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OBSERVATIONS: *S&P reaches correction territory, big Q3 GDP print, jobless claims remain low.*

- The S&P 500 entered correction territory—defined as a -10.0% decline from its most recent peak—after falling -2.5% last week. The index is now down -10.3% from its 31-July-2023 year-to-date (YTD) high. The NASDAQ dropped -2.6% last week and also entered correction territory having declined -11.9% from its mid-July YTD peak. Small caps (Russell 2000 Index) fell -2.6% last week and are at a new bear market low—down -32.8% since their previous all-time high set in November-2021.[1]
- Despite concerns over reduced foot-traffic in model homes by home builders, new home sales rose 12.3% month-over-month (MoM) to a seasonally adjusted annual rate of 759k in September, better than expectations for a 0.7% MoM increase.[1]
- The US economy sizzled in Q3, growing at a real (inflation adjusted) +4.9% annualized rate—more than double Q2's +2.1% growth rate. This was above expectations, and while backward looking, underpins the strength in the US labor market and the US consumer as we head into the final months of the year.[1]
- Durable goods orders were strong in September, growing by +4.7% MoM. However, removing the volatile transportation goods component, durable goods ex transport was up only +0.5% MoM in September and August durable goods orders were revised down to -0.1% MoM.[1]
- The labor market continues to remain strong as initial unemployment claims barely budged last week rising by only about 10k to 210k initial claims (seasonally adjusted).[1]
- Inflation continues to grind lower. Core PCE—the Fed's preferred inflation gauge—declined in September to 3.7% year-over-year (YoY), which was lower than August's 3.8% YoY reading.[1]

EXPECTATIONS: *House of Representatives somehow finds a speaker, Earnings hanging in there.*

- The US House of Representatives elected Republican Mike Johnson as the new House Speaker last week. Speaker Johnson received unanimous support of all the Republican representatives that cast a vote. The election of a new Speaker paves the way for the House to take up legislation related to next year's federal budgets as well as potential funding related to wars in Ukraine and in Gaza.[1]
- The UAW strike is close to being over as the UAW, Ford, and Stellantis reached a tentative deal last week and 57,000 UAW-Ford and 43,000 UAW-Stellantis workers are headed back to work. Key terms of the deals include a 25% pay increase over the course of the four-year deal, a cost-of-living adjustment, and the right to strike over plant closures. It is expected that the key-points of these two deals are likely to inform the contract talks with GM and, which continue to be hobbled by targeted UAW strikes.[1]
- Earnings season is nearly half complete for the S&P 500, with 49% having reported results with 78% of those companies posting better than expected earnings—above the 5-year and 10-year averages of 77% and 74%, respectively. This week will see 162 S&P 500 companies report Q3 results.[2]

ONE MORE THOUGHT: *Green shoots in global trade and manufacturing.[1]*

In the past few months, there are green shoots emerging in the area of global trade and global manufacturing. It's not clear yet if these green shoots will translate into sustained growth in the global manufacturing sector, but at least it appears that the contraction in economic activity in this sector may be over. In the first seven months of 2023 (Jan to Jul), the US manufacturing sector added a paltry 7,000 jobs, however in just the past two months (August and September), the US added 28,000 new manufacturing jobs. Similarly, US surveys of purchasing managers in the manufacturing space bottomed out earlier this summer and now have started to look more

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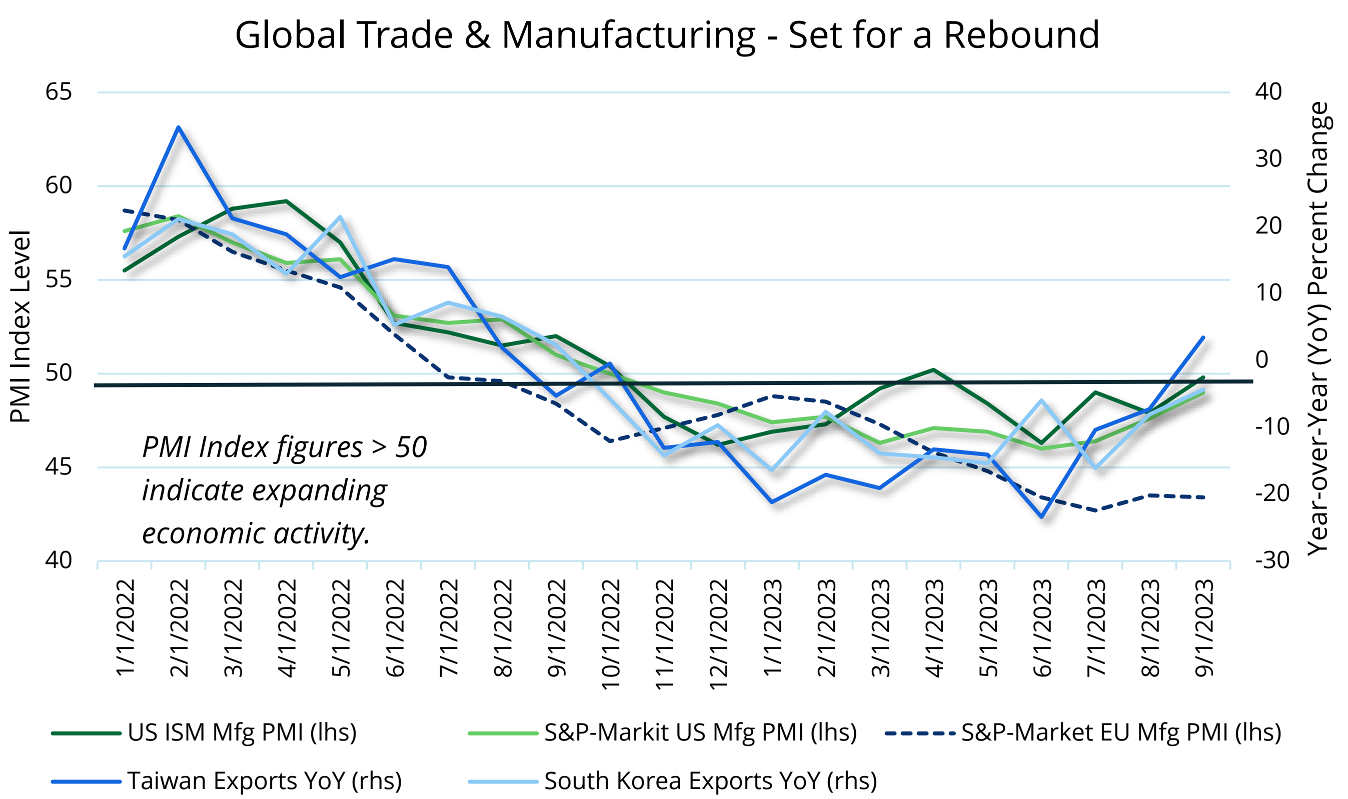
[1] *Bloomberg LP*

[2] *Factset Earnings Insight, 10/27/2023*

positive—see Chart of the Week. As the UAW strike nears its end another headwind to the US manufacturing sector will also be removed. Another positive sign is that year-over-year export growth in Taiwan and South Korea—both longstanding proxies for global trade due to their economies' centrality to global supply chains—have started to look more promising. At this point, the data simply points to the fact that at least the worst seems to be over rather than signaling a substantial acceleration of manufacturing activity either globally or in the US. For instance, Europe, which is more sensitive to global trade than the US, has yet to see much of a rebound in their PMIs—but their manufacturing PMIs also seem to have bottomed out recently. Nonetheless, given the many negative headlines of late (Congressional dysfunction, wars in Europe and the Middle East, and China's economic malaise), initial signs of positive momentum in the global economy as we head towards 2024 is a welcome development.

CHART OF THE WEEK



Source: Clearstead, Bloomberg; data as of 10/25/2023

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