OBSERVATIONS: *Rough month for stocks and bonds, consumer sentiment lower, and jobless claims remain low.*

- Equity markets were mixed and largely flat last week. The S&P 500 was -0.7%, the small caps (Russell 2000 Index) up +0.6% and the US bond market (Bloomberg US Bond Aggregate Index) down -1.0%. September proved to be the worst month for US bonds since February-2023 and for equities since December-2022.[1]
- Revisiting the "magnificent seven": The S&P 500 is up +13.1% year-to-date (YTD) with nearly all of the return coming from those 7 stocks (Apple, Microsoft, Alphabet, Tesla, Meta, Amazon, and Nvidia). Meanwhile, the average S&P 500 stock is up +2.8% year-to-date (YTD), while the median stock is up just +0.7% YTD.[1]
- New home sales decreased in August to 675k, down -8.7% from July's figure which was revised up. Year-to-date in 2023, new home sales are +1.8% compared to the first eight months of 2022.[1]
- Home prices have stabilized according to the S&P CoreLogic Case-Shiller National Home Price Index, with the 20-city composite showing a +0.1% price increase year-over-year (YoY) in August compared to July's figure which showed a -1.2% YoY decline.[1]
- The Conference Board's consumer confidence index showed a second straight month of declining confidence in September. The Conference Board's survey suggests families are increasingly concerned about their financial situation and more are worried now about a potential recession than in August.[1]
- Durable goods orders increased in August by +0.2% month-over-month (MoM) and +4.2% YoY—beating expectations—but excluding defense spending, durable goods orders were down -0.7% MoM and up only +3.7% YoY compared to August-2022.[1]
- Initial unemployment claims remain exceedingly low hitting 201k new claims last week and signaling that the US labor market remains near full employment.[1]
- The Fed's preferred gauge of inflation, core-PCE (personal consumption expenditures) index came in better than expected in August falling to 3.9% YoY, which is the lowest level since May-2021.[1]

EXPECTATIONS*: UAW strike, Government shutdown, and bond markets facing a third consecutive negative year.*

- With about 17% of UAW workers on strike, the UAW strike is entering its third week and the two sides are still far apart on many issues. While there has been some movement towards compromise by both sides in terms of a potential wage increase, numerous other issues remain open including the influence of the UAW in future plant closures and other fringe benefits as well as its role in the big three automakers' transition to electric vehicles.[1]
- In a surprise move, Congress averted a government shut down on Sunday, October 1st when it passed a stopgap funding bill at the 11th hour to keep the government funded until mid-November. Congress still has to pass 12 annual appropriation bills and the two parties do not seem close to a deal on a full FY2024 budget. As a result of the funding deal, House Speaker McCarthy could face a challenge to his leadership.[1]
- As of 30-September, the Bloomberg US Bond Aggregate Index (US bonds) is down -1.2% YTD but could still earn a positive return for 2023 due to coupon income accumulated during Q4, but if rates move up even 3 basis-points further, US bonds will experience an unprecedented 3rd consecutive year of negative total returns.[1]

ONE MORE THOUGHT: *Slowing global growth… globalization facing headwinds?*

Despite some temporary headwinds in the shape of the UAW strike, the US economy comes into Q4 with surprising economic momentum. Growth in Q1-2023 was better than expected, Q2 growth was stronger than Q1, and Q3 is shaping up to be the strongest quarter to date in terms of economic growth. However, the global economic

[1] *Bloomberg LP 9/29/2023*

backdrop is much less positive. As highlighted in previous RCs, Europe is teetering on the brink of recession, and China is grappling with longstanding problems in its property sector which is weighing on economic activity. Japan's economy is structurally challenged and set to grow by about 1% this year and next. Given this backdrop, it is not surprising that global trade has suffered as well this year and as one examines long-run global trade statistics it is clear that hyper-globalization that we experienced in the 2000s has plateaued, which was a tailwind for emerging market economies and equities. This is a potentially difficult backdrop for global markets as the US economy seems the best positioned of all major economies as we head into Q4, and Wall Street begins to forecast corporate earnings for 2024. The US economy still faces headwinds from the resumption of student loan payments, increases in energy prices, and higher interest rates as well as the knock-on effects of the UAW strike and a potential government shutdown in November (Congress still needs to pass a dozen appropriation bills before 17-Nov or provide another stopgap funding bill), but due to being at full employment, current and even most forward looking indicators suggest it can weather the storm. While the general macroeconomy does not strictly dictate corporate earnings, particularly in the short-term, it does inform their performance. This suggests that US equities, US risk assets in general, are once again poised to lead global markets on a relative basis as we close out 2023 and look ahead to next year.

CHART OF THE WEEK

Source: Clearstead, IMF, World Bank, Fidelity; data as of 12/31/2021

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