MORNING BRIEFING
November 7, 2022

Powell Is From Mars, Brainard Is From Venus

Check out the accompanying chart collection.

Executive Summary: Has the stock market been voting early? It's up 5% since the S&P 500's October 12 bottom—which may turn out to be the bear market's ultimate bottom. Tomorrow's midterm elections may further boost stock prices in coming months if history is a guide. Our soft-landing economic outlook, if it pans out (60% subjective odds), may be another wind at the stock market's back. … A headwind last week was Fed Chair Powell's peak hawkishness, but we expect to hear counterbalancing views from other Fed officials now that their quiet period is over. … Much now—both the economic and financial market outlooks—hinges on inflation reports in coming months. ... On inflation, Brainard makes sense. ... And: Dr. Ed reviews "Don't Worry Darling" (+ +).

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Strategy I: Midterms. The Republicans are likely to win a majority in the House and maybe even in the Senate as a result of Tuesday's congressional midterm elections. The clear winner would be our constitutional system of checks and balances, otherwise known as "gridlock." The Democrats are warning the voters that such an outcome would be "a threat to our democracy." The Republicans are countering that the Democrats are the ones posing the greatest threat to our democracy. Hopefully, the electorate will remain calm but be motivated to vote to demonstrate to both sides that our democracy remains very much intact. So go vote on Tuesday.

The stock market might have started to vote early in anticipation of the midterms. The S&P 500 is up 5.4% since it bottomed on October 12 (*Fig. 1*). The jury is out, but Joe and I think the bear market in the S&P 500 might have hit its ultimate bottom on that day, when it closed at 3577, down 25.4% from its record high on January 3.

Recognizing that "it ain't over 'til it's over," as Yogi Berra once observed, let's say that the latest bear market lasted 282 days (*Fig. 2*). That compares favorably with the average bear market: Since 1929, the prior 22 bear markets (including the brief 2020 pandemic selloff) lasted 341 days on average, with the S&P 500 falling 36.6% on average (*Table 1*). Those were mostly associated with hard landings in the economy, of course.

We are expecting a soft landing for the economy this time, which is why we think that the bear market might have bottomed. We are still assigning a 60% probability to this scenario and a 40% probability to a hard-landing one.

In addition, we've noted that the stock market has a strong tendency to perform well following midterm elections. Since 1942, during each of the 3-month, 6-month, and 12-month periods following each of the 20 midterms, the S&P 500 was up on average by 7.6%, 14.1%, and 14.9% (*Fig. 3* and *Fig. 4*). That's irrespective of the actual election outcome.

By our count, during periods of a unified government, when one party controlled the White House and both houses of Congress, the S&P 500 rose on average 9.5% per year under Democrat administrations and 13.0% under Republican ones since 1933 (*Fig. 5*). During periods of a divided government, the S&P 500 rose 7.5% per year. Since 1933, there have been three instances when the Republicans ruled the unified government and seven instances when the Democrats did. Altogether, the government was unified under Republicans for 8 years, unified under Democrats for 36 years, and divided for 46 years.

By the way, the amount of federal debt outstanding has risen during periods of both unified and divided government (*Fig. 6*). The two parties may fight over federal spending and taxation issues, but they can always agree on paying for budget deficits by issuing more debt. Enabling their fiscal excesses in recent years has been the ultra-easy monetary policies of the Federal Reserve. However, the excessively stimulative mix of fiscal and monetary policies in response to the pandemic caused inflation to soar, forcing the Fed to raise interest rates significantly.

As a result, the 12-month sum of the net interest paid by the federal government has jumped from $384 billion just before the pandemic in February 2020 to a record high of $475 billion during September (*Fig. 7*). We calculate that the federal government is currently paying about 2.0% interest on its debt. That average interest rate can only go up from here. At 3.0% or 4.0%, the net interest cost would rise to $729 billion or $972 billion (*Fig. 8*).

Helping to offset that rapidly rising cost is inflation, which is boosting federal tax revenues (*Fig. 9*). The 12-month sum of federal government receipts has increased by $1.35 trillion since February 2020 to a record $4.90 trillion through September of this year.

The liberal-leaning media is warning that if the Republicans win a majority in either the House or the Senate or both, the result is likely to be chaos. For example, on October 10, MSNBC's Steve Benen, a producer for *The Rachel Maddow Show*, warned "Republicans aren't thinking about governing, per se. Rather, GOP leaders are likely to focus on gridlock, impeachment crusades, and extensive hearings into assorted conspiracy theories." The conservative-leaning *The Washington Times* reported on October 10 that "Republican Senate candidate Blake Masters said if Arizona voters elect him, he is prepared to shut down the government to force President Biden to reverse course on his border policies."

Gridlock is likely to be less bullish for stocks if it exacerbates the extreme partisanship that is increasingly dividing our country. Nevertheless, we have often observed that it's amazing how well the US economy and stock market perform over time despite Washington's meddling and madness.

Strategy II: Powell & the Others. The S&P 500 fell 3.5% over the course of Wednesday and Thursday last week, mostly following Fed Chair Jerome Powell's hawkish *press conference* on Wednesday afternoon. It then rose 1.4% on Friday to close at 3770, still above the June 16 low of 3666 and the October 12 low of 3577.

Powell's presser reflected the peak pessimism and hawkishness he has shown so far. He seems to have joined the hard-landing camp, concluding that the only way to bring inflation down is with a recession. When asked about whether the path to a soft landing has narrowed, he said "to the extent [interest] rates have to go higher and stay higher for longer [it] becomes harder to see the path, [so] it's narrowed."

During his presser, Powell presented his one-man "dot plot," implying that the median forecast for the federal funds rate in September's *FOMC Summary of Economic Projections* (SEP) will be revised up in December's SEP. (See also the actual dot plot, Figure 2 *here*.) He said, "[W]e think we have a ways to go, we have some ground to cover with interest rates … before we get to that level of interest rates that we think is sufficiently restrictive." He added, "[W]e still have some ways to go, and incoming data since our last meeting suggest that the ultimate level of interest rates will be higher than previously expected." The phrase "ways to go" appeared four times in Powell's presser.

Melissa and I think that Powell's hawkishness may not reflect the views of other Fed officials. Consider the following:

(1) Powell's hawkishness contrasted with the more nuanced language in the FOMC's statement: "In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial

developments."

(2) That language is nearly identical to language that Fed Vice Chair Lael Brainard used in talking about tightening monetary policy in an October 10 *speech*: "We are starting to see the effects in some areas, but it will take some time for the cumulative tightening to transmit throughout the economy and to bring inflation down." At the end, she reiterated: "It will take time for the cumulative effect of tighter monetary policy to work through the economy broadly and to bring inflation down."

She also mentioned the lags between monetary policy and the economy that the FOMC statement referred to: "The transmission of tighter policy is most evident in highly interest-sensitive sectors like housing, where mortgage rates have more than doubled year to date and house price appreciation has fallen sharply over recent months and is on track to soon be flat. In other sectors, lags in transmission mean that policy actions to date will have their full effect on activity in coming quarters, and the effect on price setting may take longer."

(3) The FOMC's latest blackout period (prohibiting public statements) ended on Friday. We've been expecting that after it ends, other Fed officials will start pushing back against Powell's extreme hawkishness. Sure enough, the pushback began on Friday: In an *interview* with Federal Reserve Bank of Boston President Susan Collins, the *WSJ*'s ace Fed watcher Nick Timiraos found that she's optimistic about a soft landing. She said, "We're going to have to tighten further and then hold for some time. I am optimistic that there is a pathway that would not require a significant slowdown." She agrees with Powell that the FOMC still has "a ways to go" in tightening monetary policy but favors smaller rate hikes.

Inflation I: More News Ahead. The outlook for almost everything on the economic and financial fronts depends on the course of inflation. If it shows more signs of moderating soon, then a soft landing will be more likely. In this scenario, interest rates will peak sooner rather than later, and the stock market may have bottomed already on October 12. If inflation remains higher for longer, then so will interest rates, raising the odds of a hard landing and a continuation of the bear market in stocks.

The Santa Claus rally should get a big lift from the midterm elections. However, that won't happen if Fed Chair Powell feels compelled to play the part of the Grinch That Stole Christmas because inflation remains troublesome.

The next BIG NUMBER on the inflation front is October's CPI, which will be released on Thursday. Before it comes out, October's survey of small business owners will be released on Tuesday. In recent months through September, there have been significant drops in the percent of these business owners planning to raise their average selling prices (*Fig. 10*). Let's see what we know so far about October's consumer prices:

(1) *Goods.* The inflation rate of the goods CPI component on a y/y basis is highly correlated with the M-PMI's prices-paid index, pushed forward by three months (*Fig. 11*). The former was up 9.5% during September but has been looking toppy in recent months; its relationship with the latter suggests that it should fall close to zero by early next year.

We know that the national pump price of a gallon of gasoline ticked up during October (*Fig. 12*). The price of natural gas eased last month. The soaring price of diesel fuel could boost the prices of goods as a result of higher transportation costs. On the other hand, the wholesale price of used cars fell 10.4% y/y during October.

(2) *Services.* There's also a correlation between the services CPI inflation rate and the NM-PMI's prices-paid index, but it isn't as tight as the one between the goods CPI component and the M-PMI prices-paid index (*Fig. 13*). The services CPI inflation rate rose to 7.4% during September, the highest since August 1982; the NM-PMI (pushed ahead by 12 months) suggests that the CPI services inflation rate won't peak until early next year and won't fall until next summer. We also know that the rent inflation component of the services CPI probably won't even peak until next summer.

October's employment reports showed that wage inflation, as measured using average hourly earnings on a y/y basis, seems to have peaked for both goods-producing and services-providing industries, but both remain relatively high, at 4.4% and 4.8% last month (*Fig. 14* and *Fig. 15*). The annualized three-month rates through October were 4.1% and 3.8%, respectively, suggesting further moderation in the y/y measures in coming months.

Inflation II: A Fed Head from Venus vs Mars. During 2020 and 2021, Fed Chair Jerome Powell seemed to reside on Venus, where he did all he could to provide the maximum level of employment that is "broad-based" and "inclusive" to the Earth's inhabitants. At the start of 2022, Powell moved to Mars to fight the "persistent" inflation that resulted here on Earth because of his Venusian policies.

Meanwhile, Fed Vice Chair Lael Brainard continues to live on Venus, as we suggested above. Powell wants "to keep at it" because the Fed has "a ways to go" to bring inflation down. Brainard believes that the Fed may have done enough (or soon will do so) to bring inflation down considering that the impact of "cumulative tightening" on the economy operates with “lags.”

We agree with Brainard. In her speech cited above, she made the following nuanced and reasonable points about inflation:

(1) “Strong wage growth along with high rental and housing costs mean that inflation from core services is expected to ease only slowly from currently elevated levels. In contrast, core goods have been expected to return to something closer to the pre-pandemic trend of modest disinflation as a result of demand rotation away from goods to services, coupled with the healing of supply chains and declining core import prices. Disinflation in core goods would help to offset the inflationary pressures in services.”

(2) “So there is ample room for margin recompression to help reduce goods inflation as demand cools, supply constraints ease, and inventories increase.”

(3) “Despite the higher prices for a broad set of goods and services, market- and survey-based measures of longer-term inflation expectations are within ranges consistent with expectations that inflation will return to 2 percent over the medium term.”

(4) “The combined effect of concurrent global tightening is larger than the sum of its parts. The Federal Reserve takes into account the spillovers of higher interest rates, a stronger dollar, and weaker demand from foreign economies into the United States, as well as in the reverse direction.”

Movie. “Don’t Worry Darling” (+ +) (*link*) is a film that Mark Zuckerberg should see and study. It’s about the dark downside of virtual reality. It might convince him to get out of this dream world that can easily turn into a world of nightmares, as it has so far for his company, Meta. Life is idyllic in a 1950s-styled neighborhood of the company town of Victory, California. The men go to their top-secret jobs every morning at Victor Headquarters, while their wives clean the house, socialize with the other wives, and make dinner. But something is not quite right, as two of the wives soon discover. The film is a genre film that channels such classics as “The Stepford Wives,” “Get Out,” “Pleasantville,” and “The Truman Show.” Florence Pugh shines as one of the wives. The cinematography and production design are great too.

Calendars

US: Mon: Consumer Credit $30.0b; Mester. **Tues:** NFIB Small Business Optimism 91.3; EIA Short-Term Energy Outlook. (Bloomberg estimates)

Global: Mon: Eurozone Sentix Investor Confidence; Germany Industrial Production 0.2%; UK Halifax House Price Index -0.4%; Japan Household Spending 2.7% y/y; Australia NAB Business Confidence; Australia Westpac Consumer Sentiment; Eurogroup Meetings; Lagarde; Panetta; Buch. **Tues:** Eurozone Retail Sales 0.3%m/m/-1.3%y/y; France Non-farm Payrolls 0.4%q/q; Italy Retail Sales; Japan Leading & Coincident Indicators; Japan Current Account; China CPI 0.4%m/m/2.5%y/y; China PPI -1.4%y/y; Nagel; Wuermeling; Enria; Pill; Lowe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 3.5% last week for its first decline in three weeks. The index finished the week back in a bear market at 22.5% below its record high on December 27. The US MSCI ranked an abysmal 47th of the 48 global stock markets that we follow in a week when 33 of the 48 countries rose in US dollar terms. The AC World ex-US index rose 2.1% and ended the week at 27.9% below its June 15, 2021 record high as nearly all ex-US regions moved higher. BIC was the best performer with a gain of 7.7%, followed by EM Latin America (7.0%), EM Eastern Europe (5.9), and EM Asia (5.0). EMEA was the worst performing region last week, albeit with a flat performance, followed by EMU (1.1) and EAFE (1.2). China was the best-performing country last week with a gain of 11.0%, followed by Peru (8.4), Brazil (8.2), Hong Kong (7.8), and Turkey (7.7). Among the 32 countries that underperformed the AC World ex-US MSCI last week, Egypt's 4.2% decline was the biggest, followed by those of Colombia (-3.7), the US (-3.5), Israel (-2.9), and Jordan (-2.2). In October, the US MSCI soared 7.8% for its first gain in three months. The US MSCI ranked 22/48 in October and easily outperformed the 2.9% gain for the AC World ex-US index as 41 of the 48 countries moved higher. Turkey was the best performer, with a gain of 23.0%, followed by Poland (16.0), Hungary (14.9), Mexico (13.8), and Peru (13.6). The worst-performing countries in October: China (-16.8), Sri Lanka (-15.0), Hong Kong (-12.2), Morocco (-8.4), and Taiwan (-5.1). EM Eastern Europe was the best-performing region in October with a gain of 13.1%, ahead of EM Latin America (9.6), EMU (8.8), EAFE (5.3), EMEA (4.8), and the AC World ex-US (2.9). BIC (-8.4) was October's worst-performing region, followed by EM Asia (-5.9). The US

MSCI's ytd ranking dropped four places w/w to 24/49. After lagging for much of year through July, the US MSCI's ytd decline of 22.1% is now less than the AC World ex-US's 24.7% drop. EM Latin America is up 10.9% ytd; it and EAFE (-24.2) are the only regions that have outperformed the AC World ex-US on a ytd basis. The laggards: EM Eastern Europe (-85.2), EMEA (-35.1), EM Asia (-31.1), BIC (-30.2), and EMU (-27.6). The best country performers so far in 2022: Turkey (46.3), Brazil (16.7), Chile (14.7), Argentina (13.5), and Jordan (13.0). Apart from Russia, in which investors have lost 100.0% of their investment this year as its MSCI index stopped pricing, here are the worst-performing countries ytd: Sri Lanka (-67.7), Taiwan (-41.2), Poland (-41.2), Egypt (-41.1), Pakistan (-40.6), and Hungary (-40.6).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved lower w/w for the first time in three weeks, and two are back in bear market territory. LargeCap fell 3.3%, worse than the declines for MidCap (-1.2%) and SmallCap (-2.1). LargeCap finished the week at 21.4% below its record high on January 3; MidCap is 17.3% below its record high on November 16, 2021; and SmallCap is 20.1% below its November 8, 2021 record high. Just seven of the 33 sectors moved higher for the week, down from 32 rising in each of the prior two weeks. MidCap Energy was the best performer with a gain of 4.5%, followed by SmallCap Energy (3.6), LargeCap Energy (2.4), SmallCap Consumer Staples (1.1), and LargeCap Materials (0.9). SmallCap Communication Services (-8.1) was the biggest underperformer last week, followed by LargeCap Communication Services (-7.4), LargeCap Tech (-6.9), LargeCap Consumer Discretionary (-5.8), and SmallCap Tech (-4.6). During October, LargeCap soared 8.0%, but that was less than the gains for SmallCap (12.3) and MidCap (10.4). Thirty-two of the 33 sectors rose in October compared to all 33 falling in September. October's best performers: SmallCap Energy (28.1), LargeCap Energy (24.8), MidCap Energy (22.1), SmallCap Industrials (15.6), and SmallCap Materials (15.4). October's biggest laggards: LargeCap Communication Services (-0.1), LargeCap Consumer Discretionary (0.2), LargeCap Real Estate (1.9), LargeCap Utilities (2.0), and SmallCap Health Care (4.5). In terms of 2022's ytd performance, LargeCap's 20.9% decline continues to trail those of MidCap (-15.4) and SmallCap (-16.4). Three of the 33 sectors are positive so far in 2022, down from four a week earlier. Energy continues to dominate the top performers: LargeCap Energy (66.1), SmallCap Energy (59.1), MidCap Energy (51.5), MidCap Consumer Staples (-0.2), and MidCap Financials (-2.0). The biggest ytd laggards: LargeCap Communication Services (-43.0), LargeCap Consumer Discretionary (-33.8), SmallCap Communication Services (-31.6), SmallCap Real Estate (-31.1), and LargeCap Tech (-30.8).

S&P 500 Sectors and Industries Performance (*link*): Three of the 11 S&P 500 sectors rose last week, and eight outperformed the composite index's 3.3% decline. That compares to a 4.0% gain for the S&P 500 a week earlier, when all 10 sectors rose and seven outperformed the index. Energy was the top performer with a gain of 2.4%, followed by Materials (0.9%), Industrials (0.4), Utilities (-0.6), Financials (-0.8), Health Care (-1.6), Real Estate (-1.8), and Consumer Staples (-1.8). Communication Services (-7.4) was the worst performer, followed by Tech (-6.9) and Consumer Discretionary (-5.8). After tumbling 9.3% in September for its worst month since March 2020 and its worst September in 13 years, the S&P 500 soared 8.0% in October for its first gain in three months and its best October since 2015. Ten of the 11 sectors moved higher during September, and six outperformed the broader index. That compares to all 11 sectors falling and four outperforming the S&P 500's 9.3% decline in September. The leading sectors in October: Energy (24.8), Industrials (13.9), Financials (11.8), Health Care (9.6), Materials (9.0), and Consumer Staples (8.8). October's laggards: Communication Services (-0.1), Consumer Discretionary (0.2), Real Estate (1.9), Utilities (2.0), and Tech (7.8). The S&P 500 is down 20.9% 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 (66.1), Utilities (-6.4), Consumer Staples (-7.0), Health Care (-7.3), Industrials (-10.2), Financials (-13.3), and Materials (-16.7). The ytd laggards: Communication Services (-43.0), Consumer Discretionary (-33.8), Tech (-30.8), and Real Estate (-30.2).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 3.3% last week and weakened relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index moved back below its 50-dma after moving above a week earlier for the first time in seven weeks. However, it closed below its 200-dma for the 37th time in 40 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 21st time in 27 weeks as the index dropped to 0.8% below its falling 50-dma from 1.7% above a week earlier. That compares to a 15-week low of 10.6% below at the end of September, 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 7.7% below its falling 200-dma, up from 4.8% below a week earlier, and 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 27th straight week, and its pace of decline is picking up again after slowing at the end of October from its fastest rate since July 2009.

S&P 500 Sectors Technical Indicators (*link*): Six of the 11 S&P 500 sectors are trading above their 50-dmas, down from seven sectors a week earlier. Tech moved back below in the latest week and joined these four sectors still below their 50-dma: Communication Services, Consumer Discretionary, Real Estate, and Utilities. At the end of September, all 11 sectors were below. Financials now has a rising 50-dma, joining Energy and Health Care as the only other sectors in that club. Looking at the more stable longer-term 200-dmas, these three are still the only sectors above that measure: Energy, Health Care, and Industrials. 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 and Health Care are the only sectors with a rising 200-dma, unchanged w/w.

US Economic Indicators

Employment (*link*): Payroll employment rose more than forecast in October, while revisions showed a slight upward revision. Employment rose 261,000 (vs an estimated 200,000) last month following an upwardly revised 315,000 (from 263,000) in September payrolls and a downward revision in August's to 292,000 (from 315,00) for a net gain of 29,000. Total payroll employment has recovered 22.8 million jobs since bottoming in April 2020, moving above its pre-pandemic level by 804,000. Jobs gains in private service-providing industries increased 200,000 in October, slowing from September's 271,000, while goods-producing jobs rose 33,000, down from September's 48,000. Industries posting the largest gains during October were health care (53,000), professional & technical services (43,000), leisure & hospitality (35,000), manufacturing (32,000), social assistance (19,000), and wholesale trade (15,000). Showing little change last month were mining, construction, retail trade, information services, other services, and government jobs. *Here's a list of the industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.1 million), transportation & warehousing (+731,600), retail trade (+231,600), information services (+140,000), nondurable goods manufacturing (+105,000), financial activities (+101,000), construction (+97,000), health care (86,700), education (+56,500), wholesale trade (30,300), and durable goods manufacturing (32,000). *Here's a list of the industries that are below their February 2020 pre-pandemic levels*: social assistance (-

8,800), mining & logging (-52,000), and leisure & hospitality (-1.1 million).

Wages (*link*): Average hourly earnings for all workers in October increased 0.4%, following gains of 0.3% in each of the prior two months, with the yearly rate easing to a 14-month low of 4.7%—down from its recent peak of 5.6% in March. October's rate was below the September inflation-rate gains of 8.2% and 6.2% in the CPI and PCED measures, respectively. Private industry wages over the three months through October increased 3.8% (saar), below its 4.7% yearly rate, with the three-month rates for both goods-producing (4.1%, saar & 4.4% y/y) and service-providing (3.8 & 4.8) industries below their yearly rates. *Service-providing industries showing three-month rates below their yearly rates*: education & health services (1.9 & 4.4), retail trade (2.4 & 4.2), professional & business services (3.3 & 5.0), leisure & hospitality (5.0 & 6.5), transportation & warehousing (5.3 & 6.3), and utilities (5.6 & 6.3). *Service-providing industries showing three-month rates above their yearly rates*: information services (9.2 & 6.4), other services (5.6 & 2.7), and financial activities (4.1 & 3.8), with wholesale trade's (4.1 & 4.0) rates nearly matching. *Goods-producing industries*: The three-month rates are below their yearly rates for natural resources (-1.3 & 3.6) and nondurable goods manufacturing (2.4 & 3.0), while nearly identical for durable goods manufacturing (3.7 & 3.8) and identical for construction at 5.6% for both.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 29th increase in the past 30 months—up 0.6% in October and 32.1% over the period—to yet another new record high. In October, average hourly earnings advanced 0.4%, with aggregate weekly hours up 0.2%. Over the past 12 months, our EIP was up 8.0%—with aggregate weekly hours up 3.3% and average hourly earnings up 4.7%—slowing from February's 11.0% rate, which was the fastest since mid-2021.

Unemployment (*link*): October's unemployment rate rose back up to 3.7% after falling from 3.7% in August to a recent low of 3.5% in September (which matched its lowest rate since 1969); it has fluctuated between 3.5% and 3.7% since March. The participation rate in October remained in a flat trend, slipping to 62.2% from 62.3% in September—averaging 62.3% from January through October. *By race*: Unemployment rates among all races rose in October, though were not far from their record lows. The rate for Hispanics (to 4.2% from 3.8) and Asians (2.9 from 2.5) both moved up 0.4ppt, while the rates for African Americans (5.9 from 5.8) and Whites (3.2 from 3.1) showed only a slight uptick. *By education*: The rate for those with less than a high school degree jumped to 6.3% after falling in September from 6.2% to 5.6%; it was at a record low of 4.3% in February. The rate for those with a high school degree held below 4.0%, though ticked up from 3.7% to 3.9% last month, while the rates for those with some college or an associate's degree (3.0 from 2.9) and a college degree and higher (1.9 from 1.8) barely budged.

Productivity & Unit Labor Costs (*link*): Productivity during Q3 grew for the first time in three quarters but barely, after sharp declines the prior two quarters. Last quarter, productivity eked out a 0.3% (saar) gain, following losses of 4.1% and 5.1% the prior two quarters. Output rebounded 2.8% (saar) following setbacks of 1.2% during Q2 and 2.5% during Q1, with hours worked climbing 2.4% (saar), slowing from 2.9% and 3.6% the previous two quarters. Unit labor costs advanced 3.5% (saar), less than half the quarterly gains of 8.9% and 8.5% the prior two quarters, reflecting a slight improvement in productivity and an easing in hourly compensation to 3.8% (saar) from 4.5% during Q2. On a year-over-year basis, productivity contracted 1.4%, its third consecutive yearly decline, as output increased 1.9% over the period, matching Q2's increase, and hours worked rose 3.4%, slowing from 4.1% during Q2. Unit labor costs advanced 6.1% y/y, slowing from Q2's 7.6%—which was the highest since Q3-1982.

Merchandise Trade (*link*): The *real merchandise trade deficit* widened to $103.8 billion in September, after narrowing steadily from a record -$135.8 billion in March to -$97.1 billion in August. The deficit averaged $101.3 billion per month last quarter, a big narrowing from Q2's $115.5 billion—with trade being the biggest positive contributor to Q3 real GDP growth. Real exports dipped 0.8% in September after rising five of the prior six months by 11.3% to a new record high, while real imports rebounded 2.1% in September after falling the prior five months by a total of 8.6%. *Looking at exports*, real exports of industrial supplies & materials slipped 0.6% after shooting up 21.4% during the six months through August to a new record high. Exports of nonfood consumer goods ex autos continued fluctuating in a volatile flat trend near the top of the range. Meanwhile, capital goods orders ex autos remained on an uptrend in September, climbing to its highest level since March 2019. Auto exports remained in a volatile flat trend. Foods, feeds & beverages' exports remained in its volatile flat trend, though plunged 12.7% in September. *As for import trends*, the upswing in capital goods ex autos stalled recently, but the measure rebounded 4.6% in September to a new record high. Imports of nonfood consumer goods ex autos rose 1.8% in September after sliding 17.7% from its March record high through August. Real auto imports remained in a volatile uptrend, picking up over the past three months by 11.0%. Real imports of foods, feeds & beverages remained in a flat trend around its record high. Meanwhile, real imports of industrial materials & supplies has dropped 9.4% since its recent peak in March.

US Non-Manufacturing PMIs (*link*): ISM's NM-PMI slowed to its weakest reading since May 2020, while input prices accelerated a bit after easing the prior five months. The NM-PMI has declined 8 of the 11 months since reaching a record-high 68.4 last November, sinking to 54.4 this October. Of the four components, the *new orders* (to 56.5 from 60.6) gauge fell back below 60.0 after two months above, while the *business activity* (55.7 from 59.1) measure fell further below 60.0. Meanwhile, the *employment* (49.1 from 53.0) component continued to bounce around the breakeven point of 50.0, showing a slight contraction last month. The *supplier deliveries'* measure rose slightly to 56.2 last month after dropping sharply from 75.7 last October to November to a 31-month low of 53.9 this September. On the *inflation* front, the price index rose for the first time in six months, from a 20-month low of 68.7 in September to 70.7 in October; it was at a record high record-high 84.6 in April.

Global Economic Indicators

Global Composite PMIs (*link*): Global demand contracted in October for the third successive month, as the service sector rejoined the manufacturing sector in the contraction camp. The *C-PMI* moved lower for the third time in four months, from 53.5 in June to 49.0 in October—the lowest since mid-2020. The *NM-PMI* fell to 49.2 after rising from 49.3 in August to 50.0 in September, while the *M-PMI* remains in a tailspin, falling eight of the first 10 months of this year from 54.3 at the end of last year to 49.4 last month—the lowest since June 2020. *Geographically*, the report notes that C-PMIs showed activity was in expansionary territory in Japan (51.8), India (55.5), and Brazil (53.4), among others, while France's (50.2) moved down closer to the 50.0 breakeven point. Meanwhile, C-PMIs were in contractionary territory in the US (48.2), Eurozone (47.3), China (48.3), the UK (48.2), Australia (49.8), and Russia (45.8). *By sector*, growth contracted in business services, financial services, and intermediate goods, with contractions steeper in the latter two, while growth rose in the consumer goods, consumer services, and investment goods categories—although growth was subdued in all three. Meanwhile, *business optimism* sank to a 28-month low in the face of heightened economic, inflationary, and political pressures. Turning to *prices*, the report notes that "inflationary pressures remained solid in October, despite rates of increase in input costs and output charges easing to 19-month lows. Rates of inflation signaled for both price measures stayed much sharper (on average) in developed nations compared to emerging markets."

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