

OBSERVATIONS: *S&P 500 modestly higher, CPI in-line, unemployment claims still low.*

- Markets largely traded flat this week with the S&P 500 gaining +0.5%, while the NASDAQ fell -0.2% and US small caps (Russell 2000 Index) declining the most with a -1.5% loss last week.<sup>1</sup>
- Easing inflationary pressures stalled in September with headline inflation (CPI) holding at 3.7% year-over-year (YoY), the same reading as in August, however core-CPI (which excludes volatile food and energy) declined to 4.1% YoY from August's 4.3% YoY figure, which was in line with expectations.<sup>1</sup>
- In contrast, producer prices came in higher than expected across the board. Headline PPI increased to 2.2% YoY in September—expectations were for only 1.6% YoY—and August's PPI figure was revised up from 1.6% YoY to 2.0% YoY. Core-PPI (also excluding food and energy prices) increased to 2.7% YoY from an upwardly revised August figure of 2.5% YoY.<sup>1</sup>
- Small business optimism declined in September to 90.8, which is the 21<sup>st</sup> consecutive month that it has been below its nearly 50-year average of 98. Small business owners continue to cite high inflation and labor quality as the top problems impacting small businesses.<sup>2</sup>
- Initial unemployment claims remain very low with only 209k recorded last week despite the disruptions in the auto industry due to the UAW strike which has idled auto plants across the Midwest.<sup>1</sup>

EXPECTATIONS: *Mixed signals on future rate hikes, Q3 earnings season underway.*

- Last week saw some less hawkish language out of a few Federal Reserve officials, noting that the recent rise in long-term rates might influence future rate hikes (i.e., the market is doing the Fed's job). The odds of a rate hike have dropped from coin-toss like odds to less than a 35% chance of a rate hike by year end.<sup>1</sup>
- However, the minutes of the September Fed meeting were released last week, and they show that most Fed officials favored an additional rate hike "at a future meeting" and that further evidence would be needed for them to be confident that inflation was clearly on a path towards their 2% target.<sup>1</sup>
- Q3 earnings season kicked off last week with JP Morgan, Citibank, and Wells Fargo all beating expectations for both earnings and revenues.<sup>1</sup> Most noted increases in credit card spending and balances by consumers.
- UAW strike is continuing into its fifth week as talks grind on. Neither side looks ready to compromise imminently—the UAW closed Ford's largest assembly plant last week after Ford failed to provide a substantially different proposal from the one they had tabled earlier in the month. Meanwhile, Ford issued a statement last week that it had offered all it could to auto workers without compromising its ability to compete and invest in the future of the firm.<sup>1</sup>

ONE MORE THOUGHT: *Long simmering Israeli-Palestinian conflict erupts into war.*

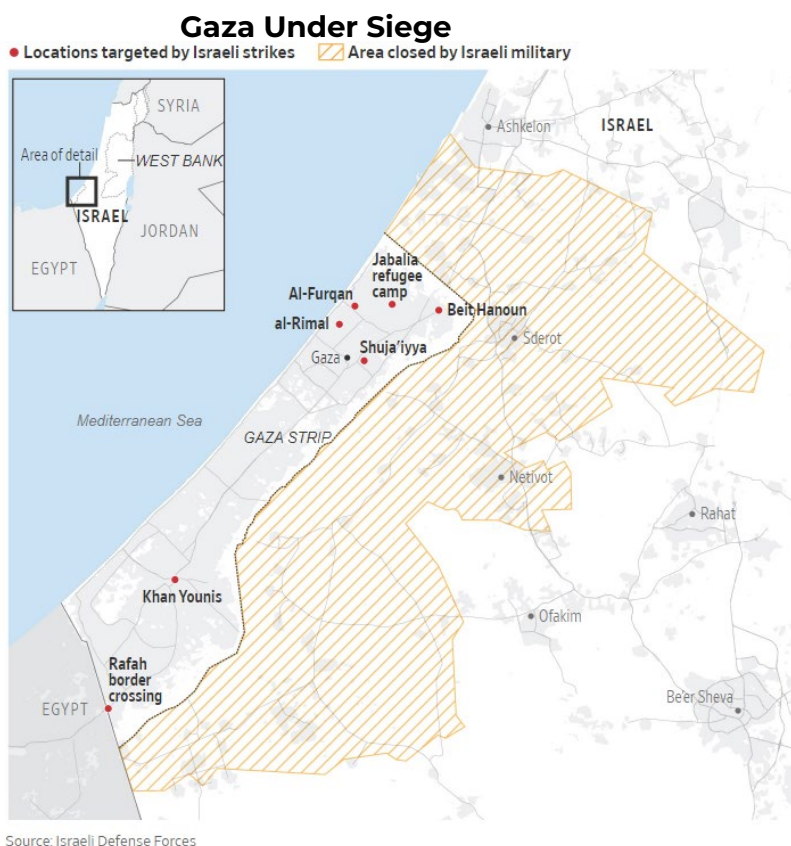
In the early morning hours of Saturday, October 7<sup>th</sup>, Hamas—a terrorist designated non-state actor by US authorities—launched a surprise attack on Israeli towns near the Gaza Strip—an ethnic Palestinian dominated territory in the Middle East that borders Israel and Egypt (See Chart of the Week). The next 24 hours saw unspeakable atrocities committed against civilian Israelis as well as intense fighting with Israeli Defense Forces (IDF) in the area. In the course of the fighting more than 1,300 Israelis were killed—including at least 30 American citizens—and approximately 150 (mostly civilian) hostages were taken back to Gaza by Hamas fighters. As a result, Israel has declared a state of war and called up over 360,000 IDF reservists—approximately 6% of Israel's working age population. It announced mid-last week that it had re-taken the towns attacked by Hamas, formed a unity government, locked down the Gaza Strip—stopping all food, fuel, and supplies from entering the territory—and

<sup>1</sup> Bloomberg LP, 10/13/2023

<sup>2</sup> <https://www.nfib.com/surveys/small-business-economic-trends/>

urged Palestinian women and children to evacuate the northern-third of Gaza. The IDF is likely to mount a ground invasion of the Gaza Strip in the coming days in an effort to destroy Hamas' ability to further militarily threaten Israeli towns and citizens. This fighting, which will take place in a densely populated, urban setting, will be slow and difficult. Already an estimated 2,700 Palestinians have been killed as the IDF ramps up its attacks on Hamas. The implications for global markets should be minimal so long as the conflict does not escalate to the broader region and bring Israel and Iran into direct conflict. The US has moved two carrier groups to the region, strongly communicated its solidarity with Israel, and has signaled that if Iranian proxy forces, such as Hezbollah in southern Lebanon, attack Israel that the US would help them respond to any further aggression. In the meantime, the Strait of Hormuz remains open, and the region's oil flows as normal, but the world is watching to see if this decades long conflict spurs a 21<sup>st</sup> century oil crisis and a wider war in the Middle East.

**CHART OF THE WEEK:**



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