OBSERVATIONS

- Markets declined last week with the S&P 500 losing -1.0% and small caps (Russell 2000) losing -3.0%, while the yield on the 10-year Treasury gained +16 basis points (bps) to end the week at 4.24%.[1]
- Existing home sales came in below expectations at 3.84 million sales (annualized rate) which was a -1.0% month-over-month (MoM) decline from August's sales at 3.88 million. Compared to last year, September existing homes sales were -3.5% lower than year-over-year (YoY)—this is the 37th consecutive month of YoY declines and existing home sales are nearing the 30-year lows registered during the depths of the GFC.[1]
- New home sales came in better than expected in September at 738k (annualized rate), but August new home sales were revised lower to 709k—through the first nine months (year-to-date) new home sales are +3.4% higher than the first nine months of 2023.[1]
- Initial unemployment claims receded more than expected last week falling -15k from the week prior to 227k new claims—after a few weeks of elevated claims most likely due to impacts of the recent hurricanes, claims have fallen back to levels that are generally on par with 2023.[1]
- Overall durable goods orders fell by more than expected in September, declining -0.8% MoM, but much of this decline is likely due to the strike at Boeing. Excluding transportation, durable goods orders increased by +0.4% MoM in September, which was ahead of consensus expectations.[1]

EXPECTATIONS

- The Fed's Beige Book—a qualitative assessment regional economic conditions—indicated that economic conditions were little changed in September as compared to earlier in the summer. Most districts reported softer manufacturing activity, but overall employment levels were either unchanged or slightly better.[2]
- The Canadian Central Bank cut its main policy rate by -50 bps last week to 3.75% amid signs that economic growth in Canada is faltering and unemployment has increased nearly 2 percentage-points over the past two years to 6.5%.[3]
- As of last Friday, about 37% of the S&P 500 have reported and of those companies 75% have reported a positive earnings surprise, which is on-par with the 10-year average (75%) but below the 5-year average (77%) for positive earnings surprises. So far, the blended earnings growth for Q3 is +3.6% YoY, which is well below Q2's +11.3% earnings growth figure.[4]

ONE MORE THOUGHT: AI Frenzy, nuclear energy, and two sectors come to life[5]

Artificial intelligence (AI) seems to be everywhere at this moment. The news is full of stories about AI enablers—mostly semiconductor manufacturers and designers such as NVIDIA—whose products enable the development of AI-based tools and applications have seen their stock prices surge over the past two years. Meanwhile, stock analysts are scrutinizing the investments and plans for AI adopters—those companies investing in and developing AI based tools—to see if their AI-based tools and services can boost productivity and remake portions of the US economy. This is the trillion-dollar question as markets assess whether we are truly in a new age of innovation. So far, the tangible benefits for most Americans have yet to be transformative, but the impact of the AI-age is being felt

[1] Bloomberg LP, 10/25/2024
[2] https://www.federalreserve.gov/monetarypolicy/beigebook202410-summary.htm
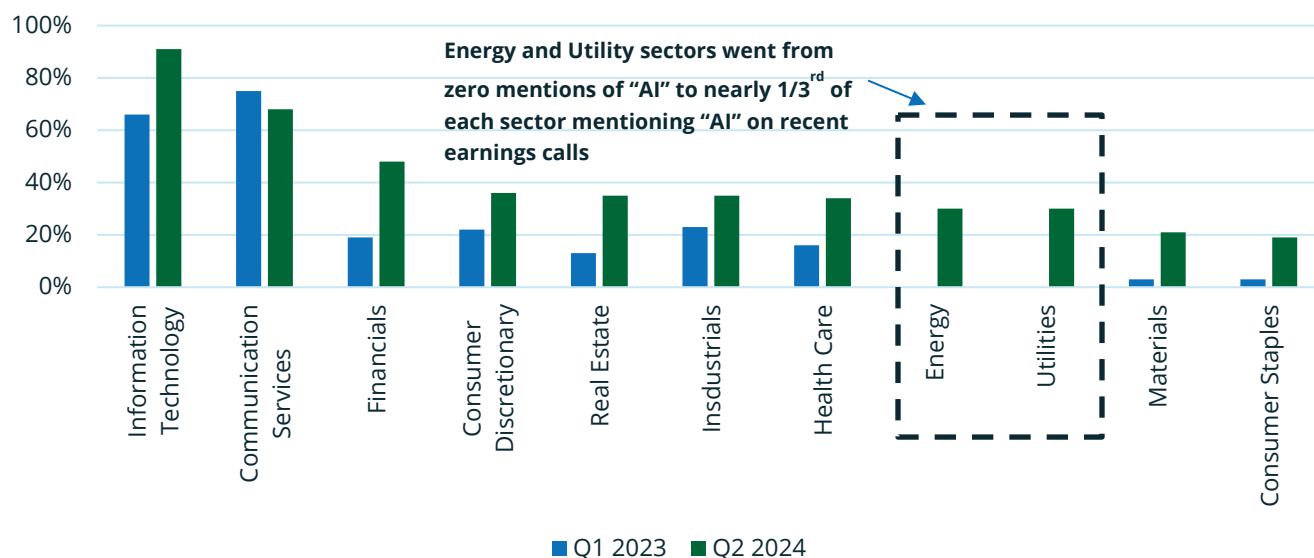[3] https://www.ft.com/content/cd9ef4da-0d81-40d2-b8cd-7d1fab89c5dc
[4] https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_102524.pdf
[5] Clearstead, Apollo Chief Economist, Godman Sachs Research

well beyond the tech sector. This is because AI is relatively energy intensive. The amount of power used by ChatGPT—a free generative AI based tool—uses about 10 times the amount of power to process a user's question than a Google search would use to process the same question. Data centers are the epicenter of the surge in power consumption, with some estimating that the energy needed to power data centers in the US by 2030 equals that of the power demand of three New York cities. After a decade of zero growth in electric power demand, a new era appears to be unfolding with power demand in the US expected to rise by 2.4% annually through 2030 with data centers representing 0.9% of that figure. AI has provided a catalyst for energy, utilities, and materials companies to ramp up production and adjust to structurally higher demand for energy. This has led to interesting developments in long forgotten corners of our electricity ecosystem. For instance, Microsoft seeks to restart a portion of the long-shuttered Three Mile Island nuclear plant in Pennsylvania to power a portion of its AI-based datacenters. The ripple effect of AI power needs can be seen in the earnings calls of a wide variety of firms (see Chart of the Week). In recent months, utilities have announced plans to build out infrastructure to service new and expected AI data centers. Traditional chemical, mining, and energy firms are seeing increased demand for their products as AI-oriented firms seek specialized equipment to cool their data centers and smooth electricity consumption via industrial batteries and the usage of traditional renewables such as solar and wind.

CHART OF THE WEEK

Share of S&P 500 Companies Citing "AI"

Energy and Utility sectors went from zero mentions of "AI" to nearly 1/3rd of each sector mentioning "AI" on recent earnings calls

■ Q1 2023   ■ Q2 2024

Source: Clearstead, FactSet 10/25/2024

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