively is up 78.7% from its 18-month low on January 5th through yesterday's close according to LSEG Datastream. And in terms of the percentage of the SP500's total capitalization, Mega 8 represents 27.9% of the Index. This is all great if you own the Index or the individual names, but these tech-like stocks tend to move in tandem so while they impress on the upside, they wreak havoc when they retreat. That is precisely why we build diversified portfolios to absorb the shock and concentration of massive, correlated movements.

November has delivered quite a reversal in all respects. Holiday spirit is in the air as an early Santa Claus rally was turbo charged by, once again, a vibrant consumer as Black Friday and Cyber Monday smashed all sales records...I wonder if they have a new retail sales category for Taylor Swift items. I have a "Swiftie" in the family and I am already finding items sold out or on extended back order. That translates into higher prices according to my Econ 101 professor.

Here is your look at developments in the global marketplace.

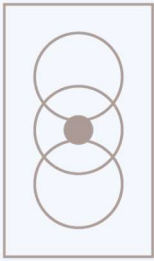




POSITIVE DEVELOPMENTS

- It's no longer debatable... October's core CPI, excluding shelter, revealed that inflation has turned out to be a *transitory* rather than a persistent problem. Rent-of-shelter inflation and non-housing services inflation are receding more slowly but surely too, as the pandemic effects lifting them all are finally subsiding.
- Because leases turn over slowly, it takes time for a decline in market rent growth to work its way through the overall inflation measure. The market rent slowdown has only recently begun to slow.
- The Producer Price Index (PPI) fell 0.5% in October, coming in well below the consensus as prices for intermediate processed goods fell 0.9% in October and are down 4.5% yoy. Prices for intermediate unprocessed goods declined 1.4% in October and are down 14.0% yoy.
- Housing starts rose slightly in October. Looking back, during C19, a combination of very low interest rates and work from home led to a movement to the suburbs and increased demand for single-family homes. Then the economy reopened, causing a migration back to the cities which created a boom in apartment projects. Now, the move back to the cities has waned leaving a glut of apartments. Meanwhile, owners of existing homes are reluctant to list their properties and give up fixed 3%-ish mortgage rates, so many buyers have turned to new construction as their best option where builders can structure creative home financing.
- The Consumer Sentiment Index is falling. Why? According to Economist Ed Yardeni, consumers may be suffering from money illusion. They realize that inflation is moderating, but consumer prices remain much higher than before the pandemic. What they aren't realizing is that their wages have also risen, though not as quickly as prices until this year. Since the start of this year, their wages overall have been rising faster than prices. Real wages seem to be back on the uptrend that started in 1995.
- Geopolitical fears have also abated somewhat. Earlier this month, China's President Xi delivered a very dovish speech here in the U.S. China's economy is hampered which reduces the risk that Xi will invade Taiwan. Israel and Hamas are at insurmountable odds of peace but have been able to negotiate a truce for a few days to exchange Israeli hostages for Palestinian prisoners and so far, Hezbollah hasn't joined the war.
- Real GDP was revised upward for Q3 to a 5.2% a/r from a prior estimate of 4.9%, marking the fastest quarter of growth since 2021. The upward revision was due to upward revisions to business investment (mainly commercial construction), home building, inventories, and government purchases. These gains easily offset a downward revision to personal consumption which was in both durables and services.





NEUTRAL DEVELOPMENTS

- Adding more detail to issues with the Mega 8 (noted in our intro above) the top 2 stocks in the SP500 (Apple & Microsoft) now represent a combined 14.7% of the index, the highest weighting for any two companies since 1980. This concentration is being driven by significant outperformance, with Microsoft up 55% ytd and Apple up 44% versus a 16% gain for the SP500. While upside movement by these two companies is a plus, it can go the other way as well. Diversification amongst the big boys is always a wise strategy!
- After a few very strong months, retail sales were expected to fall 0.3% for October. Instead, retail sales only declined 0.1% and were unchanged after factoring in positive revisions to prior months. Sales declined in 7 of the 13 major categories for the month led by autos, which slipped 1.0%. *Some market pundits have extrapolated the downtrend suggesting a weak holiday sales season...the jury is not out yet especially if the market continue to rally into the New Year.*
- Cheaper Turkey. Thanksgiving dinner was a little easier on the wallet this year as the average cost of a “classic” dinner for ten declined 4.5% from last year. While lower, this year’s decline follows a record 20.1% increase in 2022, and relative to 2019, the average price of a Thanksgiving Dinner is up 25%. (Source: American Farm Bureau Federation). *I wonder if Ozempic has any impact?*
- In October, the Social Security Administration announced a 3.2% cost of living adjustment that will take place in January. This year's increase is down from 2022's increase of 8.7% and 2021's rise of 5.9%, but the cumulative 18.8% increase since 2021 is the largest 3-year increase since 1983 (23.6%). Note, these adjustments are tied with inflation, most closely with the Consumer Price index.
- According to S&P Global’s U.S. Composite PMI preliminary report, both service and manufacturing companies reported contractions in staffing. U.S. service sector employment fell for the first time since 2020, while manufacturing employment fell for the 2nd straight month. The Fed sees this as a positive since wage pressures may be easing.





NEGATIVE DEVELOPMENTS

- Moody's credit rating agency downgraded the U.S. economic outlook to "negative" from "stable." The agency said the U.S. Aaa rating had turned negative due to the country's declining fiscal strength. Specifically, higher interest rates coupled with a fiscal policy that fails to reduce government spending or increase revenues, keep deficits large and weakens the country's debt affordability.
- Industrial production slid in October with a 0.6% drop, tying the largest decline of 2023. Prior months' data were revised down as well. It is notable that most of October's drop was due to the volatile auto manufacturing sector where activity plunged 10.0%...some of this strike related.
- *New home sales* took a breather following a gain in September. Despite the 5.6% decline in October, sales have been in an upward trend in the past year and now sit 25.0% above the low in July of 2022. The main issue with the housing market remains affordability. If we assume a 20% down payment, the rise in mortgage rates since the onset of Fed tightening translates into a 31% increase in monthly payments on a 30-year mortgage for the median new home. With 30-year mortgage rates currently sitting above 7.5%, financing costs remain a headwind.



THE MARKETS

The U.S. equity markets were strong across all capitalizations and styles. From a sector perspective, technology, real estate, consumer discretionary and financials were market leaders while energy, consumer staples and health care were modest laggards.

The Europe markets pretty much tracked the U.S. markets last month posting healthy gains. Asia was mixed with Japan registering an 8.5% gain, yet China and Hong Kong logged negative performance in November.

The Treasury market has seen yields across the curve plummet. The wide inversion between the 2-year Treasury and the 10-year Treasury has come in (flattened) quite a bit over the last month. The spread now rests at 38 basis pts which suggests that fears of a recession are weakening.

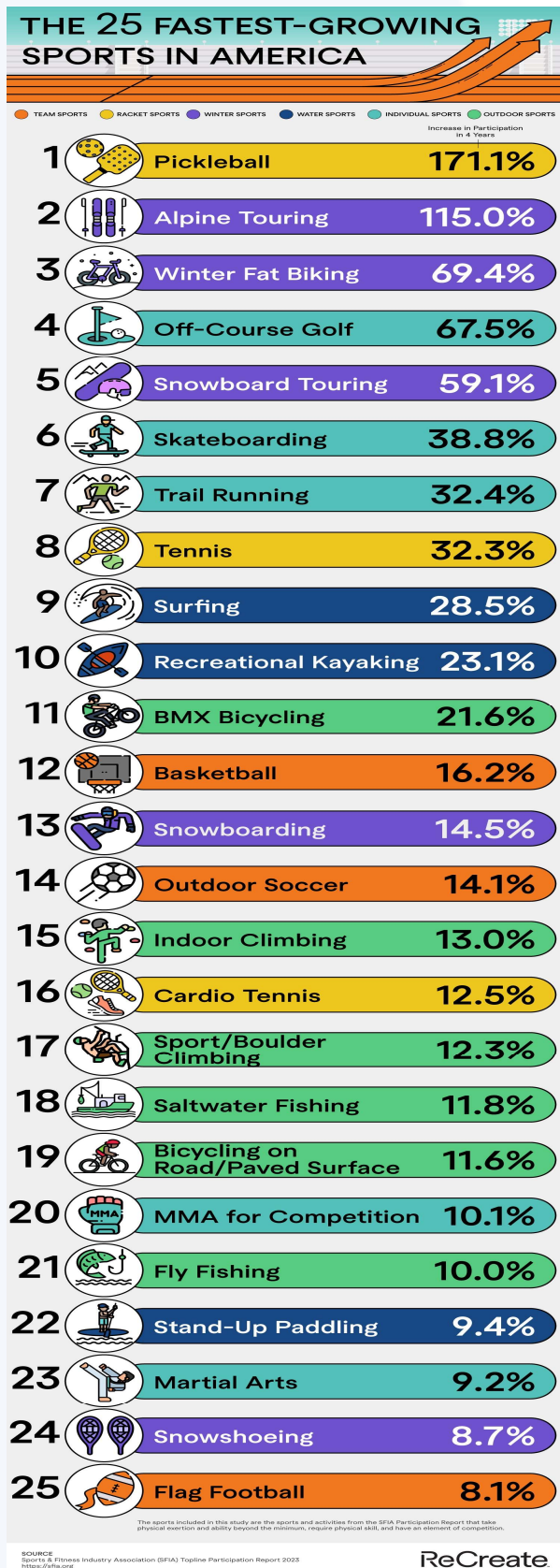


U.S Index	Last Month (% return)	YTD (%)
S&P 500	8.9	19.0
Dow Jones	8.7	8.5
NASDAQ Comp	10.4	35.9
Russell 2000	8.7	2.6

Source: <https://tradingeconomics.com/stocks>



Chart of the Month: Fastest Growing Sports in America



The chart of the month features the fastest growing sports in 2023, which was assembled based on data from the 2023 Sports & Fitness Industry Association (SFIA) Participation report.

Results of the study showed that Pickleball has stolen the spotlight this year as the fastest-growing sport in the U.S with a whopping 171.1% increase in participation from 2018 to 2022. This trend has been on a steady climb for five years, however 2022 was the real game-changer, witnessing an 85.7% spike from the previous year. This doesn't surprise us as a mix of ping-pong, tennis, and the occasional ninja move has appealed to many of our friends & family. We now hear of secret pickleball societies, cliques, clothing lines, and of course, we hear the balls!

Beyond pickleball, winter sports are having a moment. Alpine touring and winter fat biking snagged the second and third spots for fastest growing sports. Even snowboard touring, the James Bond of the snow sports world, secured a spot at #5.

For our fellow golfers, people are looking beyond the links to get a piece of the action. "Off-Course Golf" participation gained 67.5% over 2022, driven by simulators, golf-themed games, and putt-putt. Golfers may finally be realizing that they can not fix their game on the course...

Data also showed that bicycling on road/pave surfaces takes the crown as the most popular sport in America, with a whopping 43.55 million participants in 2022. That's over 14% of the US population aged 6 and older hitting the bike trails.


Basketball rules the roost as the most popular team sport, boasting 28.15 million participants in 2022. It even clinches the fourth spot among all sports in terms of overall participation. Baseball comes second among team sports with 15.48 million players in 2022.



Source: <https://recreateyou.com/blog/post/the-25-fastest-growing-sports-in-america>




NEWS YOU CAN USE




Loyal, a clinical-stage veterinary medicine company, received expanded conditional approval from the FDA for their drug, LOY-001, which is being developed to extend the lifespan of large dogs and increase quality of life as they age. Large dog breeds are found to have 28x the levels of a growth-promoting hormone, IGF-1, which has been found to reduce lifespan. The drug works by lowering levels of IGF-1. This marks the first drug ever to be developed explicitly for life extension of any species.

<https://www.businesswire.com/news/home/20231127326868/en/FDA-Agrees-Loyal-Data-Supports-Reasonable-Expectation-of-Effectiveness-for-Large-Dog-Lifespan-Extension>



This month a mint condition, first-class dinner menu from the Titanic sold for \$100,000 at auction in England. On April 11, 1912, first class passengers enjoyed a meal of oysters, mallard duck, beef, spring lamb and French ice cream. Three days later, more than 1,500 people died when the ship hit an iceberg and sunk into the Atlantic. The auctioneer claimed that there are no other surviving examples of a first-class April 11 dinner menu.

<https://www.bbc.com/news/uk-england-wiltshire-67397384>



Last month, more than 2 million dimes went MIA from a truck hauling the treasures from the US Mint in Philly to Miami. After the trucker took a snooze, six men snuck away with \$234,500 in dimes, of which they attempted to convert into cash in several surrounding neighborhoods. The cargo carried roughly \$750,000 worth of dimes weighing about six tons. Four men are charged with conspiracy, robbery, theft of government money, and other charges. The crime didn't make any cents.

<https://winknews.com/2023/11/14/dimes-theft-us-mint-facing-federal-charges/>

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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