Financial Markets This Week

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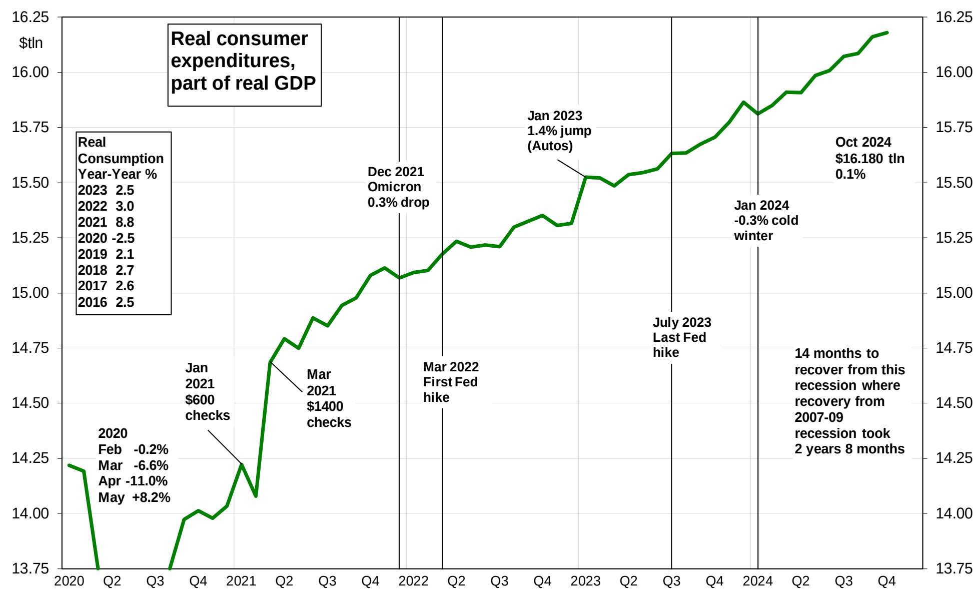
CONSUMER OKAY BEFORE ELECTION

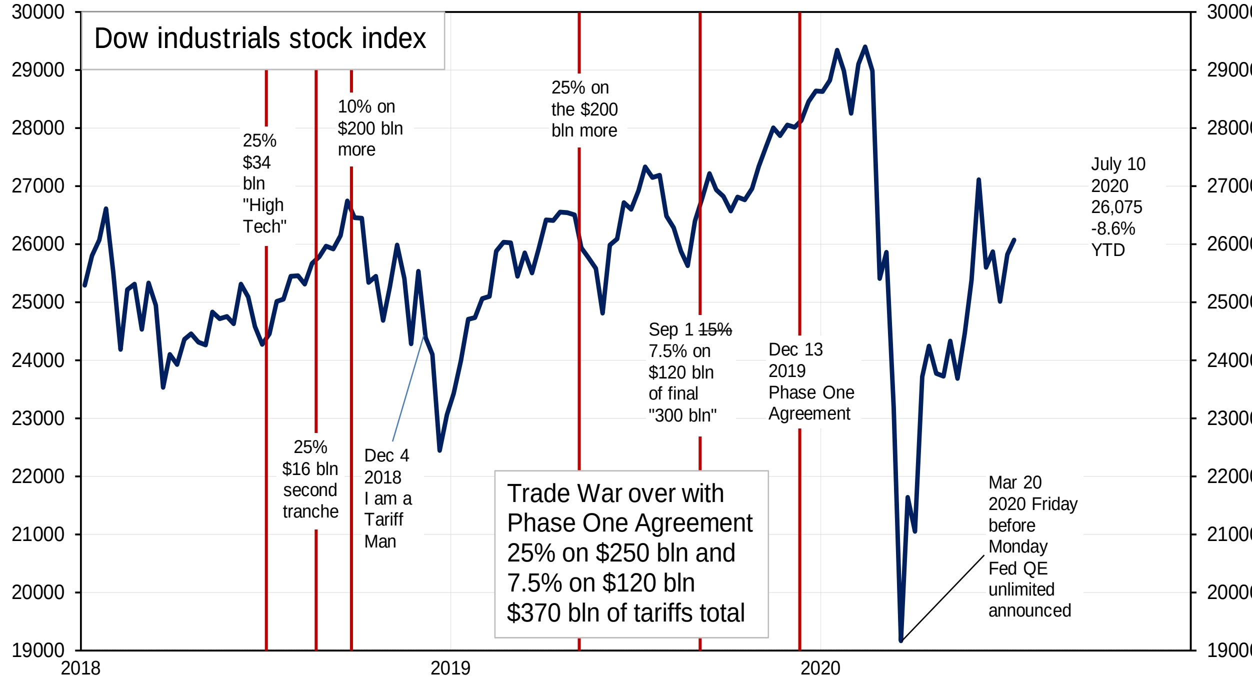


Business as usual for consumers, keeping in mind perhaps 40% who are eligible do not vote and are less likely to be affected by the outcome. So just to update the latest October comprehensive data on the consumer before the election. Retail sales from October were released November 15, but these are the full results including services spending. Spending continues on the same upward trajectory after the sharp adjustment higher from the stimulus checks early in 2021. The $600 checks worth $139 billion, $1400 checks $339 billion. Monies spent long ago. There were some bumps in the road from Omicron in December 2021 and cold winter weather in January this year. Fed economists marked down their second half economic growth forecast at the September 2024 meeting, due to the weak labor market data, but nothing yet and weekly jobless claims have come back down.

Real Consumer Expenditures & GDP SAAR Percent change: Q4 2024e is October over Q3 average	Q4 2024e	Q3 2024	Q2 2024	Q1 2024	Level $bln Q3 2024
Gross domestic product (GDP)	--	2.8	3.0	1.6	23,386.7
Personal consumption expenditures (PCE)	1.9	3.5	2.8	1.9	16,106.4
Goods	2.5	5.6	3.0	-1.2	5,476.0
Durable goods	3.3	7.6	5.4	-1.7	2,059.5
Motor vehicles and parts	1.7	9.7	6.6	-7.6	584.9
Furnishings and durable household equipment	0.6	9.2	8.1	0.1	442.5
Recreational goods and vehicles	6.9	6.4	5.0	-1.6	771.9
Other durable goods	3.8	2.3	-0.4	10.8	298.1
Nondurable goods	2.1	4.5	1.7	-0.8	3,426.5
Food and beverages for off-premises	2.2	2.9	2.2	-0.1	1,171.3
Clothing and footwear	1.1	1.7	-3.1	3.0	500.3
Gasoline and other energy goods	-1.5	3.6	7.5	-8.6	319.1
Other nondurable goods	3.4	7.3	1.2	-0.4	1,447.4
Services	1.6	2.6	2.7	3.4	10,650.9
Household consumption expenditures (for services)	1.5	2.9	2.1	2.9	10,224.9
Housing and utilities	0.2	1.0	1.9	0.7	2,640.5
Health care	3.7	6.4	3.2	7.0	2,832.4
Transportation services	-2.1	3.0	14.6	0.6	507.4
Recreation services	0.2	3.6	2.0	2.5	623.4
Food services and accommodations	3.5	2.5	-0.3	-2.4	1,069.9
Financial services and insurance	2.3	3.7	-0.8	6.0	1,164.4
Other services	-0.5	-0.1	0.8	2.8	1,405.1
Final consumption nonprofit institutions	2.8	-4.3	16.7	14.7	428.1

Consumer spending has run fairly strong on average this year with the Q1 2024 1.9% as vehicle sales turned down in the cold winter weather. Spending is slower in the Q4 2024 using October results versus the third quarter. Health care is a large expenditure category and it is up 3.7% in Q4 2024 to date. Recreational goods and vehicles up 6.9%, mostly computers and software spending, but motorcycles and pleasure boats are being purchased as well. Other durable goods up 3.8% were in the luxury category: jewelry. Consumer is steady for now and looks okay with confidence higher, unless the import tariffs actually go through.

INTEREST RATES



Like the good old days. The first "tweet" after 6pm ET Monday on trade matters even before the president-elect takes office. The stock market eventually ignored the threats of 25% tariffs on Canada and Mexico imports, and 10% more for China. The China tariffs did not begin until 2018 and were ramped up after Trump's "I am a tariff man" tweet December 4, 2018 which was one of the factors that caused a 20% drop in the stock market and made Powell shift away from further rate hikes beyond 2.5%. Customs duties peaked at $99.9 billion in FY 2022 when the calendar year imports from China were $536.3 billion. Imports from China are running $322.2 billion in the first 9 months of 2024.

Customs Duties vs. US China Imports $billions

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Customs Duties	34.837	34.575	41.299	70.784	68.550	79.985	99.908	80.337	77.037
China Imports	462.420	505.165	538.514	449.110	432.548	504.246	536.259	426.885	322.172

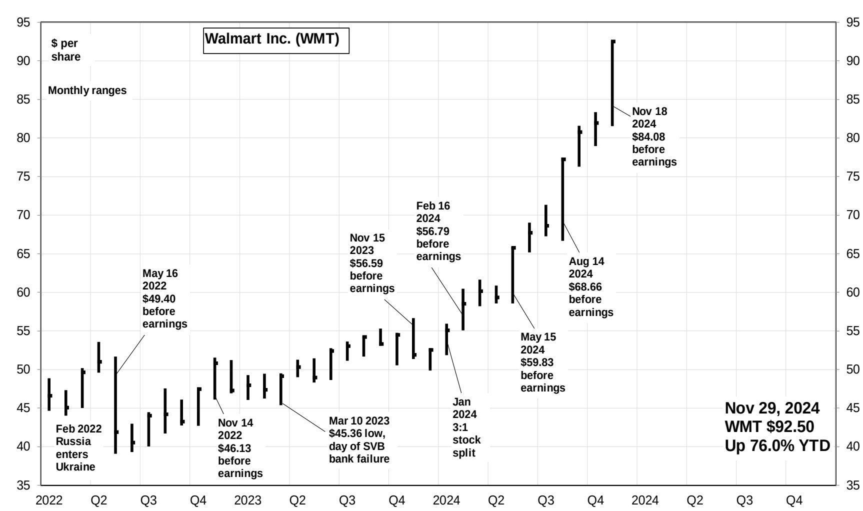
Customs Duties Fiscal Year, US Goods Imports from China calendar year

Walmart Inc. (WMT) up 76.0% YTD

Another earnings report, another rally. It has been straight up from the $60 level powered by the last three earnings reports. Before the bell, earnings on November 19 beat expectations for the October 31, 2024 quarter. It raised revenue expectations (it's not just groceries anymore) which has been the key metric recently for many companies. The company did say as many have that import tariffs would cause the company to raise prices.

Bln $	Revenue	Operating Income	Same-store Sales YOY *	13-weeks ending *
Q1 2021	138.3	6.9	6.2%	4/30/2021
Q2 2021	141.0	7.4	5.5%	7/30/2021
Q3 2021	140.5	5.8	9.9%	10/29/2021
Q4 2021	152.9	5.9	6.3%	1/29/2022
Q1 2022	141.6	5.3	4.0%	4/29/2022
Q2 2022	152.9	6.9	7.0%	7/29/2022
Q3 2022	152.8	2.7	8.5%	10/28/2022
Q4 2022	164.0	5.6	8.8%	1/27/2023
Q1 2023	152.3	6.2	7.3%	4/28/2023
Q2 2023	161.6	7.3	6.3%	7/28/2023
Q3 2023	160.8	6.2	4.7%	10/27/2023
Q4 2023	173.4	7.3	3.9%	1/26/2024
Q1 2024	161.5	6.8	3.9%	4/26/2024
Q2 2024	169.3	7.9	4.3%	7/26/2024
Q3 2024	169.6	6.7	5.5%	10/25/2024

* US comparable sales, incl. Sam's Club, ex-fuel

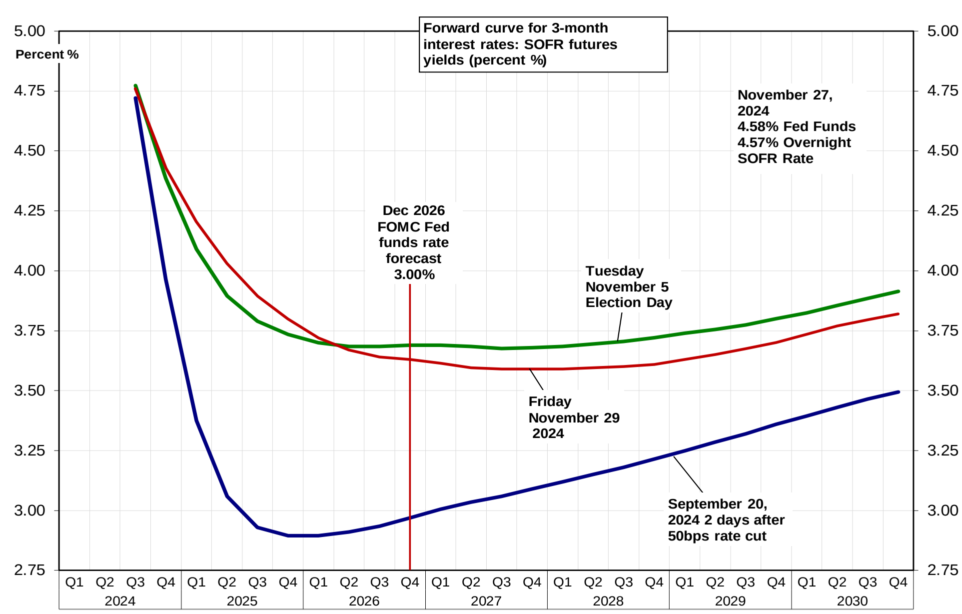


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	27-Nov	20-Nov	13-Nov	6-Nov	3/11/20*	3/11/20
Factors adding reserves						to Nov 27
U.S. Treasury securities	4323.134	4322.938	4340.060	4339.963	2523.031	1800.103
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2248.982	2262.279	2265.963	2265.963	1371.846	877.136
Repurchase agreements	0.000	0.011	0.006	0.101	242.375	-242.375
Primary credit (Discount Window)	2.498	2.747	1.830	1.600	0.011	2.487
Bank Term Funding Program	18.509	21.423	26.395	59.758		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.009	2.014	2.042	2.049		
Main Street Lending Program	8.457	9.945	10.153	10.143		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.128	0.132	0.128	0.151	0.058	0.070
Federal Reserve Total Assets	6955.5	6974.9	7018.3	7045.6	4360.0	2595.486
~~3-month Libor %~~ SOFR %	4.57	4.56	4.59	4.81	1.15	3.420
Factors draining reserves						
Currency in circulation	2362.860	2358.202	2361.352	2359.810	1818.957	543.903
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	782.704	737.834	808.857	840.227	372.337	410.367
Treasury credit facilities contribution	3.461	4.958	4.958	4.958		
Reverse repurchases w/others	169.815	217.793	238.106	177.871	1.325	168.490
Federal Reserve Liabilities	3721.477	3707.587	3826.203	3790.092	2580.036	1141.441
Reserve Balances (Net Liquidity)	3234.035	3267.319	3192.048	3255.532	1779.990	1454.045
Treasuries within 15 days	40.733	49.439	74.216	86.296	21.427	19.306
Treasuries 16 to 90 days	244.124	232.067	205.975	193.934	221.961	22.163
Treasuries 91 days to 1 year	455.496	458.822	486.014	485.953	378.403	77.093
Treasuries over 1-yr to 5 years	1499.246	1499.158	1452.218	1452.216	915.101	584.145
Treasuries over 5-yrs to 10 years	549.009	548.983	593.297	593.275	327.906	221.103
Treasuries over 10-years	1534.525	1534.468	1528.341	1528.291	658.232	876.293
Note: QT starts June 1, 2022	Change	11/27/2024	6/1/2022			
U.S. Treasury securities	-1447.645	4323.134	5770.779			
Mortgage-backed securities (MBS)	-458.464	2248.982	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets December 17-18, 2024 to consider its monetary policy. We would cut rates 25 bps more to 4.5%, and then put the forecasts at 4.0% in 2025 and 3.5% in 2026. The economy does not appear to be slowing appreciably with the current level of rates. The FOMC thought neutral was 4.25% in 2012, so 3.5% neutral now seems more than reasonable. The decision to cut rates is possibly dependent on the Friday, December 6 jobs report. The November 6-7 FOMC meeting minutes released this week said some participants judged the downside risks to the labor market had diminished, and this was after last month's 12K payroll jobs weakness believed to be temporary due to hurricanes and the Boeing strike. The Fed economic staff still sees the risks somewhat skewed to the downside, as the "easing in the labor market seen over the past two years could give way to a more pronounced slowdown in economic activity." It is odd that the rise in the unemployment rate from the cycle low of 3.4% in April 2023 to 4.1% currently, 0.7 percentage points, has not led to a recession as it has done historically.

Fed Policy-key variables					Long
	2024	2025	2026	2027	Term
Fed funds	4.4	3.4	2.9	2.9	2.9
PCE inflation	2.3	2.1	2.0	2.0	2.0
Core inflation	2.6	2.2	2.0	2.0	
Unemployed	4.4	4.4	4.3	4.2	4.2
GDP	2.0	2.0	2.0	2.0	1.8
September 2024 median Fed forecasts					



SOFR yield curve came down about 20 bps this week following 10-yr Treasury yields. Reason unknown.

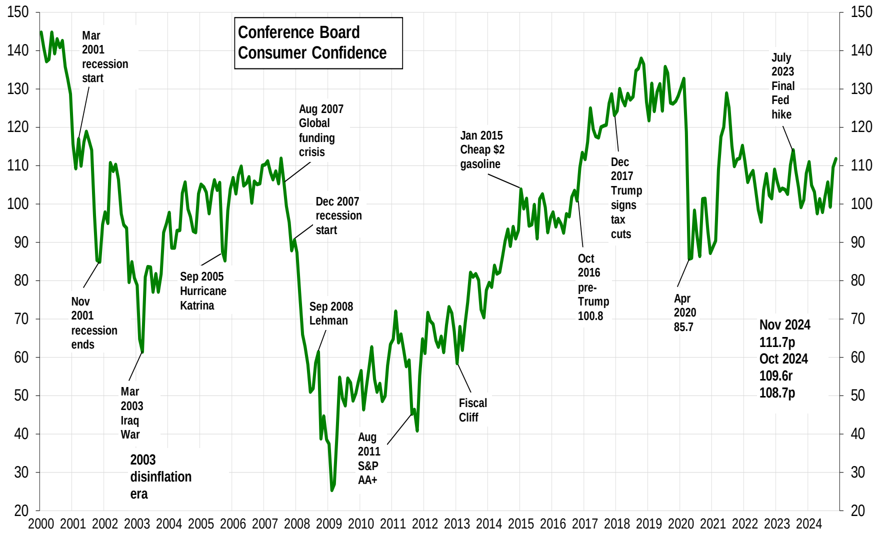
Fed funds futures call Fed policy		
Current target: November 29 -- 4.75%		
Rate+0.17	Contract	Fed decision dates
4.585	Jan 2025	Dec 18*
4.525	Feb 2025	Adds Jan 29
4.385	Apr 2025	Adds Mar 19
Last trade, not settlement price		
* Not strictly true, Jan 2025 has Jan 29 Fed date, so 2 days could be a new interest rate		

Next up: November CPI inflation report Wednesday, December 11														
Monthly	2024									2024	2023			2023
% Changes	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep
Core CPI inflation		0.3	0.3	0.3	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3
Core PCE inflation		0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1	0.3
Core PCE YOY		2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4	3.7
Core CPI YOY		3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1

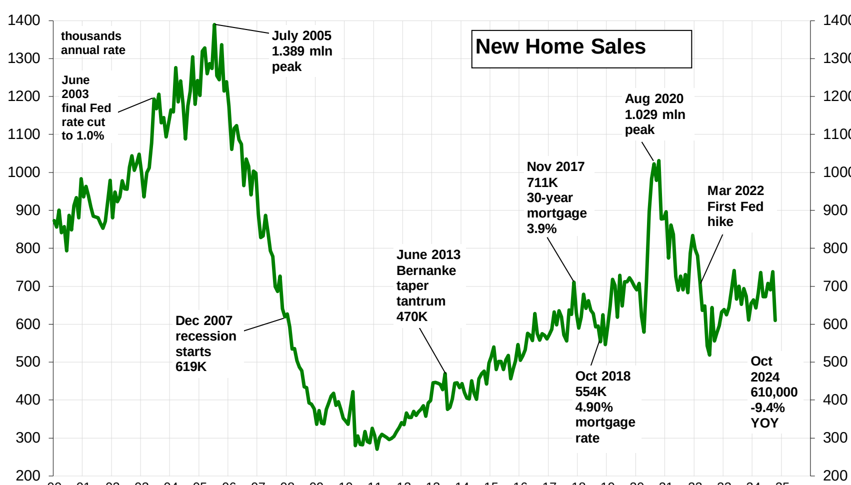
OTHER ECONOMIC NEWS

Consumer confidence improves (Tuesday)

Breaking economy news. Consumer confidence improved after the election with the index at 111.7 in November and the preliminary 108.7 October number revised up to 109.6. The consumer's reading of the labor market improved on a net basis where those saying jobs are plentiful numbered 33.4% down from 34.1% in October. Those saying jobs are hard to get fell to 15.2% from 17.6%. Consumers under 35 years old were most confident about the future.



Net, net, consumer confidence has improved since the election results became known, and this suggests the consumer will be a steady source of support for the current economic expansion that shows no sign of stopping anytime soon. Economic growth was strong at nearly 3% before the election and it looks like the 3% pace will continue if the consumer has anything to say about the matter. The resilience of the economy is a surprise to Fed officials who rushed forward their interest rate cuts after a growth scare this summer, and if the labor market is the key to consumer confidence, next week's employment report will be critical on whether Fed officials go ahead with one last interest rate cut this year. The positive outlook on the part of consumers tells markets that interest rate cuts are not needed to keep the wheels of commerce turning. There was little reaction in the stock market to the latest consumer confidence report today. There are big changes coming down in Washington, and consumers may yet find something they disagree with, but for the moment, the overall economic outlook looks good for the next few months. It was a close election for president in terms of the popular vote, but consumers are giving the economic outlook a big thumbs up for now. The survey results were completed by November 18, too early to see the effect of the latest tariff threats directed at Mexico, Canada and China that have the potential to push consumer goods prices sharply higher.



Also released at 10am ET was the 17.3% drop in new home sales in October to 610 thousand at an annual rate. The decline was due to the 27.7% decline in the South to 339 thousand with Hurricane Helene on September 26 and Hurricane Milton on October 9.

GDP steady near 3% (Wednesday)

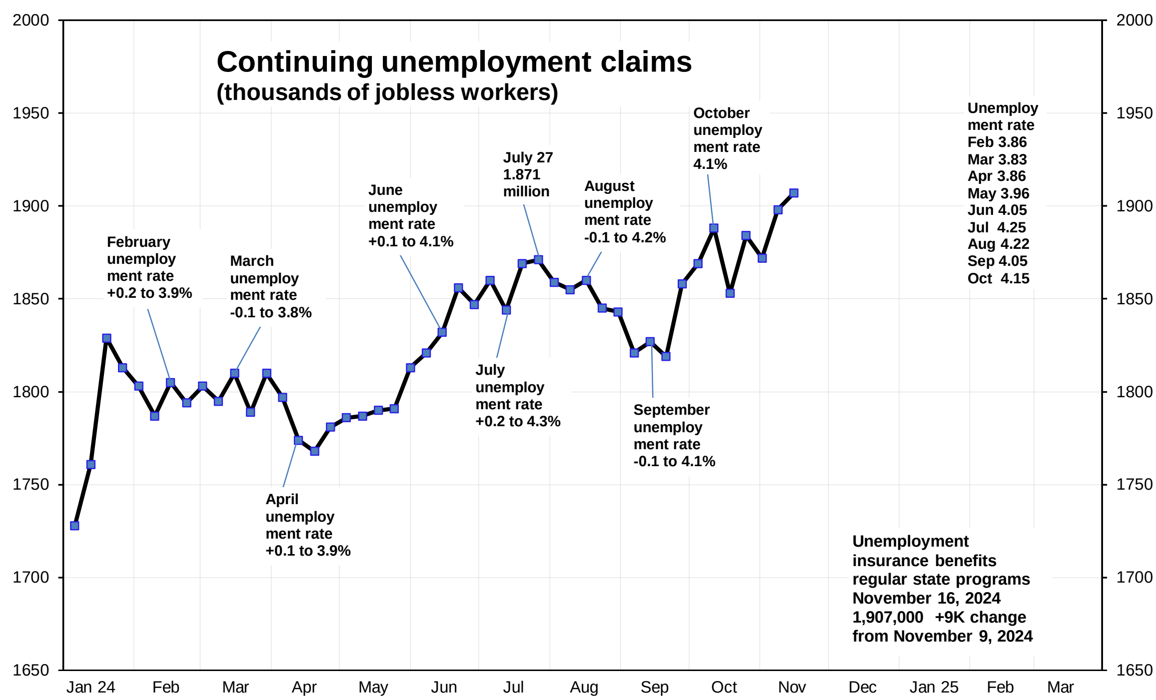
Breaking economy news. A lot of data at 830am ET before Thanksgiving, GDP, jobless claims, advanced trade data (deficit came back down), durable goods orders (nondefense capital goods ex-aircraft going nowhere -0.2% October, +0.3% September, +0.2% August). First-time applications for jobless benefits still at 213K in the November 23 week after revisions; continuing claims November 16 week 1.907 million, about the same as the prior report, it will be interesting to see if this boosts the unemployment rate in the Friday, December 6 employment situation report for November.

	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24p	Q3 24r
REAL GDP	2.4	4.4	3.2	1.6	3.0	2.8	2.8
REAL CONSUMPTION	1.0	2.5	3.5	1.9	2.8	3.7	3.5
CONSUMPTION	0.7	1.7	2.3	1.3	1.9	2.5	2.4
Durables	0.0	0.3	0.2	-0.1	0.4	0.6	0.5
Nondurables	-0.1	0.4	0.5	-0.1	0.2	0.7	0.6
Services	0.7	1.0	1.6	1.6	1.3	1.2	1.2
INVESTMENT	1.4	1.8	0.2	0.6	1.5	0.1	0.2
Business Plant	0.5	0.1	0.2	0.2	0.0	-0.1	-0.2
& Equipment and	0.6	-0.1	0.0	0.0	0.5	0.6	0.5
Intellectual Property	0.2	0.2	0.3	0.4	0.0	0.0	0.1
Homes	0.2	0.3	0.1	0.5	-0.1	-0.2	-0.2
Inventories	-0.1	1.3	-0.5	-0.5	1.1	-0.2	-0.1
EXPORTS	-0.5	0.5	0.7	0.2	0.1	0.9	0.8
IMPORTS	0.4	-0.6	-0.6	-0.8	-1.0	-1.5	-1.4
GOVERNMENT	0.5	0.9	0.6	0.3	0.5	0.9	0.8
Federal defense	0.0	0.2	-0.1	-0.1	0.2	0.5	0.5
Fed nondefense	-0.1	0.1	0.0	0.1	0.0	0.1	0.1
State and local	0.6	0.6	0.6	0.3	0.3	0.3	0.3

Below line: Percentage point contributions to Q3 2024 2.8% real GDP

Third estimate for Q3 is Thursday, December 19

Net, net, the economy has built up a lot of steam and remains stronger than was commonly believed during the recent election with job layoffs minimal and GDP growth right up close to 3% which is probably the speed limit for now. Corporate profits slowed from the second quarter but are roughly 6% higher than a year ago. The incoming administration has a lot of new ideas they want to try out, but the bond market believes them when they say there will be some short-term pain which could mean supply disruptions and more inflation and higher long-term yields. Homebuyers looking for lower mortgage rates could have a long wait. Housing was actually a 0.2 percentage point drag on 2.8% Q3 2024 real GDP. There is a lot of uncertainty, and likely to be some volatility ahead, so there is still a chance Fed officials skip a rate cut at the December meeting as they await more data early in the new year. At the moment, the economy is rock steady and in no danger of sinking. Fed funds futures are closer to discounting a 25 bps rate cut than doing nothing, but only by a few basis points.

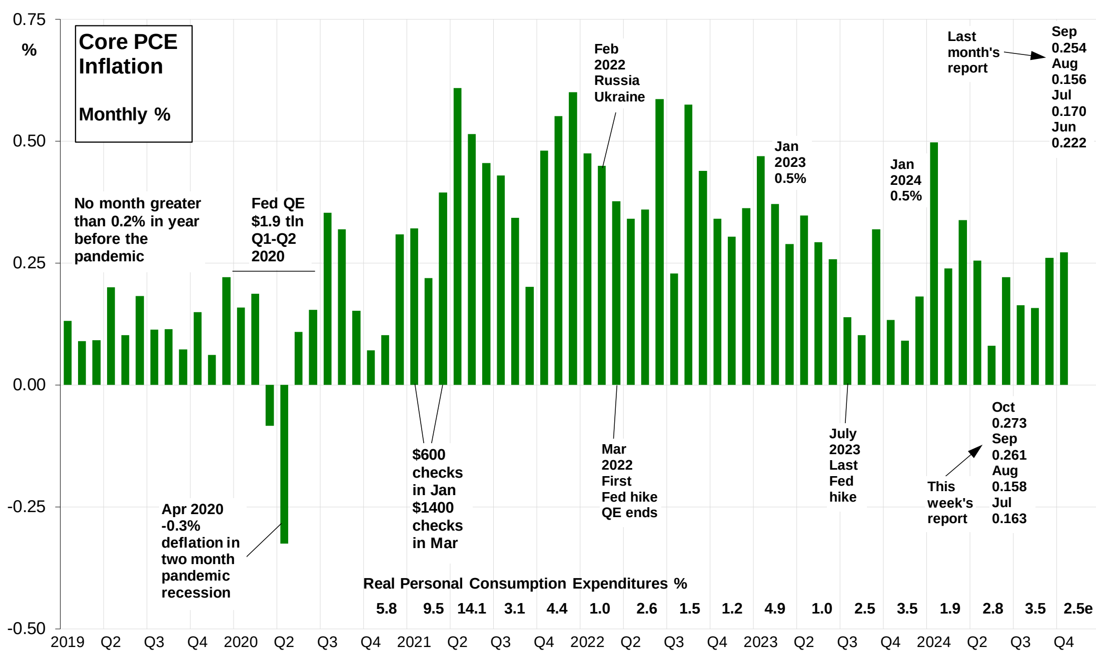


Real consumer spending slows, inflation growing hotter (Wednesday)

Breaking economy news. At 10am ET the personal income report for October with spending and inflation data. Real consumer spending slowed to just 0.1% in October, so it is a good thing that spending jumped 0.5% in September to provide momentum for the quarter as a whole. Core PCE inflation was 2.8% in October up from 2.7% year-on-year in September, exactly as Powell mentioned in his November 14 “no hurry” comments. The Fed’s estimates for PCE inflation after receiving CPI and PPI reports earlier in the month are getting sharper.

Net, net, caution appeared to be the watchword for the consumer who had the income in October ahead of the election in November, but appeared to save most of it and spent decidedly less last month with most of the dollars going toward health care. Real consumer spending slowed to 0.1% in October from 0.5% in September, which will make it more difficult to reach the stronger 3.5% real consumption in Q3 2024 behind the 2.8% real GDP growth. It is not impossible with two months left to go, and consumer confidence was stronger in November, but at the moment we judge consumer spending is more likely to slow to 2.5% in the fourth quarter with October spending 1.9% higher than Q3 2024.

Meanwhile, core PCE inflation remained hotter than Fed officials want with a 0.3% increase for a second consecutive month. With steady consumer spending and sharply reduced chances of a recession, the bond market is asking the question of why oh why would Fed officials even consider another 25 bps rate cut to 4.5% when core consumer inflation is running so far above target at 2.8% year-on-year in October. With consumption slowing and inflation speeding up in October, the economy is heading in the stagflation direction just at the wrong time when the new administration down in Washington could bring a new economic agenda next year that by all appearances looks inflationary in the short run.



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