

OBSERVATIONS: *Markets soar as consumer inflation pressure eases, retail sales and industrial production softer.*

- Markets moved sharply higher last week led by US small caps. The S&P 500 gained +2.3% while small cap stocks (Russell 2000 Index) gained +5.5% and the yield on the 10-year Treasury fell 22 basis points to 4.4%.¹
- Signs of easing inflation pressures were evident last week—which helped boost the stock market as well as bond prices. The headline CPI figure fell to 3.2% year-over-year (YoY)—below consensus expectations which were 3.3% as well as the September’s reading of 3.7% YoY. Core CPI—which strips out food and energy—also saw declines in October hitting 4.0% YoY down from September’s 4.1% YoY figure.¹
- Similarly, producer prices eased in October. The headline PPI Index fell to 1.3% YoY from September’s 2.2% YoY figure. Core PPI—excluding food and energy producer prices—also fell 2.4% YoY from the previous month’s 2.7% YoY reading. Both PPI and core-PPI came in below consensus expectations in October.¹
- Retail sales also marginally softened in October—which was better than consensus expectations and a figure markets embraced as a sign the economy is headed towards a soft landing in 2024—declining -0.1% month-over-month (MoM), which was down from September’s upwardly revised figure that showed a blistering +0.9% MoM growth rate in retail sales.¹
- Small business optimism was nearly unchanged in October (90.7) declining -0.1 from September’s 90.8. Overall, small business optimism has been below its 50-year average now for 22 consecutive months as small business owners remain challenged by inflation pressures and difficulties in hiring.²
- Industrial production came in below expectations in October, falling -0.6% MoM, while September’s industrial production growth was revised down to +0.1%. Manufacturing has been the weakest component of industrial production this year and has now fallen -1.7% YoY.¹

EXPECTATIONS: *Biden and Xi meet, additional rate hikes off the table for 2023.*

- **No Research Corner on 11/27, Happy Thanksgiving!**
- President’s Biden and Xi met last week in San Francisco on the sidelines of the Asia-Pacific Economic Cooperation Summit. The talks—the first face-to-face talks between the two since Nov-2022 and the first time for Xi in the US since 2017—moved to stabilize relations amid numerous global challenges including agreements to have regular military-to-military communication, jointly combat the illicit fentanyl trade, and to increase the number of direct flights between the US and China.³
- The fall in inflation pressures (see Observations above), have spurred the futures market that prices the likelihood of future Fed rate hikes (or cuts) to price in a zero chance that the Federal reserve hikes its policy rate at its next meeting in mid-December. In fact, these futures markets not only predict no additional rates hikes going forward, but the market currently expects its first cut in either May or June of 2024. The Fed’s December-2023 meeting will include new economic projects as well as their expectation for the path of rates in 2024—which could easily cause markets to reprice its expectations for any future rate cuts.¹

ONE MORE THOUGHT: *Kicking the can: Another looming Government shutdown averted (for now).*⁴

Congress passed another stop-gap funding bill last week that averted a government shutdown—the deadline was midnight on Friday 17-Nov—at least until January of 2024. The Republican controlled House passed a continuing spending resolution last Tuesday, the Senate ratified it on Wednesday, and the President signed it on Thursday. The House bill provides only temporary funding for the government at fiscal year-2023 levels with two different

¹ Bloomberg LP, 11/17/2023

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

³ https://www.wsj.com/world/joe-biden-xi-jinping-meeting-san-francisco-a35277e0?mod=politics_lead_story

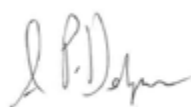
⁴ <https://www.wsj.com/politics/speaker-mike-johnson-faces-big-test-in-averting-government-shutdown-41138170>

deadlines for reaching a permanent budget agreement. It provides funds for four separate government spending categories—Agriculture, Energy-Water, Military Construction, and Transportation-HUD—until 19-January-2024. It provides the same flat funding for the other eight government spending categories until 2-February-2023. Newly elected House Speaker Mike Johnson faced opposition within his own party—93 Republicans voted against the bill—but it passed with significant Democratic support. It garnered 336 (affirmative) votes—127 Republican and 209 Democratic votes. The fact that bill had more than two-thirds support of the House votes allowed Speaker Johnson to suspend normal voting rules that could have allowed some of his fellow Republicans to block the vote. The stop-gap spending bill does not include any funding for Israel, Ukraine, or border security, which have also been key provisions sought by either the White House or Senate Republicans. Despite Johnson’s recent success, the divisions within House Republicans remain, and therefore the prospect of a potential government shutdown has only been delayed not removed. House Speaker Johnson plans to allow the House to pass 12 individual spending bills between now and the new January-February budget deadlines. However, it is not yet clear that House Republicans can agree amongst themselves on how to structure these 12 spending bills, nor is it clear whatever they actually pass would be passed in the Democratically controlled Senate—see Chart of the Week. Brinkmanship before the Thanksgiving holidays has been averted, but it is likely to reappear this coming January.

CHART OF THE WEEK

Republican House - Freedom Caucus FY-2024 Budget Demands	Senate Democrat/White House FY-2024 Budget Demands
12 Separate spending bills – spending cuts to FY2023 levels.	One omnibus budget bill – spending on-par w/ FY2023 levels.
Three separate supplementary spending bills on military funding/aid to: 1) Ukraine, 2) Israel, & 3) US border security.	One (unified) supplemental spending bill (\$106billion) covering Ukraine, Israel, US border, & select other foreign aid.
US border security spending to include funding for building additional border wall w/ Mexico.	US border security spending that prioritizes additional personnel over border wall.
No additional supplementary spending bills—address all other needs as part of 12 FY2024 budgetary bills.	Additional supplemental spending for FEMA, Forest Management (fire-fighter pay), and other select programs.

Source: Clearstead WSJ, Whitehouse.org, Associated Press Nov-2023



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