OBSERVATIONS: *Seasonal weakness continues, 10-Year Treasury yield jumps, and negative housing data.*

- Markets closed lower last week with the S&P 500 declining -2.9%, bringing the month's declines to -4.1%—should the weakness intensify, 4,200 would be the next reasonable level of support for the index. The 10-Year US Treasury yield jumped 11bps to 4.44%, a new 2023 high and the highest since the fall of 2007.[1]
- US homebuilder sentiment (NAHB/Wells Fargo Housing Market Index) fell in September after a decline in August, posting its largest 2-month drop in nearly a year. Nearly a third of builders said they lowered prices to boost sales—the most since late 2022.[1]
- Housing starts in August dropped from July to a seasonally adjusted annual rate of 1.283 million, -11.3% below July's revised 1.447 million and -14.8% below August 2022. The sharp month over month (MoM) drop was driven by multi-family starts which were down -26.3% MoM, while single family home starts were down -4.3% *(single family starts account for about 75% of total new housing starts)*.[2]
- Jobless claims fell to the lowest level since the last week of January 2023 to 201k and the 4-week moving average fell to 217k, a seven-month low.[1]
- The US manufacturing PMI came in at 48.9—slightly better than expectations, but below 50 which indicates a contraction in economic activity—whereas the US services PMI came in below expectations at 50.2 which is an eight-month low. The composite PMI for August was 50.1 and signals the US economy is losing steam.[1]

EXPECTATIONS: *Major central banks on pause and talk of $100 oil.*

- The Federal Reserve kept interest rates at a target range of 5.25% to 5.50% as expected. In the Fed's summary of economic projections (SEP), 12 of 19 Fed officials now expect one more 25bps rate hike by year end—Fed funds futures are currently pricing in a 50% chance of a rate hike by year end. For 2024, the September SEP showed median expectations for real GDP growth of 1.5% (as compared to 1.1% in the June SEP), unemployment of 4.1% for 2024 (as compared to 4.5% from the June SEP), and inflation remaining the same between the June and September SEP of 2.6% (Core Personal Consumption Expenditures).[3]
- England's central bank paused its rate hiking cycle after fourteen consecutive rate hikes taking the main policy rate from near zero to 5.25%. The Bank of Japan kept its policy rate unchanged at -0.1% as it maintains a highly accommodative monetary policy in an effort to keep inflation above its 2% target.[1]
- $100 for oil? Oil continued to rally last week to a one year high with WTI Oil trading over $90/bbl and is up over +27% this quarter to date (as of 9/22/2023). The IEA (International Energy Agency) is now estimating global oil demand to reach 102 million barrels per day for 2023. Chevron CEO Mike Wirth last week noted that oil was poised to reach $100/bbl soon amid tighter supplies and declining inventories.[1]

ONE MORE THOUGHT: *Government shutdown looms, will markets care?*[4]

With four legislative days left in September (this week), a government shutdown—as we have assumed to be a near certainty—now seems likely to begin October 1, which is the beginning of the new fiscal year (FY) for the US. So far, Congress has not enacted any of the 12 appropriations bills that set discretionary spending for FY 2024. In the modern budget process era (post-1976), there have been four shutdowns where government operations were affected for more than one business day: 1995-1996 (two separate shutdowns for a total of 26 days), 2013 (16 days), and 2018-2019 (35 days). While generally considered to be noise, shutdowns can carry an economic cost with longer shutdowns most negatively affecting the economy. The CBO (Congressional Budget Office), for example, estimates

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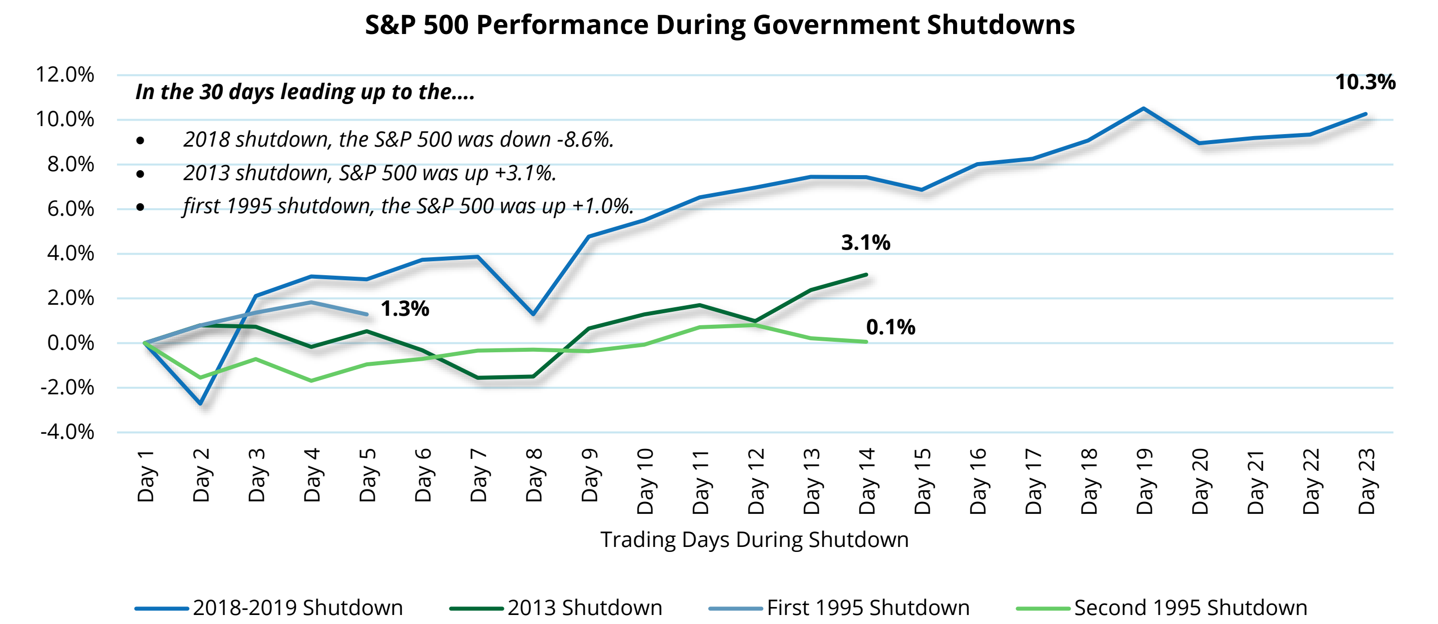
[1] *Bloomberg LP*
[2] *https://www.census.gov/construction/nrc/pdf/newresconst.pdf, as of 9/19/2023*
[3] *Bloomberg LP, https://www.federalreserve.gov/newsevents/pressreleases/monetary20230920b.htm*
[4] *https://www.crfb.org/papers/government-shutdowns-qa-everything-you-should-know, PIMCO, Bloomberg LP*

that the 2018-2019 shutdown cost the economy $11 billion in GDP, though the majority was eventually recovered once the government re-opened. The CBO noted the negative impact to the private sector by way of complicating investing and hiring decisions as the federal permit process and federal loan access were disrupted. In order to avert a full shutdown, Congress needs to pass all 12 appropriations bills through both chambers of Congress and have them signed by the President by midnight September 30. Alternatively, Congress may pass a continuing resolution (CR) to continue funding the government at current levels, giving lawmakers more time to finalize and pass new spending bills. In any case, the longer the shutdown the more potentially disruptive it would be. Our base case is that a shutdown would not extend beyond a few weeks and that a spending deal would take shape in October as Congress is likely to cave to public pressure. In the meantime, the specter of a shutdown adds to the other headwinds of student debt repayment resumption and UAW strikes. For investors, markets have, on average, reacted positively during the periods when the government has been shut down with the magnitude of positive performance somewhat informed by the 30-day period leading up to the shutdown (Chart of the Week).

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 9/18/2023, S&P 500 price returns, 12/21/2018 to 1/25/2019, 10/1/2013 to 10/17/2013, 11/14/1995 to 11/20/1995, 12/15/1995 to 1/5/1996, Past performance is not an indicator of future results.

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