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Weekly Wire

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Best Week of The Year

By Rusty Vanneman, CMT, CFA, BFA™

Last week was the best week in a year for the stock market. This naturally followed the stock market completing its first three month losing streak since 2020 the week before and investor sentiment now showing the highest percentage of bearish investors since late last year.

What helped the market was interest rates falling a lot. The 10-year US Treasury, for instance, which briefly pierced 5% a few weeks ago, traded just below 4.5% last Friday (it opens the week at ~4.6%). There are a few reasons why yields are falling, including the view that the economy is expected to slow in the 4th quarter. For example, the GDPNow from the Federal Reserve Bank of Atlanta is now predicting Q423 GDP at 1.2%. The labor data from last Friday also helped the storyline that the economy is slowing, and it also helps the view that the Federal Reserve might be done raising short-term interest rates as they are looking for a softening of the labor market. Check. So far, so good.

Wanting a softening labor market is a difficult tightrope to walk though. Let's introduce a term that is starting to creep into the financial headlines – the Sahm Rule. This rule states that an imminent recession is signaled "*when the three-month moving average of the national unemployment rate (U3) rises by 0.5 percentage points or more relative to its low during the previous 12 months.*" Technically, we are not there yet. We're very close though. The unemployment low was 3.4% last April, and last Friday's unemployment rate was 3.9% (after the prior two months' readings of 3.8%). Still, it is interesting to note that historically when the unemployment rate starts to move higher, it slowly moves higher off its significant lows – then tends to rapidly and sharply move higher. That's a scary thought – and something that bears watching.

As mentioned last week though, there are some short-term positives for the stock market. Historical seasonals show that the stock market tends to produce above-average returns the last two months of the year. Also, with investor sentiment at its most negative levels in months, that also typically sets the stage for above-average returns in the months ahead.

As for this week, it's a light schedule for economic data. We do get some Federal Reserve officials speaking. Earnings reporting season is winding down. Over 80% of companies have reported earnings and while we should see the first positive year-over-year earnings growth in a year, the current growth rate is still below 4%. Expect interest rate movement to remain a key factor. Though mortgage rates didn't quite fall as much as Treasuries, we would expect them to follow this coming week. Falling interest rates and lower gas prices will be welcomed by consumers.

Add it all up…

Stay invested. Stay diversified. Stay disciplined.

Key Economic Data Last Week

Data Point	Expectation	Actual
JOLTs Job Openings	9.25M	9.55M
Fed Interest Rate Description	No Hike	No Hike
ISM Manufacturing PMI	0.49	0.46
Nonfarm Payrolls	180K	150K
Unemployment Rate	3.8%	3.9%
ISM Services PMI	53.0	51.8

Key Economic Data This Week

Data Point	Expectation	Release Date
Consumer Credit	10 B	11/7/2023
Wholesale Investories MoM	0.0%	11/8/2023

Mind Over the Market

Investor Affirmation: Over the long-term, I win by not-losing

The Laws of Wealth, Dr. Daniel Crosby

Trivia

What is the primary tool that the Federal Reserve uses to influence the U.S. economy, specifically regarding interest rates?

Open Market Operations