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ECONOMIC REVIEW¹

- Building Permits and Housing Starts diverged in the month of August. Permits rose by 6.93% to 1.543 million, their highest reading in 10 months, but housing starts themselves fell by 11.33%. The rise in permits was driven by multi-family units which rose 14.8%, which opposed the 26.3% plunge in the starts of multi-family units that drove the broad housing starts number.
- The Federal Reserve (Fed) elected to skip raising the federal funds rate at the September 2023 Federal Open Market Committee (FOMC) meeting.
 - One more rate hike in 2023 is likely at the November or December meetings.
 - It is the Fed's second skip in four months, following the end of its ten consecutive interest rate hikes run in June.
 - The Fed Funds rate remains at its 22-year high of 5.25% to 5-50%.
- Initial Claims came in under expectations as the labor market continues to be a focal point of economic strength. Last week's numbers were revised up by 1,000 to 221,000. The 4-week moving average fell down to 217,000. Both initial claims and the 4-week average are now down to lows not seen since Q1 2023.
- The Leading Economic Index (LEI) fell -0.4% in August, as this marks the 17th straight month where the index fell on a year-over-year basis.

How do housing data, the Fed, initial claims, and LEI impact you?

- The average rate on the popular 30-year fixed mortgage is hovering around 7.18%, the highest since March 2002, according to data from mortgage finance agency Freddie Mac².
- Higher mortgage rates continue to weigh on the housing market as current homeowners are not selling as they have locked in a low mortgage many years ago and therefore the supply of homes is limited.
- However, a welcome sign for the housing market comes in the form of the Fed pausing its rate hiking campaign and potentially moving closer to cutting rates. This could lead to lower mortgage rates which could help both home supply and demand.
- Despite the housing market showing weakness, the job market continues to be red hot, new claims for unemployment continue to fall and are now at the lowest levels since Q1 of 2023.
- In the face of what appears to be an overall weakening economy as single by declining LEI, we will see if a strong consumer can continue to hold up economic activity.



A LOOK FORWARD¹

- It will be a big week for economic data as consumer confidence, Gross Domestic Product (GDP), and personal consumption expenditures (PCE) will be released.

How do GDP, consumer confidence and PCE impact you?

- The third reading of second-quarter GDP is expected to show growth revised up to 2.2% from 2.1%. This is a good sign, but an even better sign is that the Q3 GDP numbers are expected to come in close to 6%.
- Given that the consumer is more than 2/3 of economic activity, we would not be surprised to see an uptick in consumer confidence this month as well.



MARKET UPDATE³

Market Index Returns as of 9/22/2023	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-2.91	-2.58	13.88	18.96	11.85	9.96
NASDAQ	-3.61	-4.00	27.02	22.65	8.34	11.57
Dow Jones Industrial Average	-1.89	-0.77	4.13	17.27	10.48	7.20
Russell Mid-Cap	-3.07	-4.62	3.98	11.42	9.38	6.18
Russell 2000 (Small Cap)	-3.81	-5.65	1.98	7.44	8.35	2.11
MSCI EAFE (International)	-2.04	-2.72	8.63	25.75	6.34	3.35
MSCI Emerging Markets	-2.09	-1.80	3.00	9.30	-1.20	0.73
Bloomberg US Agg Bond	-0.50	-2.29	-0.24	0.61	-4.94	0.33
Bloomberg High Yield Corp	-0.65	0.89	6.31	9.24	1.96	3.08
Bloomberg Global Agg	-0.49	-2.68	-1.29	2.46	-6.62	-1.54



OBSERVATIONS

- The blue-chip-oriented Dow was the best domestic equity performer this week, losing the least, returning -1.89%.
 - Broad equities with the S&P 500 as proxy were negative -2.91%, while the tech-heavy NASDAQ was the worst performer down, -3.61%.
 - Mid Cap and Small Cap equities were down -3.07% and -3.81% respectively.
- International and Emerging Market Equity outperformed domestic markets, with international delivering a -2.04% return and emerging markets -2.09%
- Bonds were negative domestically (-0.50%) and internationally (-0.49%)
 - U.S. Treasury yields continued to increase moderately over most maturities.



BY THE NUMBERS

- **UAW Goes on Strike Against GM, Ford and Stellantis:** The United Auto Workers Over 18,300 United Auto Workers (UAW) members employed at GM, Ford, and Stellantis are on strike. They're demanding a 36% pay bump across a four-year contract and annual cost-of-living wage adjustments, enhanced retirement benefits, and the abolition of a tenure-based tiered pay system. But arguably the most audacious part of the UAW's "what-do-we-want?" chant is a 32-hour workweek without a pay cut.⁴ Yesterday, the auto workers union made good on its threat to strike at more locations if wage talks with Detroit's Big Three did not progress. Another 5,625 workers went on strike at 38 more locations across 20 states, bringing the number of striking workers to over 18,300.³
- **A pig's heart was transplanted into a man:** It's only the second time the groundbreaking surgery has ever been performed. University of Maryland doctors said yesterday that a Navy veteran who had been facing death from heart failure was talking and laughing after receiving the genetically modified heart two days before. The same team performed the surgery for the first time about a year ago on a different patient who lived for two months afterward. These efforts at animal-to-human transplants come amid a shortage of human organs for patients who need them.⁵

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Building Permits: This concept tracks the number of permits that have been issued for new construction, additions to pre-existing structures or major renovations. These statistics are based on the number of constructions permits approved.

Housing Starts: Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

Initial Jobless Claims: Initial unemployment claims track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collect data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

Conference Board Leading Economic Index: Leading indicators include economic variables that tend to move before changes in the overall economy. These indicators give a sense of the future state of an economy.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Disclosures

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¹ Data obtained from Bloomberg as of 9/22/2023.

² <https://www.freddiemac.com>

³ Data obtained from Morningstar as of 9/22/2023.

⁴ https://www.cnn.com/2023/09/19/why-uaw-auto-workers-want-a-32-hour-workweek.html?utm_campaign=mb&utm_medium=newsletter&utm_source=morning_brew

⁵ https://apnews.com/article/pig-heart-transplant-d894f6ce27b7db71ecb0ec393cac3e86?utm_campaign=mb&utm_medium=newsletter&utm_source=morning_brew

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