SWS Capital Management
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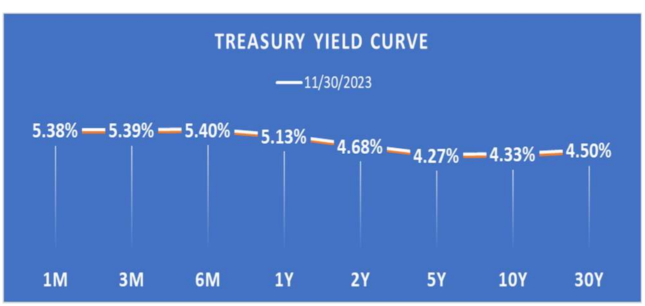
Economic Commentary – November 2023

November 2023 commenced with the conclusion of the FOMC's seventh policy meeting of the calendar year. As expected, the FOMC unanimously voted to undertake its second consecutive (third of 2023) hawkish hiatus during its 21-month rate-hiking offensive, leaving the federal funds target rate range at 5.25% - 5.50%. While the post-meeting FOMC statement was essentially repetitious and similar in verbiage to previous statements released in 2023, avowing a steadfast commitment to return inflation to the central bank's 2% inflation objective, the committee added a reference expressing how tighter "financial" conditions accompanied with tighter credit conditions could act as a hindrance likely to weigh on economic activity, hiring, and inflation.

However, directly contrasting the Fed's "higher for longer" narrative, interest rates reversed course and contracted throughout the month, resulting in a bull flattening of the U.S. Treasury yield curve, and the most pronounced monthly bond market rally since 1985. While the decline in yields can mostly be ascribed to evidenced disinflationary forces at work, a cooling labor market, and a potential economic slowdown coupled with rate cut expectations in 2024, comments from perceived dovish regional Federal Reserve Bank Presidents Austan Goolsbee (Chicago) and Raphael Bostic (Atlanta), and perennial hawk Christopher Waller (Federal Reserve Board Governor) hinting at a need for a less restrictive monetary policy stance in the near future were the tipping points that ultimately sparked the descent in market interest rates. Conceptually reciprocal to the notion that October's surge in interest rates had done some of the remaining financial condition tightening the FOMC desired, the recent drawdown in yields had in effect loosened financial conditions, potentially making FOMC 2024 penciled-in rate cuts less imminent.

Counterintuitive to anecdotal economic and market-movement rationale (whether one is in the soft-landing camp, or the impending recession cohort) November experienced a revisit of positive correlations amongst risk assets and cash-yielding products as equity and fixed income markets moved in tandem, ending in positive territory for the month. Returns on the three major stock indices were as such; S&P 500: +8.92%, NASDAQ: +10.67%, and DJIA: +8.77%. Returns on the Bloomberg U.S. Aggregate Bond Indices were as follows; 1-3 Year: +3.41%, 3-5 Year: +2.93%, 5-7 Year: +2.20%, and 7-10 Year: +0.77%.

Lastly, political brinkmanship was once again at the forefront as Congress was tasked with passing legislation to avert a potential government shutdown slated for November 18. On November 14 and 15, the House of Representatives and the Senate, respectively, reached a bipartisan compromise passing a continuing resolution, stopgap funding bill that was signed into law by President Biden on November 16. The ratification of this temporary, fractured piece of legislation kept certain parts of the government funded through January 19, 2024, while other parts of the government received appropriations to keep them afloat until February 2, 2024.



U.S. Treasury yield curve reversed a 4-month bear steepening trend, undergoing a bull flattening as yields declined, resulting in widened inversions in key tenors.

2-year/10-year spread: -36 basis points
3-month/10-year spread: -107 basis points
2-year/5-year spread: -41 basis points
3-month/30-year spread: -90 basis points

U.S. Treasury Yield Curve Source: Bloomberg

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November 2023 Macroeconomic Highlights

Inflation, Expectations, and Consumer Sentiment[1]:
CPI: 3.2% year-over-year (0.0% month-over-month); ***Core CPI***: 4.0% year-over-year (0.2% month-over-month)
PCE: 3.0% year-over-year (0.0% month-over-month); ***Core PCE***: 3.5% year-over-year (0.2% month-over-month)
PPI: 1.3% year-over-year (-0.5% month-over-month); ***Core PPI***: 2.4% year-over-year (0.0% month-over-month)
Core PPI less trade services: 2.9% year-over-year (0.1% month-over-month)
Inflation Expectations: 1-year horizon: 3.6%, 3-year horizon: 3.0%, and 5-year horizon: 2.7%
Consumer Sentiment: 61.3 vs. 63.8 in October; ***Current Conditions***: 68.3 vs. 70.6 in October
Consumer Expectations: 56.8 vs. 59.3 in October

Labor Market[2]: The U.S. economy added 150,000 nonfarm payrolls in October, slightly short of the 180,000 expected by economists surveyed by Bloomberg. Notable job gains occurred in health care (+58,000), government (+51,000), construction (+23,000), social assistance (+19,000), and leisure and hospitality (+19,000).

- U-3 ***official*** unemployment rate: 3.9% vs. 3.8% expectation: +0.1% from September 2023.
- U-6 unemployment rate (marginalized, part-time workers for economic reasons): 7.2%.
- Labor force participation rate: 62.7% (-0.1%); Employment-to-population ratio: 60.2% (-0.2%).
- Average hourly earnings for private nonfarm payrolls rose 7 cents to $34.00 (+0.2% month-over-month, +4.1% year-over-year).
- Employment revisions: September 2023 pared -39,000 to 297,000; August 2023 sliced -62,000 to 165,000.

Gross Domestic Product (GDP)[3]: According to the ***second*** estimate, real GDP increased at annual rate of 5.2% in the third quarter of 2023 vs. 2.1% in the second quarter of 2023.

- *Third Quarter 2023:* GDP Price Index: +3.6%; PCE Price Index: +2.8%; Core PCE Price Index +2.3%.
- Real disposable personal income: +0.1% vs. +3.5% in the second quarter of 2023.
- Personal savings rate as a percentage of disposable income: 4.0% vs. 5.2% in the second quarter of 2023.
- Average of Real GDP and Real GDI: +3.3% vs. +1.3% in the second quarter of 2023.

Housing Market[4]: Existing-home sales receded 4.1% (month-over-month) from September to a seasonally-adjusted annual rate of 3.79 million in October. Month-over-month sales in the South, Northeast, and West waned 7.1%, 4.0%, and 1.4%, respectively, while sales in the Midwest were unchanged.

- Year-over-year sales tumbled 14.6%, down from 4.44 million in October 2022.
- Total housing inventory registered 1.15 million units, +1.8% from September, but -5.7% from one year ago (1.22 million units). Unsold inventory sits at 3.6-month supply at the current sales pace.
- The median existing-home price for all housing types was $391,800, +3.4% from October 2022, as prices rose in all four major U.S. regions.
- Average commitment rate for a 30-year, conventional, fixed-rate mortgage: 7.22%.
- New Home Sales: 679,000 (-5.6% month-over-month).

[1]Source: Bureau of Labor Statistics (BLS), U.S. Department of Commerce, Federal Reserve Bank of New York – Survey of Consumer Expectations, and University of Michigan Consumer Sentiment Index
[2]Source: Bureau of Labor Statistics (BLS)
[3]Source: Bureau of Economic Analysis (BEA)
[4]Source: National Association of Realtors (NAR), U.S. Census Bureau, and The Department of Housing and Urban Development

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