OBSERVATIONS: *Choppy markets last week, core inflation eases, jobless claims still low.*

- In choppy trading, US equity markets traded slightly down last week across most asset classes, with the S&P 500 losing -0.1%, the NASDAQ composite losing -0.4% and US small caps (Rusell 2000 index) losing -0.2%.[1]
- The latest inflation reading came in largely in line with expectations for August. Headline CPI moved up to +3.7% year-over-year (YoY) in part due to rising gasoline prices from July's +3.2% YoY reading. While core-CPI—which excludes volatile food and energy prices—decreased to +4.3% YoY in August, down from July's +4.7% YoY figure. Inflationary pressures broadly eased across goods, services, and housing in August.[1]
- The Producer Price Index, a measure of what businesses receive for their goods and services, increased +1.6% YoY well ahead of expectations, but mostly due to a rise in energy prices. However, excluding the volatile food and energy components, producer prices rose +2.2% YoY which was in-line with expectations.[1]
- Retail sales rose in August for the fifth consecutive month with a +0.6% gain month-over-month (MoM) or 2.5% YoY, which was a larger gain than consensus expectations. Retail sales excluding the volatile gasoline component were up 3.8% on a YoY basis, but retail sales for both June and July were revised down.[1]
- The Small Business Optimism Index decreased in August to 91.3, which was slightly below expectations and the 20th consecutive month below the index's nearly 50-year average of 98.0. Small businesses remained concerned with the economic outlook and the majority are still finding difficultly in hiring.[2]
- Initial unemployment claims were nearly unchanged last week with 220,000 new claims filed, which was only 3,000 more initial claims than the week before suggesting that the labor market remains strong.[1]
- Industrial production growth has all but stalled as the index grew by only 0.2% YoY in August and the US manufacturing sector faces additional headwinds as the UAW strike gathers pace (see One More Thought).[1]

EXPECTATIONS: *ECB raises rates, China cuts, Federal Reserve meets this week.*

- The European Central Bank (ECB) raised its main policy rate last week to 4.0%—the highest level since the creation of the Euro and the ECB in the late 1990s—to combat inflation. But the ECB also signaled that its recent cycle of interest rate increases was likely over as it cut its outlook for economic growth in Europe to only 0.7% for 2023 and projected only 1.0% real GDP growth in 2024.[3]
- In contrast, the Chinese Central Bank cut its reserve requirements for its banking sector by -25-basis points in a bid to support liquidity within the Chinese banking system, spur more lending activity, and boost sentiment in the broader economy towards more borrowing and investment.[4]
- Meanwhile the US Federal Reserve will meet this week and markets are widely expecting the Fed not to raise rates at this meeting, but Fed watchers will be seeking guidance from Fed Chairman, Jay Powell, if the Fed is likely to be done with rate hikes this year or if markets should brace for another hike in either November or December—currently Fed Fund Futures have priced in 50-50 odds the Fed will hike again this year.[1]

ONE MORE THOUGHT: *Little Progress in UAW-Big Auto Contract Talks – UAW Slowly Intensifying Strike Activity*[1]

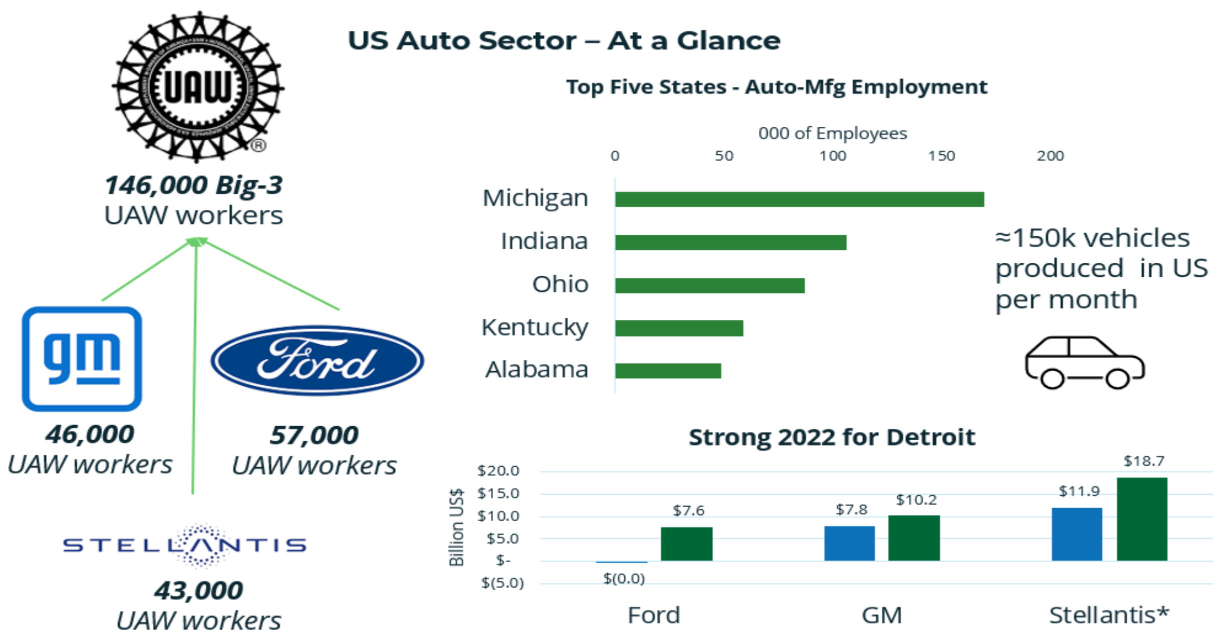
The deadline for reaching a new bargaining agreement between the United Auto Workers (UAW) and the big-three car manufacturers—GM, Ford, and Stellantis (Chrysler)—came and went last week without an agreement. However, the UAW did not call for a full strike of its more than 140,000 autoworkers, but is idling select, targeted auto plants—about 12,700 UAW workers idled plants affecting Ford, GM, and Stellantis' profitable (and popular) SUV and truck

---

[1] *Bloomberg LP, 9/15/2023*
[2] *https://www.nfib.com/surveys/small-business-economic-trends/*
[3] *https://www.ecb.europa.eu/press/pressconf/press_conference/html/index.en.html*
[4] *Goldman Sachs "China: PBOC announced a 25bp RRR cut" 9/14/2023*

assembly—in the hopes of gradually ratcheting up the pressure on the big three-auto makers the longer the two sides remain without a tentative agreement for a new contract. The UAW is seeking large pay raises (initially over 40% increase over four years but has since lowered that demand to a 36% pay increase) as well as the right to strike over plant closures, increases in retiree benefits, the reintroduction of cost-of-living adjustments and other benefits. The talks come at a time when Detroit is both coming off of one of the most profitable periods in their history, but also as they begin to invest in a costly transition from internal-combustion engines to all electric vehicle production. The staggered approach to striking—which likely later involve engine and transmission plants—may allow other UAW employees to remain at work for a time, but eventually the lack of these vital components will shut down the remaining auto operations. The economic impact of a complete shutdown of the big-three automakers will ripple through the rest of the US manufacturing sector as various unionized and non-unionized parts suppliers—like steel plants or specialty parts manufacturers—also see a slowdown or a halt in activity. The economic impact will likely be most acutely felt in the Midwest, which is home to hundreds of auto-related manufacturing locations. In 2019, a six-week strike at GM alone caused the state of Michigan to face a single quarter recession. This evolving strike is likely to be worse and one estimate projected of $5.6 billion economic loss every 10 days from a complete strike of all UAW employees. On top of this a looming government shutdown could be in the works—stay tuned.

CHART OF THE WEEK:



Source: Clearstead, WSJ, Bloomberg, BLS, Anderson Economic Group 9/14/2023

Aneet Deshpande, CFA	Dan Meges
Chief Strategist	Senior Managing Director of Equity
Clearstead	Clearstead

Information provided in this article is general in nature, is provided for informational purposes only, and should not be construed as investment advice. These materials do not constitute an offer or recommendation to buy or sell securities. The views expressed by the author are based upon the data available at the time the article was written. Any such views are subject to change at any time based on market or other conditions. Clearstead disclaims any liability for any direct or incidental loss incurred by applying any of the information in this article. All investment decisions must be evaluated as to whether it is consistent with your investment objectives, risk tolerance, and financial situation. You should consult with an investment professional before making any investment decision. Performance data shown represents past performance. Past performance is not an indicator of future results. Current performance data may be lower or higher than the performance data presented. Performance data is represented by indices, which cannot be invested in directly.