Financial Markets This Week

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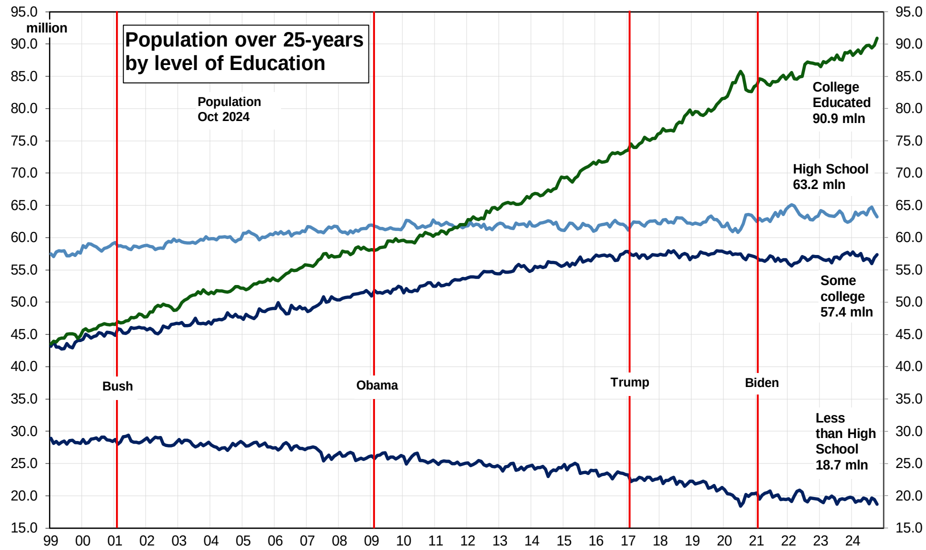
HAVES HAVE NOTS INFLATION



It was the week for inflation, after the stock market celebration the week before. October CPI released Wednesday was 3.3% for core prices year-year. September core PCE inflation before the Fed cut rates on November 7 another 25 bps was 2.7% year-over- year. Americans may not agree on much when it comes to the economy except that inflation, or more broadly speaking "the cost of living," is too high. Powell said he shared the public's pain, but unlike the presidential candidates, he said the price level does not come back down, or at least the head of the central bank that was responsible for the worst inflation outbreak since the 80s did not see it coming back down.

Not sure about the divisions in America, the 50% vote for Trump and 48% vote for Harris seems close; 3 million difference out of 150 million votes, but incomes are different and education as well. Apparently the college educated and those with some college didn't turn out. Or maybe they did. As far as incomes, 161 million filed tax returns in 2022, about the estimated 150 million size of the turnout in the election. 76.2% have adjusted gross incomes less than $100,000.The Haves, greater than $100K, number 38.4 million or 23.8% of the 161.3 million filing returns. Stay tuned. The biggest trend in education is the rise of college grads at 90.9 million; 67.4 million with "some college" in the gray zone; and 81.9 million with high school or less doing the heavy lifting.

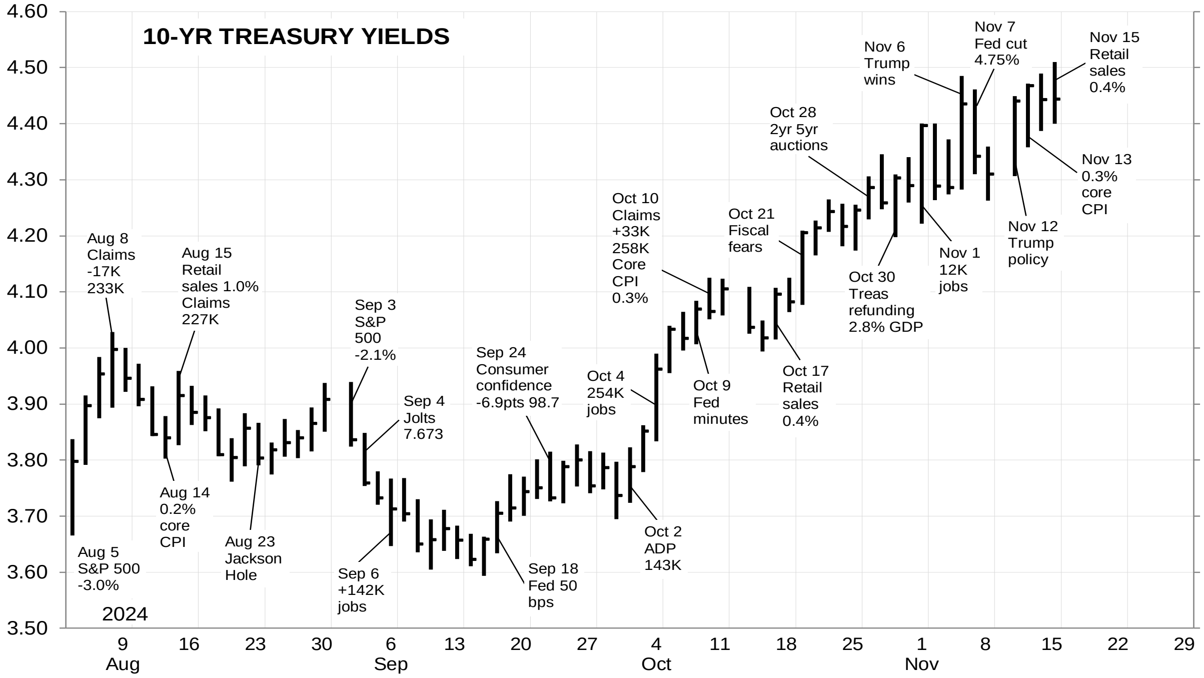
Individual Tax Returns
2022

Adjusted Gross Income	Number of returns Total	Percent to Total
	161,336,659	100.0%
<$50,000	83,965,629	52.0%
$50-100K	38,986,832	24.2%
$100-200K	25,887,136	16.0%
$200-500K	10,017,626	6.2%
$500-1mln	1,674,608	1.0%
>1 million	804,831	0.5%

Powell press conference answer to why aren't people feeling it?

"So you're right that we -- you know, we say that the economy is performing well, and it is, but we also know that people are still feeling the effects of high prices, for example. And we went through – the world went through a global inflation shock, and inflation went up everywhere. And you know, it stays with you because **[the price level doesn't come back down](#)**. So what that takes is it takes some years of real wage gains for people to feel better. And that's what we're trying to create. And I think we're well on the road to creating that. Inflation has come way down, the economy is still strong here, wages are moving up but at a sustainable level. So it's just -- I think what needs to happen is happening, and for the most part has happened. But it will be some time before people, you know, regain their confidence and feel that. And you know, we don't tell people how to feel about the economy, we respect -- completely respect what they are feeling. Those feelings are true, they're accurate. We don't question them, we respect them."

INTEREST RATES

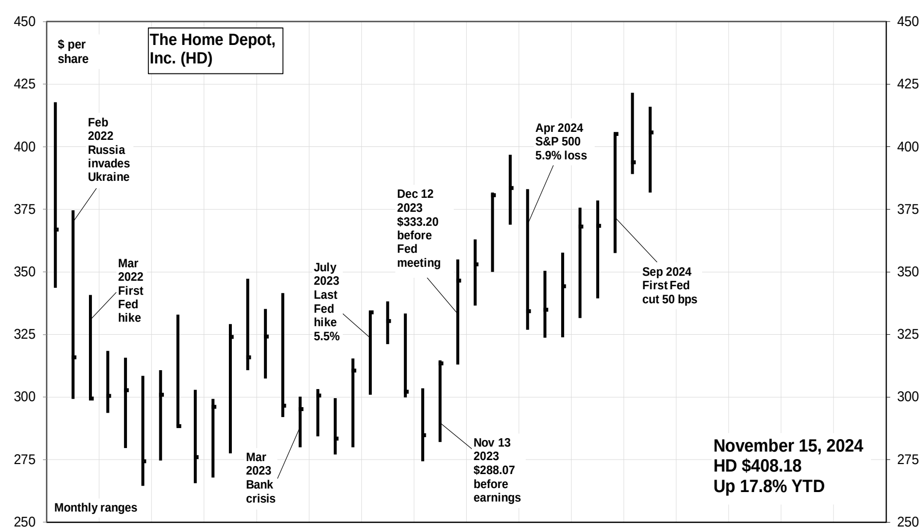


Market sentiment shifted back in the direction of the president-elect's plans for the economy being inflationary with tariffs on what was $3.1 trillion of imported goods in 2023. It is easy to imagine $500-700 billion in custom duties coming in versus the $77.0 billion collected in FY2023, if it happens. But it may never happen the way the market seems to imagine it. Does it ever? At the moment, the concern seems to be on Powell saying at 3pm ET Thursday that he was in no hurry to cut rates. That's fine, but the market is still discounting 15.5 bps of a 25 bps of a rate cut on December 18. 10-yr Treasury yields hit a new high this week on the fiscal fears/tariff inflation threat, which also hurt the stock market where the S&P 500 fell 1.3% on Friday. Washington wants to cut deficit spending, but if it just holds at $1.8 trillion from FY2024, it will keep the national debt to GDP ratio steady and manageable.

The Home Depot, Inc. (HD) up 17.8% YTD

The stock moved higher Tuesday, November 12 after earnings earlier that morning, but fell back with the overall market by the close. The company had better than expected results, increasing the forecast with sales this year of 4% up from the prior growth forecast of 2.5-3.5 percent. CFO said customers are waiting for lower rates. The stock failed to close above the $420 level again last month.

$mln Quarter	Net sales	Operating Income	Average Ticket	Retail Sales
10.27.24	40,217	5,418	$88.65	42,730
7.28.24	43,175	6,534	$89.90	45,445
4.28.24	36,418	5,079	$90.68	39,127
1.28.24	34,786	4,143	$88.87	36,365
10.29.23	37,710	5,406	$89.36	41,915
7.30.23	42,916	6,589	$90.07	46,253
4.30.23	37,257	5,551	$91.92	39,722
1.29.23	35,831	4,752	$90.05	38,281
Retail sales building material/garden qtr avg				



FEDERAL RESERVE POLICY

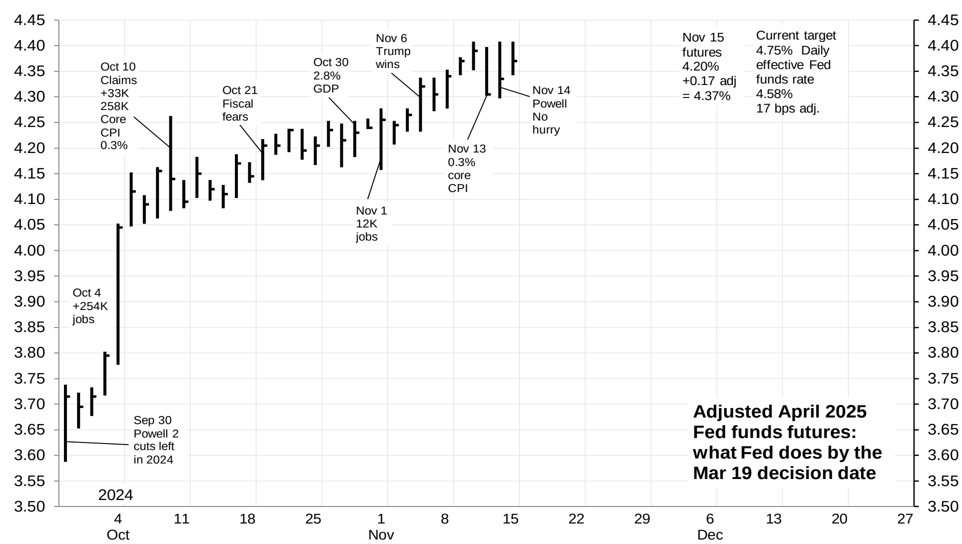
The Fed meets December 17-18, 2024 to consider its monetary policy. Powell said in brief remarks at 3pm ET Thursday that they did not need to be in any hurry to lower rates to neutral based on the signals the economy was sending out. There is more data to go before they meet, but the market wonders whether Powell is messaging the rest of the Fed as they will be making their quarterly forecasts at this meeting. As for the September meeting forecasts, there is one 25 bps rate cut left to go this year (10/19 said so), and presumably four more in 2025 ending the year at 3.5%. 3.5% might be a little low given the "strength of productivity" some Fed members are saying. In other words, the economy shows no signs of slowing with the current Fed funds rate of 4.75%. Powell also gave away the core PCE inflation number, after CPI/PPI and other data this week, and it is going from 2.7% year-on-year to 2.8% year-on year in October when it is reported on Wednesday, November 27 at 10am ET (monthly change could still be a 0.2). Probably need more 0.1% monthly changes each year in order to get core consumer inflation down to 2.0% and don't forget core CPI this week was 3.3% year-year in October. At least the cost of American's groceries is going up less quickly.

Despite the Powell no-hurry news, all but 9.5 bps is discounted for a 25 bps rate cut on December 18 versus all but 7.5 bps on November 8 last week. January meeting will be skipped.

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	13-Nov	6-Nov	30-Oct	23-Oct	3/11/20*	Change from 3/11/20 to Nov 13
Factors adding reserves						
U.S. Treasury securities	4340.060	4339.963	4357.825	4357.656	2523.031	1817.029
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2265.963	2265.963	2265.963	2282.088	1371.846	894.117
Repurchase agreements	0.006	0.101	0.031	0.000	242.375	-242.369
Primary credit (Discount Window)	1.830	1.600	1.505	1.768	0.011	1.819
Bank Term Funding Program	26.395	59.758	57.831	59.717		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.042	2.049	2.090	2.124		
Main Street Lending Program	10.153	10.143	10.158	10.145		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.128	0.151	0.157	0.163	0.058	0.070
Federal Reserve Total Assets	7018.3	7045.6	7063.7	7080.7	4360.0	2658.225
~~3-month Libor %~~ SOFR %	4.59	4.81	4.81	4.83	1.15	3.440
Factors draining reserves						
Currency in circulation	2361.352	2359.810	2356.502	2355.493	1818.957	542.395
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	808.857	840.227	847.137	817.410	372.337	436.520
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	238.106	177.871	228.946	270.839	1.325	236.781
Federal Reserve Liabilities	3826.203	3790.092	3847.954	3852.216	2580.036	1246.167
Reserve Balances (Net Liquidity)	3192.048	3255.532	3215.794	3228.462	1779.990	1412.058
Treasuries within 15 days	74.216	86.296	70.055	64.724	21.427	52.789
Treasuries 16 to 90 days	205.975	193.934	215.127	217.895	221.961	-15.986
Treasuries 91 days to 1 year	486.014	485.953	484.413	486.965	378.403	107.611
Treasuries over 1-yr to 5 years	1452.218	1452.216	1467.694	1467.656	915.101	537.117
Treasuries over 5-yrs to 10 years	593.297	593.275	592.512	592.501	327.906	265.391
Treasuries over 10-years	1528.341	1528.291	1528.024	1527.915	658.232	870.109
Note: QT starts June 1, 2022	Change	11/13/2024	6/1/2022			
U.S. Treasury securities	-1430.719	4340.060	5770.779			
Mortgage-backed securities (MBS)	-441.483	2265.963	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2024	2025	2026	2027	Long Term
Fed funds	4.4	3.4	2.9	2.9	2.9
PCE inflation	2.3	2.1	2.0	2.0	2.0
Core inflation	2.6	2.2	2.0	2.0	
Unemployed	4.4	4.4	4.3	4.2	4.2
GDP	2.0	2.0	2.0	2.0	1.8
September 2024 median Fed forecasts					



Fed funds futures call Fed policy		
Current target: November 15 -- 4.75%		
Rate+0.17	Contract	Fed decision dates
4.595	Jan 2025	Dec 18*
4.515	Feb 2025	Adds Jan 29
Last trade, not settlement price		
* Not strictly true, Jan 2025 has Jan 29 Fed date, so 2 days could be a new interest rate		

Next up: October PCE inflation report Wednesday, November 27

Monthly % Changes	2024 Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	2024 Jan	2023 Dec	Nov	Oct	Sep	2023 Aug
Core CPI inflation	0.3	0.3	0.3	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2
Core PCE inflation	0.25e	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1	0.3	0.1
Core PCE YOY	2.8e	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4	3.7	3.8
Core CPI YOY	3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.3

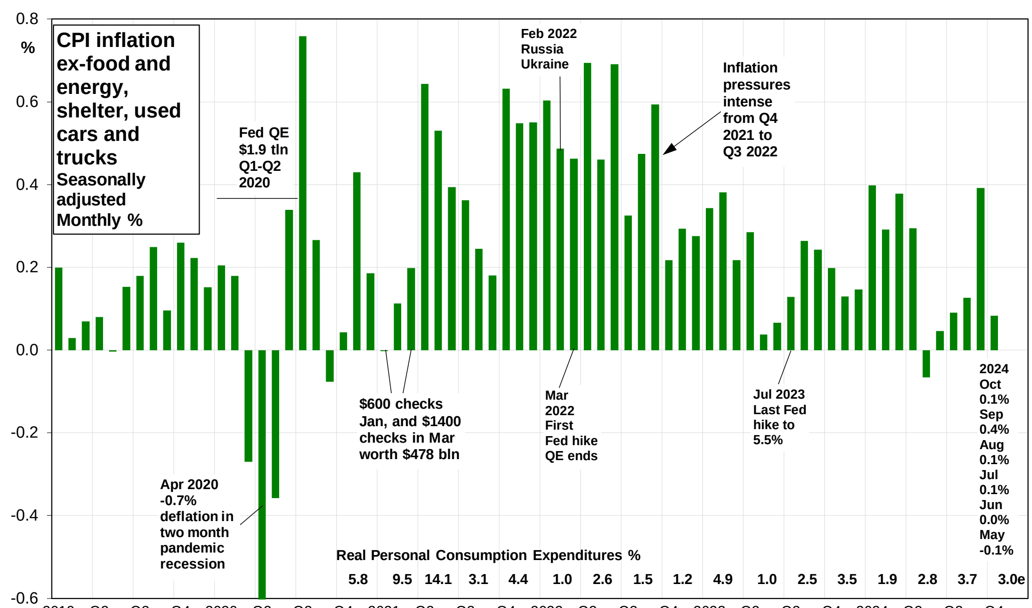
OTHER ECONOMIC NEWS

Three in a row, no no no (Wednesday)

Breaking economy news. October CPI rose 0.2% for a fourth straight month and is 2.6% year-on-year versus 2.4% year-year in September. News headlines from Minneapolis Fed President Kashkari at the same time said he believed inflation was going their way. Not sure on that. Core CPI rose 0.3% (0.28) for a third consecutive month and is 3.3% year-on-year with upward pressure coming later next year with the strong possibility of import tariffs from the incoming Trump Administration that could turn the commodity deflation trend back into inflation in a hurry.

Dec 23 Weight	CPI inflation	Monthly Percent Changes Aug 2024	Sep 2024	Sep 2024	YOY % Sep 2024
100.0	Total	0.2	0.2	0.2	2.6
13.555	Food	0.1	0.4	0.2	2.1
5.388	Food away from home	0.3	0.3	0.2	3.8
6.655	Energy	-0.8	-1.9	0.0	-4.9
79.790	Ex-food & energy	0.3	0.3	0.3	3.3
3.684	New vehicles	0.0	0.2	0.0	-1.3
2.012	Used cars/trucks	-1.0	0.3	2.7	-3.4
2.512	Clothing	0.3	1.1	-1.5	0.3
1.489	Medical care goods	-0.2	-0.7	-0.2	1.0
36.191	Shelter	0.5	0.2	0.4	4.9
26.769	Owner equiv. rent	0.5	0.3	0.4	5.2
6.294	Transportation	0.9	1.4	0.4	8.2
6.515	Medical care services	-0.1	0.7	0.4	3.8
	Special: Where inflation might come back down to				
60.899	Services ex-energy	0.4	0.4	0.3	4.9
18.891	Commodities (core)	-0.2	0.2	0.0	-1.0

Net, net, it certainly looks like Fed officials signaled the all clear sign on inflation before it was fully brought down under control because core inflation remains sticky both on a monthly and year-on-year basis. Three months in a row for 0.3% core monthly CPI changes cannot be music to Fed officials' ears because it shows the job is not done yet. After today's results, it looks like the decision to cut rates 25 more basis points at the final Fed meeting of the year is going to go down to the wire. The economy is not slowing down and core inflation is not cooling down, and with the threat of import tariffs from the new administration in the year ahead, this is a recipe for disaster where the deflation trend in core commodities prices could turn around in a heartbeat. There was not a lot of good news in today's report. Maybe the 2.7% jump in used cars and trucks inflation is a one-off, but shelter prices rebounded with a 0.4% increase in October after a tamer 0.2% reading in September. Even medical care services inflation is picking back up with a 0.4% increase in October and 3.8% year-on-year gain.

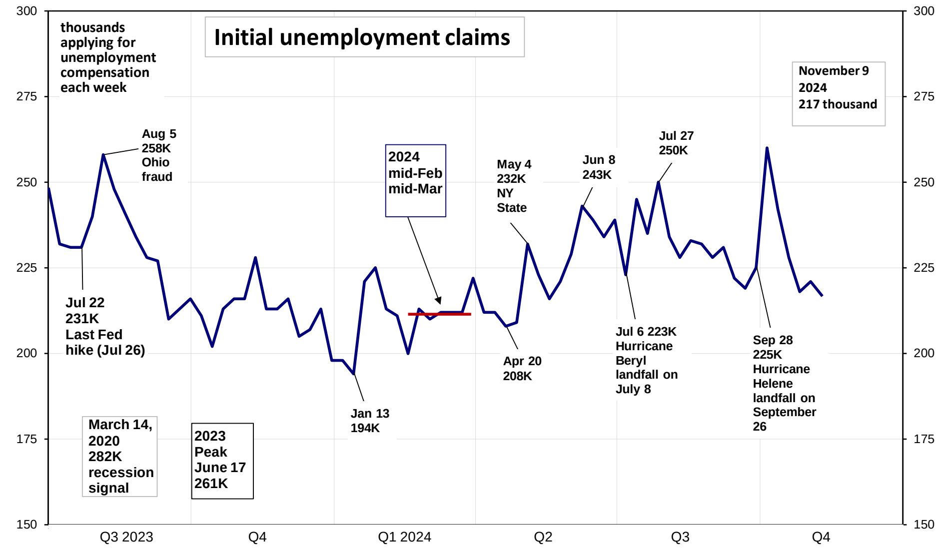


The irony is grocery store prices on which the outcome of the national elections was said to be partly based, food at home inflation is quite modest with a 0.1% increase in October and 1.1% increase from a year ago. For those of you on the losing side with your candidate getting just 48% of the vote for president, it will be a relief that comfort food at the super markets is cheaper than you thought.

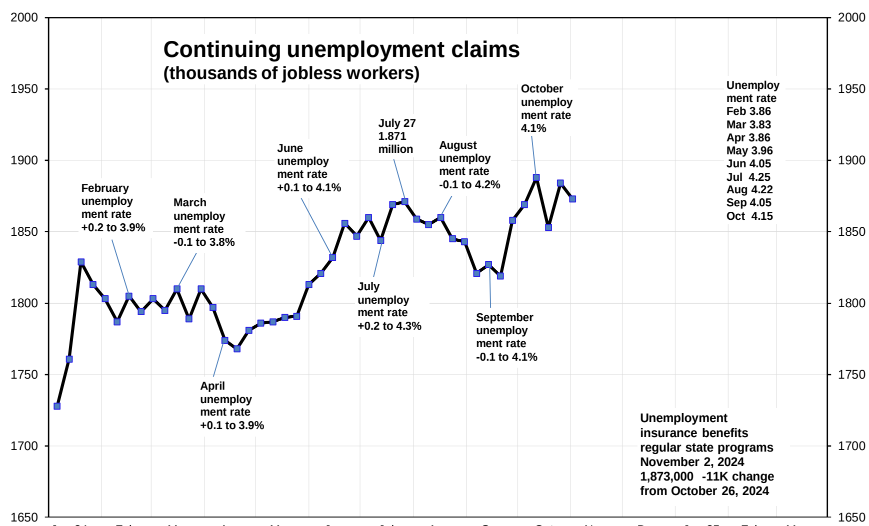
Jobless claims and PPI okay for now (Thursday)

Breaking economy news. First-time applications for jobless benefits fell 4K to 217K in the November 9 week. Total claims declined 11K to 1.873 million. PPI inflation rose 0.2% in October and is 2.4% above last year's level. For producer prices we prefer old-fashioned PPI with focus on commodities, in the table here it is Final demand goods less foods and energy. The index rose 0.3% but is keeping with the trend after just 0.1% in September and 0.2% monthly changes of 0.2% in July and August; the year-on-year change is just 2.2%.

	PPI Final demand goods less foods/energy-- Monthly Percent Changes SA											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	0.6	0.3	0.2	0.1	0.1	-0.1	0.0	0.1	0.3	0.1	0.1	0.1
2024	0.3	0.3	0.0	0.3	0.2	0.1	0.2	0.2	0.1	0.3		
	PPI Final demand goods less foods/energy-- Year/Year Percent Changes NSA											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	5.6	5.1	4.3	3.3	2.7	2.0	1.9	1.8	2.1	2.1	2.0	1.9
2024	1.6	1.6	1.4	1.6	1.7	1.9	2.1	2.2	2.0	2.2		

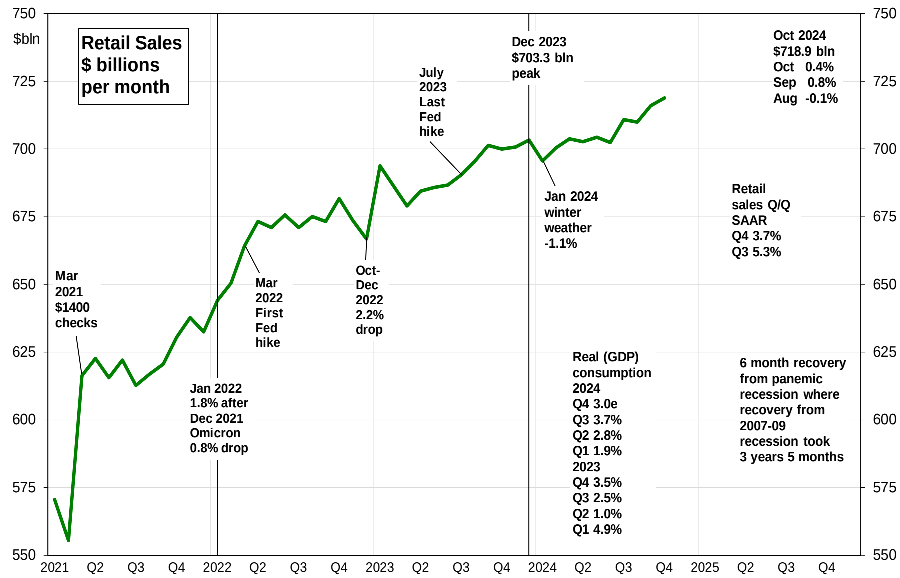


Net, net, the labor market shows no increase in layoffs last week that included the national elections. Despite the rise in joblessness several months back, there still appears to be a shortage of skilled labor and the belt-tightening and cost-cutting steps made by major companies earlier this year have lessened. Meanwhile, inflation at the producer level met market expectations. The producer price index for final demand rose 0.2% in October and is 2.4% higher than last year. The focus is on goods prices in the year ahead as an increase in tariffs discussed by the Trump administration could push factory input prices higher and restart the market's worries about inflation. Stay tuned. The economy is on a strong footing for now, but the path ahead in the new year could prove to be rockier than currently anticipated, sending stock and bond prices lower. Fed officials will have to remain alert for the emergence of new inflationary pressures as there could be a cost in turning the clocks back and attempting to make America great again. It took over two decades for US companies to send production overseas to lower costs, and trying to reverse the trend in a couple of years sounds like a nightmare that could slow US economic growth if not world growth sharply. It takes just a stroke of the pen to raise tariffs on imported goods, but it could be years to build new factories, especially as many communities don't want them built in their backyards. The other question is where will the factory workers come from with the native born US population in decline and most of the current jobs being filled by immigrants.



Retail sales stronger than a hurricane, industrial production was not (Friday)

Breaking economy news. Retail sales rose 0.4% in October and September's 0.4% increase was revised to a gain of 0.8%. There were two hurricanes but no effect: Hurricane Milton Wednesday night October 9 near Sarasota, and earlier Hurricane Helene on September 26, 2024 hitting Florida in the Big Bend area, but this one went up to North Carolina (Ashford).



Net, net, the hurricane force winds and election uncertainty did nothing to dampen consumer confidence and spending as the fourth quarter is literally off to the races with a strong first step in October. Before today, retail sales were were rising 1.2% in Q4 2024 after a shoot-the-lights out 5.3% jump in the third quarter, and now with net upward revisions to prior months and 0.4% increase for October, retail sales are running 3.7% this quarter with two more months of data to go. Fed Chair Powell said they were not in any hurry yesterday when it comes to cutting interest rates, and the retail sales data today make many in the markets wonder if another rate cut at the December meeting is warranted at all. With fiscal policy expected to shift into high gear on the pro-growth stimulus side, perhaps the Fed's monetary policy should not be putting another log on the fire to fuel growth by lowering rates as it could lead to a return of inflation, especially if the president-elect plans to slap more tariffs on imports, a cost that would have to be passed onto the American consumer. Stay tuned. It looks like the wild ride for the economy next year is already beginning.

Retail spending, actual dollars, each month

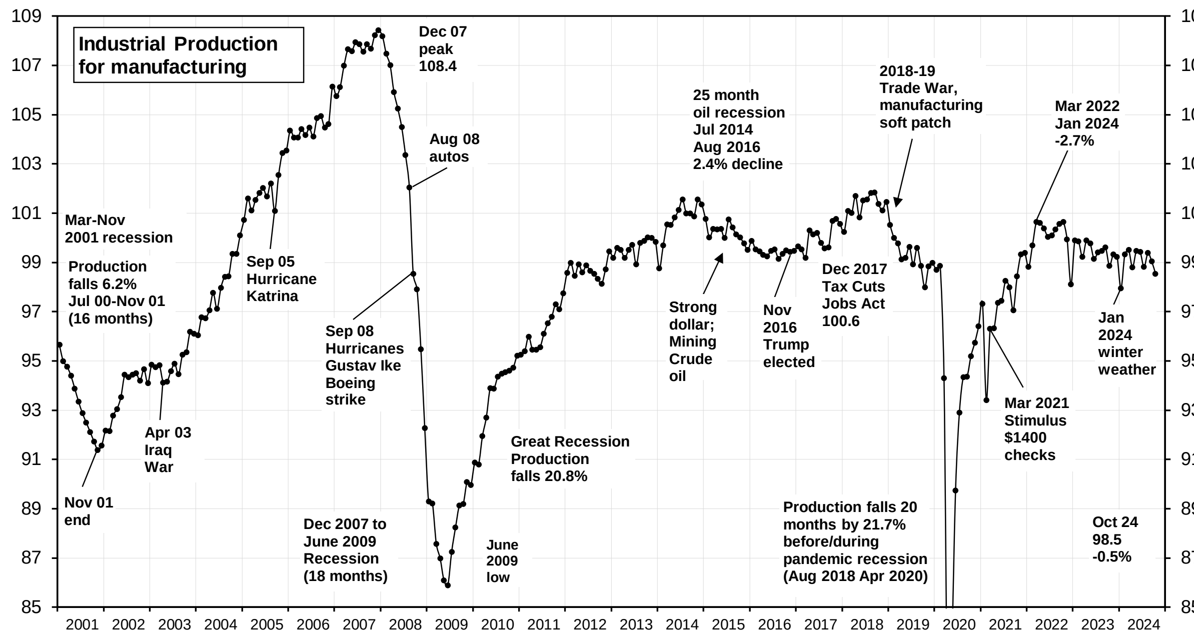
	$million	% to	Percent Changes %		
	Oct	Total	Oct	Sep	Year/year
Total Retail Sales	718,867	100.0	0.4	0.8	2.8
Motor vehicles/parts	136,346	19.0	1.6	0.2	3.4
Furniture/furnishings	11,183	1.6	-1.3	0.7	1.5
Electronics/appliances	7,590	1.1	2.3	-2.9	-2.3
Building materials/garden	41,895	5.8	0.5	1.0	2.8
Food & beverage	84,226	11.7	0.1	1.0	2.7
Health/personal care	38,179	5.3	-1.1	2.3	1.6
Gasoline stations	51,743	7.2	0.1	-0.9	-7.1
Clothing/accessories	26,242	3.7	-0.2	0.9	2.9
Sporting goods, books	8,146	1.1	-1.1	0.9	-3.4
General merchandise	76,234	10.6	0.2	0.6	3.1
Department stores	10,867	1.5	-0.2	0.4	0.0
Miscellaneous retailers	15,331	2.1	-1.6	2.2	4.0
Nonstore retailers (internet)	124,475	17.3	0.3	1.7	7.0
Eating & drinking places	97,277	13.5	0.7	1.2	4.3
[Total ex-autos/gas]	530,778	73.8	0.1	1.2	3.8

At 915am ET Friday, the Federal Reserve released the October industrial production report which was affected by hurricanes and the Boeing strike. Industrial production fell 0.3% in October and 0.5% in September where the Boeing strike effect was negative 0.2% in October and -0.3% in September. Hurricanes Milton and Helene subtracted 0.1 percentage point in October.

Net, net, the president-elect has a long way to go to bring factories and production back to American shores. When it comes to using the carrot or the stick approach the incoming Administration is going to have to reach for the stick because using tax-based incentives and simply appealing to CEOs' patriotism, and saying we need to put America first, is not going to work, as US workers are simply paid too much relative to workers overseas. It is too expensive to produce goods in America and it has been that way now for decades, and no so-called mandate from the national elections is going to change that. This is capitalism where profits come first.

It will be a long road to bring manufacturing back to America where manufacturing industrial production peaked way back over two recessions ago in December 2007. Thousands of manufacturing jobs were lost in the Great Recession, and those workers have scattered and are lost to the workforce for good. There is a looming labor shortage in America and it is no secret that most of the jobs are being filled by immigrants because the native-born population is in decline. Even if we brought factories back to America there would be no one to run them. The baby boom generation is 60 to 78 years old with thousands retiring every day. Igniting a trade war with import tariffs could ultimately hurt US manufacturers who are heavily export-based as other countries put up their own barriers to trade.

Percent changes			Industrial Production October 2024		
Aug	Sep	Oct	YOY		Weight
0.5	-0.5	-0.3	-0.3	Total Index	100.0
0.6	-0.3	-0.5	-0.3	Manufacturing	75.1
1.3	-1.9	0.3	-1.5	Mining	14.2
-1.1	0.3	0.7	1.5	Utilities	10.7
			Manufacturing payroll jobs 12.9 million -50K YOY 9.5% of Private Payroll Jobs		



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