MORNING BRIEFING
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The Great Monetary Policy Reversal

Check out the accompanying chart collection.

Executive Summary: Both the bearish and bullish cases for the stock market currently boil down to how the economy responds to the tectonic monetary policy adjustment from unconventionally ultra-easy to conventionally tight, a.k.a. "The Great Monetary Policy Reversal." … We describe both cases, pointing out that bullish could morph into bearish if services inflation doesn't abate. We're in the minority as glass-half-full bulls, counting on a muted rolling recession, with rolling inflation, passing through the economy and out. … Also: Fed officials may be dialing back their hawkishness, which would support the bullish case. We think monetary policy is decidedly restrictive now already. … And: Midterm elections could energize Santa Claus rally. ... Plus: Dr Ed reviews "Eiffel" (+).

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Strategy: From Unconventional Back to Conventional. The bearish case for stocks hasn't changed all year. It continues to hinge on the fact that the widely unexpected rebound in inflation over the past year has forced the major central banks to pivot sharply from their unconventional ultra-easy monetary policies after the Great Financial Crisis (GFC)—which were aimed at averting deflation—to conventional tight monetary policies aimed at bringing inflation down.

Looking ahead, the bearish script suggests that prospects for stocks remain bearish because the abrupt monetary policy reversal is likely to cause a recession, which will continue to depress valuation multiples and earnings too. In this scenario, the "bubbles in everything" will continue to burst, and there will be lots more collateral damage to the global economy and financial markets, as occurred during the GFC.

In the US, the bullish case looking forward is that "this too shall pass," and indeed *is passing*. In other words, most if not all of the bubbles have burst already, so not much more collateral damage lies ahead. The Fed is likely to raise the federal funds rate two more times before the end of this year and then pause next year. Monetary policy has turned restrictive enough to moderate inflation without causing a recession. So corporate earnings are more likely to move sideways than take a dive. The same goes for valuation multiples.

Moreover, US financial markets continue to benefit from "TINAC," i.e., the very sound investment rationale that "there is no alternative country" to serve as a safe haven for global investors during these challenging times around the world.

The bullish scenario isn't as bullish as the bearish one is bearish, but it is certainly much more upbeat. Now consider the following:

(1) *The bearish case.* According to the bearish narrative, the bull market from 2009 through 2021 was primarily attributable to the ultra-easy monetary policies of the Fed and the other major central banks. These policies were largely justified by the deflationary forces unleashed by the GFC. The result was that all the major central banks undershot their 2.0% inflation targets. That was their excuse for implementing so-called unconventional monetary policies including zero-interest-rate policies (ZIRP), negative-interest-rate policies (NIRP), yield-curve-control policies, and quantitative easing (QE).

Just when it seemed that these unconventional policies had become the new normal, inflation soared around the world over the past year, and now all the major central banks are scrambling to subdue inflation rates well exceeding their 2.0% targets. In the US, the headline PCED inflation rate rose above 2.0% in March 2021 and is now at 6.2% (*Fig. 1*). In the Eurozone, the headline CPI inflation rate jumped above 2.0% in July 2021 and is now at a record-high 9.9% (*Fig. 2*). In Japan, the headline CPI rose above 2.0% in April 2022 and is now 3.0% (*Fig. 3*).

So the Fed and the European Central Bank (ECB) are raising their interest rates and implementing quantitative tightening (QT). The shock of this Great Monetary Policy Reversal (GMPR) has sent interest rates soaring and stock prices plummeting around the world.

The bears' favorite chart shows the relationship between the S&P 500 and the size of the Fed's balance sheet. The former rose 609% from March 9, 2009 through January 3, 2022 (*Fig. 4*). Over this same period, the Fed's assets rose 1,005% from $760 billion in March 2009 to $8.4 trillion in January 2022.

On January 5, 2022, the Fed released the *minutes* of its December 14-15, 2021 FOMC meeting. It included a long section titled "Discussion of Policy Normalization Considerations." The committee reviewed previous episodes of hiking the federal funds rate and considered "the appropriate size and composition of the Federal Reserve's balance sheet in the longer run." The word "runoff" in connection with the size of the balance sheet

appeared 10 times in the minutes. For example: "Many participants judged that the appropriate pace of balance sheet runoff would likely be faster than it was during the previous normalization episode."

The Fed's QT program began in June of this year and started accelerating in September. At the current runoff pace of $95 billion per month, the Fed's asset holdings would drop $2.8 trillion from a record high of $8.5 trillion during May 2022 to $5.7 trillion by the end of 2024. The bears reckon that will continue to send stock prices lower. They might be right. But keep in mind that the forward P/E of the S&P 500 has already dropped from 21.5 on January 3 of this year to 15.9 on Friday (*Fig. 5*). So it has already discounted quite a bit of the Fed's pivot from accommodative to restrictive monetary policy.

(2) *The bullish case.* Currently, the bullish case for stocks in the US is that a soft landing of the economy is more likely than a hard landing. Debbie and I have been making the case for a rolling recession, a.k.a. a growth recession or a mid-cycle slowdown. In this scenario, there shouldn't be much more downside in the S&P 500's forward P/E, and its forward earnings per share is more likely to move sideways than to take a dive as it always does during hard landings. (FYI: The "forward P/E" is the P/E multiple using forward earnings as the denominator; "forward earnings" we derive by time-weighting analysts' consensus operating earnings-per-share estimates for this year and next.)

Of course, this rolling recession scenario is valid only in conjunction with a rolling inflation scenario, which we also believe is unfolding. That is, inflation seems to be rolling out of goods and into services currently. Next, it must roll out of services—or else, if it fails to do so, the Fed would have no choice but to resume tightening until a recession finally breaks the back of inflation completely. That's the bear's base case, of course.

The bullish case rests on a happy development: the return of the old normal (growing) economy, with inflation settling down to 3%-4% and conventional monetary policies resuming. An even happier development would be that employers increasingly respond to chronic labor shortages by boosting productivity, allowing wages to rise faster than prices, thus increasing the purchasing power and living standards of workers and boosting economic growth. In this scenario, inflation-adjusted average hourly earnings, which has been flat for the past year through August, resumes its historical 1.2% annual growth path since December 1994 (*Fig. 6*).

Needless to say, the bullish case is very much the minority view for now. The spread between the percentages of bulls and bears is currently -9.0ppts according to Investor

Intelligence's survey and -33.6 according to AAII's (*Fig. 7*). There are only 31.3% bulls in the former and 22.6% in the latter.

Favoring the bulls over the rest of this year is the prospect of a traditional Santa Claus rally, which is even more likely to happen following midterm elections, as we showed in last Wednesday's *Morning Briefing*. Since 1928, the S&P 500 fell 1.1% on average during September, by far the worst performance of any month. Octobers, Novembers, and Decembers were up 0.5%, 0.6%, and 1.4% on average. This Santa Claus rally phenomenon tends to be even more likely following midterm elections. Since 1942, during each of the 3-month, 6-month, and 12-month periods following each of the 20 midterm elections, the S&P 500 was up on average by 7.6%, 14.1%, and 14.9% (*Fig. 8* and *Fig. 9*).

By the way, our friend Matt Miller, the political economist at Capital Group, reviewed the outlook for the upcoming midterm election in an October 20 *article* titled "U.S. midterm elections: Will the House flip?" He concluded: "I still expect the GOP to win the House. That's been my position since early in President Biden's term—even before inflation rose to 40-year highs and Americans started worrying about a potential recession. The Senate, meanwhile, remains a toss-up that I think could go either way as races tighten in a number of key states." He observed that the Republicans must flip just five seats to win a majority in the House. Typically, during the first midterm of a presidency, the opposition party wins many more than that, he noted.

(3) *Looking forward.* Last Thursday, September's Index of Leading Economic Indicators (LEI) and Index of Coincident Economic Indicators (CEI) were released. There's a recession coming according to the LEI, while the economy continues to grow solidly according to the CEI. The former peaked at a record high during February and fell 2.9% over the past seven months through September (*Fig. 10*).

During the past seven business cycles (before the pandemic), the LEI peaked 13.7 months on average before the peak in the CEI. The CEI rose to yet another record high last month and is up 2.3% y/y, confirming that real GDP is still growing on a y/y basis (*Fig. 11*). Indeed, the Federal Reserve Bank of Atlanta's *GDPNow* model shows that real GDP is currently tracking at 2.9% (saar) for Q3. It still looks like a rolling recession to us with recessions rolling through housing, autos, retailing, and goods manufacturing industries.

By the way, the S&P 500 is one of the 10 components of the LEI (*Fig. 12*). During the past 11 business cycles before the pandemic, it peaked five months before the CEI peaked. It peaked 10 months ago, yet the economy is still growing.

S&P 500's forward revenues, earnings, and profit margin are confirming that economic growth is slowing but not diving into a recession (*Fig. 13*). Forward revenues continues to rise into record-high territory though at a slower pace in recent weeks. It's hard to tell whether that's because inflation is cooling or unit growth is weakening or both. Forward earnings peaked at a record high of $239.93 per share during the June 23 week and was down 1.6% to $236.16 during the October 13 week. The forward profit margin is down to 12.9% from a record high of 13.4% during the June 9 week.

The Fed: Volcker 1.5. Melissa and I have been referring to Fed Chair Jerome Powell's ultra-hawkish pivot in his August 26 Jackson Hole *speech* as "Volker 2.0." He mentioned former Fed Chair Paul Volcker's experience with taming inflation during the late 1970s. The lesson Powell drew from that episode is that "[r]estoring price stability will likely require maintaining a restrictive policy stance for some time." So the implication was that the Fed would continue to raise interest rates until they were restrictive enough to subdue inflation and then would keep rates there for a while. Subsequently, numerous Fed officials depressed investors by repeating the Fed's new party line: "We are going to raise interest rates until we see the inflation is clearly coming down."

On Friday, the Fed might have started to dial back that widely expected scenario a bit to "Volcker 1.5." That day, the S&P 500 rallied 2.37% to 3,752.75 as the 2-year US Treasury note yield fell to 4.50% from 4.61% on Thursday. The happy day's performance was sparked by Friday's WSJ *article* titled "Fed Set to Raise Rates by 0.75 Point and Debate Size of Future Hikes" by the Journal's ace Fed watcher, Nick Timiraos.

Nick's article suggested that some Fed officials are realizing that the party line might be excessively hawkish. The markets had been discounting that the FOMC would hike the federal funds rate two more times by 75bps at each of the FOMC's last two meetings this year with more rate hikes next year. Nick's article indicated that some Fed officials wanted to discuss a 50bps hike during December, rather than 75bps one, and a pause early next year.

Indeed, on Friday afternoon, San Francisco Federal Reserve President Mary Daly *said*, "I hear a lot of concern right now that we are just going to go for broke. But that's actually not how we, I, think about policy at all." She said, "We have to make sure we are doing everything in our power not to overtighten." She added, "The time is now to start planning for stepping down."

Powell freaked the markets during his September 21 *press conference* when he said:

“Clearly, today … we’ve just moved, I think, probably, into the very lowest level of what might be restrictive, and, certainly, in my view and the view of the Committee, there’s a ways to go.” He was speaking just after the Fed had raised the federal funds rate by 75bps to 3.00%-3.25%.

Let’s review by how much interest rates have soared so far this year to date (i.e., over the past 41 weeks through Friday).

(1) *Federal funds rate.* Since the start of this year through Friday, the federal funds rate is up 300bps, the most over a 41-week period since August 1981 (*Fig. 14*).

(2) *Two-year and 10-year US Treasury yields.* Over this same period, the 2-year and 10-year Treasury yields are up 369bps and 248bps, the most since September 1981 and October 1987 (*Fig. 15*).

(3) *Thirty-year mortgage rate.* The 30-year fixed mortgage rate is up 387bps since the start of this year, the most since September 1981 (*Fig. 16*).

(4) *High-yield corporate bond composite.* Since the start of this year, the US high-yield corporate bond yield is up 509bps, the most since April 2009 (*Fig. 17*).

(5) *Trade-weighted dollar.* Finally, the trade-weighted dollar is up 13.4% y/y (*Fig. 18*). That’s that biggest gain since September 2015. It’s another indication of the remarkably rapid pivot in monetary policy from an accommodative stance to a restrictive one.

(6) *Bottom line.* It seems to us that monetary policy is well above the “very lowest level of what might be restrictive.”

Movie. “Eiffel” (+) (*link*) is a very interesting docudrama about Gustave Eiffel. He was a remarkable French engineer. After he finished his work on the Statue of Liberty, the French government commissioned him to design something spectacular for the 1889 Paris World Fair. The result was the 300-meters-tall Eiffel Tower, which was completed in just over two years. The movie includes a romantic subplot that is pure fiction and doesn’t add much to the story.

Calendars

US: Mon: M-PMI & NM-PMI Flash Estimates 51.0/49.2; Chicago Fed National Activity Index; Treasury Secretary Yellen speaks. **Tues:** Consumer Confidence 106.5; Richmond Fed Manufacturing Index; S&P Case-Shiller 20-City Composite 0.2%m/m/14.4%y/y; API Weekly Crude Oil Inventories; Waller. (Bloomberg estimates)

Global: Mon: Eurozone, Germany, and France C-PMI Flash Estimates 47.5/45.3/50.3; Eurozone, Germany, and France M-PMI Flash Estimates 47.8/47.0/47.1/ Eurozone, Germany, and France NM-PMI Flash Estimates 48.2/44.7/51.5; UK M-PMI & NM-PMI Flash Estimates 48.0/48.2; Ramsden. **Tues:** Germany Ifo Business Climate Index, Current Assessment, and Expectations 83.3/92.5/74.9; UK CBI Industrial Trend Orders -13; Japan Core CPI 1.9% y/y; China GDP 3.5%q/q/3.4%y/y; China Industrial Production 4.5% y/y; China Retail Sales 3.3% y/y; China Fixed Asset Investment 6.0% y/y; China Unemployment Rate 5.2%; China NBS Press Conference; ECB Bank Lending Survey; Pill. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 4.8% last week for its biggest gain in 17 weeks and closed the week 22.8% below its record high on December 27. The US MSCI ranked eighth of the 48 global stock markets that we follow in a week when 35 of the 48 countries rose in US dollar terms. The AC World ex-US index rose 0.7% and ended the week at 31.0% below its June 15, 2021 record high as nearly all regions moved higher. EM Latin America was the best performer with a gain of 7.6%, followed by EMEA (4.0%), EM Eastern Europe (3.5), and EMU (2.9). EM Asia was the worst performing region last week with a decline of 1.3%, followed by BIC (0.1) and EAFE (0.5). Turkey was the best-performing country last week with a gain of 10.1%, followed by Brazil (9.6), Argentina (6.3), and the Netherlands (6.3). Among the 14 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka's 5.0% decline was the biggest, followed by those of Morocco (-4.3), Taiwan (-3.7), Singapore (-2.8), and China (-2.7). The US MSCI's ytd ranking improved three places w/w to 20/49. After lagging for much of year through July, the US MSCI's ytd decline of 22.3% is now less than the AC World ex-US's 27.9% drop. EM Latin America is now up 7.2% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-87.0), EMEA (-34.6), EM Asia (-32.6), EMU (-32.0), BIC (-31.3), and EAFE (-28.1). The best country performers so far in 2022: Turkey (40.6), Brazil

(16.8), Jordan (16.7), Chile (9.4), and Argentina (6.3). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-68.5), Poland (-50.0), Hungary (-45.6), Austria (-43.4), and Taiwan (-41.6).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved higher w/w for just the third time in 10 weeks. LargeCap rose 4.7% for its biggest gain in 17 weeks, ahead of the gains for SmallCap (3.3%) and MidCap (3.0). LargeCap and MidCap marked their fifth week back in a bear market and SmallCap its sixth. LargeCap finished the week at 21.8% below its record high on January 3; MidCap is 20.6% below its record high on November 16; and SmallCap is 23.1% below its November 8 record high. Thirty-two of the 33 sectors moved higher for the week, up from 11 rising a week earlier. SmallCap Energy was the best performer with a gain of 8.4%, followed by LargeCap Energy (8.1), SmallCap Materials (7.2), MidCap Materials (6.8), and LargeCap Tech (6.5). SmallCap Financials (-0.2) was the biggest underperformer last week, followed by SmallCap Utilities (0.2), MidCap Financials (0.6), MidCap Health Care (1.0), and MidCap Real Estate (1.4). In terms of 2022's ytd performance, LargeCap's 21.3% decline continues to trail those of MidCap (-18.6) and SmallCap (-19.6). Just three of the 33 sectors are positive so far in 2022, unchanged from a week earlier. Energy continues to dominate the top performers: LargeCap Energy (57.9), SmallCap Energy (45.8), MidCap Energy (40.4), MidCap Consumer Staples (-5.6), and SmallCap Materials (-7.5). The biggest ytd laggards: LargeCap Communication Services (-36.6), SmallCap Real Estate (-34.2), LargeCap Real Estate (-33.1), SmallCap Consumer Discretionary (-32.2), and MidCap Real Estate (-31.5).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors rose last week, and five outperformed the composite index's 4.7% decline. That compares to a 1.6% decline for the S&P 500 a week earlier, when three sectors rose and four outperformed the index. Energy was the top performer with a gain of 8.1%, followed by Tech (6.5%), Materials (6.1), Consumer Discretionary (5.6), and Communication Services (5.0). Utilities was the worst performer, albeit with a gain of 1.9%, followed by Consumer Staples (2.2), Health Care (2.3), Real Estate (2.8), Financials (3.9), and Industrials (4.7). The S&P 500 is down 21.3% so far in 2022 with seven sectors ahead of the index and just one in positive territory. The best performers in 2022 to date: Energy (57.9), Health Care (-10.3), Consumer Staples (-10.7), Utilities (-11.6), Industrials (-16.2), Financials (-17.7), and Materials (-20.1). The ytd laggards: Communication Services (-36.6), Real Estate (-33.1), Consumer Discretionary (-30.2), and Tech (-28.7).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 4.7% last week and improved relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma).

The index was below its 50-dma for a sixth week after rising for a week before that for the first time in seven weeks. It closed below its 200-dma for the 35th time in 38 weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved lower for the 19th time in 25 weeks as the index improved to 3.3% below its falling 50-dma from 8.8% below a week earlier. It remains above its 15-week low of 10.6% below at the end of September. That compares to a 23-month high of 8.7% above its rising 50-dma the week in early August and a 27-month low of 11.1% below its falling 50-dma in mid-June. The index had been mostly trading above its 50-dma from late April 2020 to early April 2022; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index closed Friday at 8.8% below its falling 200-dma, up from 13.5% below a week earlier; that compares to an 18-week high of 0.8% below in early August. It remains above its 26-month low of 17.1% below its falling 200-dma in mid-June. The latest reading is down sharply from 10.8% above its rising 200-dma in November 2021. That compares to 17.0% above in December 2020, which was the highest since November 2009 and up from the 26.6% below registered during the Great Virus Crisis on March 23, 2020—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008. The 200-dma fell for a 25th straight week, but its pace of decline is beginning to slow now from its fastest rate since July 2009.

S&P 500 Sectors Technical Indicators (*link*): Nine of the 11 S&P 500 sectors are trading below their 50-dmas, up from 10 sectors a week earlier as Health Care turned positive w/w and joined Energy. At the end of September, all 11 sectors were below. Energy is the only sector with a rising 50-dma, unchanged from a week earlier. Looking at the more stable longer-term 200-dmas, Energy was the only sector above last week. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Energy is also the only sector with a rising 200-dma now.

US Economic Indicators

Leading Indicators (*link*): Leading indicators fell more than expected in September, while the coincident indicators measure continued to hit new record highs. "The six-month growth rate of the LEI fell deeper into negative territory in September, and weakness among the leading indicators [was] widespread," said Ataman Ozyildirim, senior director of economic research at The Conference Board. He noted "Amid high inflation, slowing labor markets,

rising interest rates, and tighter credit conditions, The Conference Board forecasts real GDP growth will be 1.5% year-over-year in 2022, before further slowing in the first half of next year." Leading indicators hasn't posted an increase since February, sliding 0.4% in September and 2.9% over the period. Last month, five of the 10 components of the LEI rose, while five fell—with most of the decline centered in stock prices (-0.32ppt), consumer expectations (-0.21), and the new orders diffusion index (-0.19); the leading credit index (-0.04) and real core capital goods orders (-0.10) were only minor drags. Partially offsetting those declines were gains in initial claims (+0.19), the interest rate spread (+0.12), average workweek (+0.06), building permits (+0.04), and real consumer goods orders (+0.01).

Coincident Indicators (*link*): The Coincident Economic Index (CEI) climbed to yet another record high in September after posting only three negligible declines over the past 12 months. The CEI rose 0.2% in September and 2.3% over the past 12 months—after showing no growth last August and September. All four components contributed positively to September's CEI: 1) Real personal income less transfer payments (+0.07ppt) was the biggest positive contributor in September, increasing five of the past six months, up 0.2% m/m and 0.8% over the period to within 0.1% of last November's record high. 2) Industrial production (+0.07) was a surprise on the upside, climbing to a new record high in September, while August's decline was slightly less negative. Headline production advanced during two of the last three months, up 0.4% m/m and 1.1% over the period, with August's shortfall revised to -0.1% (from -0.2%). 3) Payroll employment (+0.06) rose slightly more than forecast in September, while revisions showed a slight upward revision. Employment climbed 263,000 (vs an estimated 253,000), slowing from August's unrevised gain of 315,000 and July's upwardly revised 537,000 (from 526,000) for a net gain of 11,000. 4) Real manufacturing & trade sales (+0.04) climbed in September for the third month, by a total of 1.1%, moving back to within 2.1% of January's record high. The three months of advance followed a contraction of 3.1% during the five months through June.

Regional M-PMIs (*link*): Two Fed districts (New York and Philadelphia) have reported on manufacturing activity for October and show the manufacturing sector continued to contract, with manufacturing activity falling at a slightly faster pace, dropping to -8.9, after narrowing from -12.6 to -5.7 in September. Manufacturing activity in the New York (to -9.1 from -1.5) region declined at a faster pace, though not as steep as August (-31.3), while Philadelphia's (-8.7 from -9.9) contracted at a comparable pace to last month, after moving briefly into expansionary territory in August (6.2). New orders (-6.1 from -6.9) contracted for the fifth month, but the decline has narrowed steadily from August (-17.4). Billings in the Philadelphia (-15.9 from -17.6) region continued to contract at a fast pace, while orders in the New York (unchanged 3.7) area rose at a slow pace. Employment (18.1 from 10.9)

continued to climb this month, with the pace accelerating for the first time in four months, as factories in the Philadelphia (28.5 from 12.0) region hired at more than double September's pace, while New York's (7.7 from 9.7) pace held relatively steady. Looking at prices-paid indexes, the New York region saw a slight pickup to 48.6 this month after easing from a record-high 86.4 in April to a 21-month low of 39.6 in September, while Philadelphia's moved up to 36.3 after slowing from a cyclical high of 84.6 in April (which wasn't far from its record high of 91.1 in the 1970s) to 29.8 in September, the lowest since December 2020. Prices-received indexes were mixed: New York's prices-received measure slowed to a 21-month low of 22.9, down from its record high of 56.1 in March, while the Philadelphia measure picked up for the second month to 30.8 after slowing from November's 62.9 peak to an 18-month low of 23.3 during August.

Existing Home Sales (*link*): "The housing sector continues to undergo an adjustment due to the continuous rise in interest rates, which eclipsed 6% for 30-year fixed mortgages in September and are now approaching 7%," said Lawrence Yun, NAR's chief economist. "Expensive regions of the country are especially feeling the pinch and seeing declines in sales." Existing home sales contracted for the eighth month, by 1.5% in September and 27.4% over the period, to 4.71mu (saar)—the lowest level since November 2012, not counting the Covid-related plunge. Single-family sales slipped 0.9% in September and 26.6% over the eight months through September to 4.22mu (saar), while multi-family sales have plunged seven of the past eight months, by 5.8% in September and 33.8% over the period to 490,000 units. Regionally, sales in September fell in three of the four regions, while yearly comparisons were all in the red: West (0.0% m/m & -31.3% y/y), Northeast (-1.6 & -18.7), Midwest (-1.7 & -19.7), and South (-1.9 & -23.8). The median existing home price (8.4% y/y) increased for the 127th month on a y/y basis, the longest streak on record, though posted its third monthly decline since reaching a record high of $413,800 in June—reflecting the usual seasonal trend of prices trailing off after peaking in the early summer, according to the report. Total housing inventory at the end of September was 1.25mu, down 2.3% m/m and 0.8 y/y—with unsold inventory holding at 3.2 months' supply at the current sales rate, up from 2.4 months a year ago. According to Yun, "Despite weaker sales, multiple offers are still occurring with more than a quarter of homes selling above list price due to limited inventory. The current lack of supply underscores the vast contrast with the previous major market downturn from 2008 to 2010, when inventory levels were four times higher than they are today."

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