OBSERVATIONS

- Markets fell last week with the largest declines registered by small caps (Russell 2000), which finished the week -4.0%, while the S&P 500 lost -2.1%. Meanwhile, the yield on the 10-year US Treasury rose by +13 basis points to 4.44% as markets continue to digest the implications of the next Trump Presidency.[1]
- The Small Business Optimism Index increased to 93.7 in October from September's 91.5 level—this is the 34th consecutive month below its 50-year average of 98. Small businesses reported that inflation remains their single most important problem, but a rising number of firms reported poor sales as a top concern and the uncertainty sub-index hit an historic high in October.[2]
- Inflation came in as expected in October, with headline CPI increasing to 2.6% year-over-year (YoY) from September's 2.4% YoY figure, and core-CPI—which excludes the volatile food and energy components—remained steady at 3.3% YoY, unchanged from September's figure.[1]
- Producer prices (PPI) came in above expectations in October with the headline PPI showing a 2.4% YoY increase, which was well above September's 1.9% YoY figure. Core-PPI, which excludes food and energy rose to 3.1% YoY from September's 2.9% YoY figure.[1]
- Initial unemployment claims came in below expectations at 217k, which was a decrease of -4k from the previous week's claims numbers—overall claims remain low and on par with last year.[1]
- Industrial Production declined in October -0.3 month-over-month (MoM) and September was revised lower to a decline of -0.5% MoM, but these numbers may have been impacted by the Boeing strike and hurricanes that hit the southeast in late September and early October.[1]
- In contrast, headline retail sales came in slightly better than expected in October, +0.4% MoM—markets were expecting +0.3% MoM—and September's figure was revised higher to +0.8% MoM from +0.4% MoM.[1]

EXPECTATIONS

- According to the Senior Loan Officer Opinion Survey lending standards for commercial and industrial (C&I) loans were largely unchanged over Q3 for large and middle-market firms, but standards were tighter (higher) for loans to small businesses. Overall, banks noted weaker demand for both C&I as well as commercial real estate loans.[3]
- As of Friday, the Fed Funds Futures market indicated less than a 60% probability of another -25 basis point cut to interest rates in December, and Fed Chairman Powell was non-committal last week in a speech in Dallas about another cut this year saying the economy was "not sending any signals that we need to be in a hurry to lower rates."[1]

ONE MORE THOUGHT: The US$ Continues to Strengthen[1]

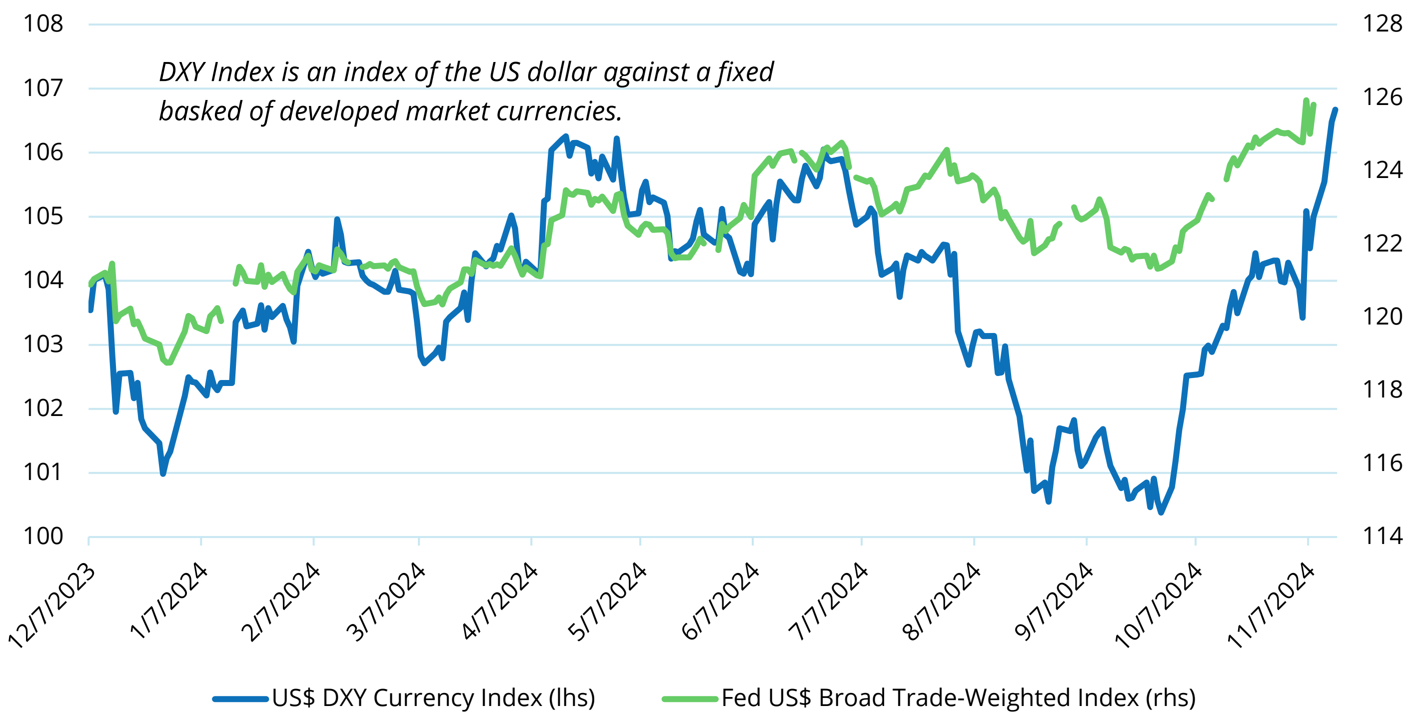
In October, coincident with the increasing poll numbers of then candidate Trump, the US dollar began to rally against a broad spectrum of foreign currencies (see Chart of the Week). Against many developed market currencies, the US dollar has strengthened by +5.4% since the beginning of October. Compared to a broader basket of foreign currencies weighted by their trade volume with the US—Federal Reserve Broad US Dollar Trade Weighted Index—the US dollar has gained 3.2% over the same period. Some of the recent US dollar strength is probably reflective of the relative strength of the US economy as compared to many other major economies. In so much as

[1] *Bloomberg LP 11/15/2024*
[2] *https://www.nfib.com/surveys/small-business-economic-trends/*
[3] *https://www.federalreserve.gov/data/sloos/sloos-202410.htm*

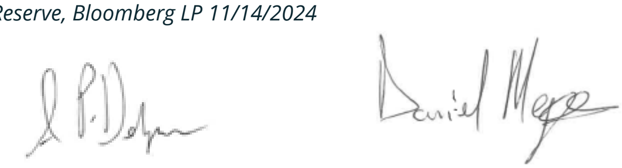
the US is growing and is poised to grow faster in the coming quarters than other major economies, it is likely that US interest rates will remain relatively more attractive for investors which tends to be supportive of the US dollar. Similarly, the US stock market has been one of the best performers this year and this also has probably attracted investment from abroad which works to boost the strength of the US dollar. Another partial explanation for the US dollar's recent strength is likely the election of Trump. This stems in part because Trump is likely to implement some manner of tariffs on several countries, particularly China. One way a country can blunt some of the impact of a potential tariff is to allow its currency to depreciate against that of the country that is imposing the tariff. Therefore, if the details of Trump's tariff policies prove to be less extensive than as advertised during the campaign, then the US dollar may weaken over the coming months. However, the converse may also occur, and despite markets anticipating some positive probability of widespread tariffs, a very aggressive tariff regime could take the dollar even higher in 2025.

CHART OF THE WEEK

US Dollar Continues 6-Week Surge



Source: Clearstead, US Federal Reserve, Bloomberg LP 11/14/2024



Aneet Deshpande, CFA
Chief Investment Officer

Dan Meges
Chief Economist & Head of Global Equity

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