MORNING BRIEFING
October 23, 2023

'Dangerous Times'

Check out the accompanying chart collection.

Executive Summary: The Middle East crisis seems to be escalating into a regional war with US involvement, existential stakes, and global effects. The S&P 500 fell to its 200-day moving average on Friday in response to the geopolitical risks. We expect it to breach that level this week even if the bond yield declines. The escalation of hostilities we expect prompts us to raise our odds of a US recession before year-end 2024 again, now to 35% from 30%. A year-end rally is less likely now, but geopolitical crises do tend to present long-term buying opportunities in stocks. … Also: We update the bond market's supply/demand situation, discuss the consumer-spending-employment spiral, and review the movie "Past Lives" (+).

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Geopolitics: Middle East's Existential Crisis. Jamie Dimon is probably right. On October 13, the CEO of JPMorgan Chase sounded the alarm on the global effects of wars in the Middle East and Ukraine. "This may be the most dangerous time the world has seen in decades," he said in a *statement* accompanying the bank's quarterly earnings. He warned of "far-reaching impacts on energy and food markets, global trade and geopolitical relationships."

The war in the Middle East between Israel and Hamas might have escalated into a regional war on Thursday. That's when a US warship heading south in the Suez Canal over a period of nine hours intercepted and destroyed four cruise missiles and 15 drones heading toward Israel from Yemen. The missiles were fired by Iranian-backed Houthi forces in Yemen and were launched "potentially towards targets in Israel," according to the Pentagon's press secretary. In response, the US fired sea-launched cruise missiles at Houthi radar facilities in Yemen, according to a CNN *report*.

This development contributed to the selloff in the S&P 500 on Friday. So did the increase in the 10-year Treasury bond yield to 4.997% Thursday evening. But the yield was back down to 4.928% at Friday's close. The decline in the yield undoubtedly reflected profit taking by short-sellers and a mini-flight to safety in reaction to the latest unsettling developments in

the Middle East.

On October 7, when the war started, I wrote: “Geopolitical crises in the Middle East have usually caused oil prices to rise and stock prices to fall. More often than not, they’ve also tended to be buying opportunities in the stock market. Much will depend on whether the crisis turns out to be another short-term flare-up or something much bigger like a war between Israel and Iran.”

On October 10, Debbie and I raised our subjective odds of a broad-based US recession from 25% to 30% because of the war: “This one isn’t likely to lead to a quick ceasefire between Israel and Hamas, as occurred in the past, because it is in fact a war between Israel and Iran. For Israel, it is existential. This time, Israel’s goal is to wipe out Hamas, which is Iran’s surrogate in Gaza. The war is also existential for Iran’s mullahs, who need it to distract their domestic population from discontent over their authoritarian regime by moving forward on their machinations to wipe out Israel.” And, of course, the war is now existential for Hamas since Israel has vowed to destroy the terrorist organization.

Under the circumstances, the odds of an escalation of the hostilities are increasing, while those of a ceasefire anytime soon are falling. As a result, we’re raising our odds of a recession again, to 35%. A regional war has become more likely now that the US has gotten directly involved by shooting down missiles launched by Iran’s surrogates in the region and destroying their military assets on the ground.

There could still be a year-end stock market rally, but there is likely to be more downside in the next few weeks while the regional combatants and also the US Navy are targeting each other. The S&P 500 index fell back to its 200-day moving average on Friday and looks set to breach it if the news out of the Middle East continues to worsen, as we now expect, even if the bond yield declines on the same news.

The question is whether this war will escalate to the point where American and Israeli policymakers conclude that now is the time to destroy Iran’s nuclear facilities. We are sure the question will be raised. We don’t know what the answer will be or even whether such an escalation is militarily feasible.

We are keeping an eye on Taiwan too, as is China. A month ago, a record number of Chinese fighter planes—103 of them—flew around Taiwan in just one day. On Wednesday, Taiwan reported that 10 Chinese military aircraft and four navy ships buzzed close to the island nation. China’s government might view this as an opportune time to invade Taiwan

now that the US is stretched militarily by supporting both Ukraine and Israel.

As Jamie Dimon said, “This may be the most dangerous time the world has seen in decades.” There isn’t likely to be much upside for the stock market until the geopolitical risks turn less dangerous, particularly in the Middle East. We certainly aren’t sure how long that will take, but we think these risks will linger for a few weeks at least.

As noted above, geopolitical crises have often turned out to be buying opportunities. At first, the stock market didn’t respond adversely to the war in the Middle East. It may be starting to do so now. If so, then this too should result in buying opportunities, particularly in Energy, Financials, and Information Technology. Of course, defense stocks should also benefit from these dangerous times.

Strategy: Market Call. Our cautiousness on the outlook for the S&P 500 over the near term is in sync with the views of our friend Joe Feshbach. Here are his latest thoughts on the stock market from a trading perspective:

“I remain cautious on the stock market, as the internal dynamics—especially as measured by breadth statistics—remain awful. I have been highlighting the Nasdaq in particular, where the cumulative A/D line has been constantly making new lows. Also on the surprisingly disappointing side is how the put/call ratio has responded to this decline. One would have thought that with horrible breadth accompanied by terrible news, put buying would skyrocket. It has not. Yes, the numbers have picked up, but we are nowhere near levels that would indicate fear and a possible low. I’m very curious to see how the ratio will react if the S&P 500 breaks its prior intra-day low of 4216 this week.” Thanks Joe!

Bonds: Supply & Demand Update. In his *interview* Thursday with Bloomberg’s David Westin at the Economic Club of New York, Fed Chair Jerome Powell was asked about the bearish impact of the increasing supply of government debt on the bond market given that the Fed is no longer buying Treasury securities and that foreigners reportedly are reducing their purchases as well. Powell responded that buying by foreigners has “actually been pretty robust” this year.

That statement provides an opportunity for Melissa and me to update our analysis of supply and demand in the Treasury market. Consider the following:

(1) *Bears versus bulls.* In our August 14 *Morning Briefing,* titled “Disinversion,” we wrote: “[T]he supply of and the demand for bonds isn’t usually as important to the determination of

the bond yield as are actual and expected inflation and the expectations of how the Fed will respond to them." The 10-year Treasury bond yield was 4.19% at the time, but we were increasingly concerned that it was going higher because of the imbalance between supply and demand.

Favoring the bears in the bond market, we observed, "is the rapidly widening federal deficit and evidence that demand may not match the supply of Treasury securities unless their yields continue to rise. Favoring the bulls, in our opinion, is that since last summer inflation has been on a moderating trend that should persist through 2025 without any further increases in the federal funds rate."

Inflation remains on a moderating trend. However, the bond yield is now around 5.00%, as supply concerns have mounted along with the federal debt. Supply became a major issue when the Treasury *announced* significant increases in its auctions on July 31. From July through September, the Treasury needed to borrow $1.01 trillion, $274 billion more than was announced in May. The day after that announcement, on August 1, Fitch Ratings downgraded the government's credit rating from AAA to AA+. That underscored the significance of the government's profligate borrowing and accentuated investors' supply concerns.

(2) *Is 5% high enough?* The question now is whether the 10-year Treasury bond yield, at 4.93% on Friday, is high enough to attract sufficient bond buyers to equilibrate the market's supply and demand. We think so. The 10-year yield is back to the highest reading since June 2007 (*Fig. 1*). We've previously characterized the bond yield range of 4.50%-5.00% as a return to the old normal range before the Great Financial Crisis from 2003 through 2007. The big difference between now and then is the size of the federal deficits, which is partly attributable to the rapid rise in the net interest outlays of the federal government.

(3) *Bond Vigilantes more powerful than ever.* The risk in the bond market is that the difference in the supply factor could push yields higher than 5.00%. That's another way of saying that the risk is that the Bond Vigilantes will take over control of the market, pushing yields so high that they cause a credit crunch and a recession. That may be the only way to force Washington to lower the unsustainable long-term path of the federal deficit. After all, Washington has provided the Bond Vigilantes with more power than ever by increasing the government's debt so rapidly in recent years (*Fig. 2*). Total public debt outstanding excluding intragovernmental holdings has quadrupled since Q4-2008 to $26.3 trillion during September.

It shouldn't be forgotten that elevated bond yields can have the same monetary tightening effect on the economy as elevated federal funds rates, if not a greater tightening effect.

(4) *The bond crop never fails.* During fiscal year 2023 (ending September), the federal deficit totaled $1.7 trillion. That well exceeds the pre-pandemic record high of $1.1 trillion over the 12 months through February 2020 (*Fig. 3*). Outlays totaled $6.1 trillion, while receipts totaled $4.4 trillion (*Fig. 4*).

Exacerbating the federal deficit has been rapidly increasing outlays on net interest (*Fig. 5*). Over the past 12 months through September, it totaled $659 billion, doubling since May 2021. The average interest rate on the government's debt is currently about 2.50%. The 2-year Treasury yield is over 5.00% currently. So this outlay will continue to be the fastest growing one in coming months.

(5) *Fed and banks are net sellers.* On the demand side, the Fed stopped purchasing Treasury securities during June 2022 and has let its holdings decline as they mature. During this period of quantitative tightening (QT), these holdings peaked at a record $5.77 trillion at the start of June 2022 and were down to $4.96 trillion at the start of October this year (*Fig. 6*). That's an average decline of $51 billion per month over that 16-month period. If QT continues to reduce the Fed's holdings of Treasuries at roughly this pace, other buyers will have to refinance the $600 billion decline, over 12 months, in the Fed's holdings.

Interestingly, the Fed's holdings of Treasury bonds maturing in over 10 years actually increased slightly over this period by $80 billion (*Fig. 7*).

The holdings of US Treasury and agency securities held by all US commercial banks peaked at a record $4.71 trillion during the week of March 1, 2022 and fell $610 billion to $4.10 trillion during the October 11 week (*Fig. 8*). That period coincides with the Fed's QT. That's because QT has been reducing bank's deposits, forcing them to raise funds by letting their securities mature (*Fig. 9*).

(6) *Foreigners are still buying.* Fed Chair Powell is right about foreigners. They are still active buyers of US bonds. According to *Treasury International Capital* (TIC) data, over the 12 months through August, their net purchases of US bonds was $582 billion, including $596 billion purchased by private foreigners and $14.0 billion sold by official foreign accounts (*Fig. 10*). Over the past three months through August, foreign investors purchased $75.0 billion in US Treasury notes and bonds, with private foreigners purchasing $79.3 billion and private official accounts selling $4.3 billion.

(7) *Domestic individual and institutional investors are the known unknowns.* Over the past 12 months, bond mutual funds and ETFs have had net inflows of $194.1 billion. Unfortunately, investors piled into these funds at a record pace, which peaked at $1.0 trillion during 2021 on a 12-month sum basis, when interest rates were at or near record lows. Clearly, individual and institutional investors have amassed huge realized and unrealized losses in the bond market.

The question is whether bond yields upwards of 5.00% now will bring investors back into the bond market. We think so. On the other hand, it might take a while since they can earn as much in money market mutual funds, which are up $1.1 trillion y/y through mid-October and more than $2.0 trillion since just before the start of the pandemic (*Fig. 11*).

Consumers: The Spending-Employment Spiral. Why is consumer spending so strong, as evidenced by September's 0.7% m/m increase in retail sales and the upward revisions in August (from 0.6% to 0.8%) and July (0.5% to 0.6%) (*Fig. 12*)? The answer is that payroll employment is so strong, with a gain of 336,000 during September, following upward revisions in August and July of 119,000 in total as well. Employment gains averaged 266,000 per month over the past three months through September.

Why is employment so strong? Because consumer spending is so strong. This may sound like circular reasoning, but it's not. As we've explained before, retiring Baby Boomers are eating at restaurants more often, traveling more frequently, and seeing health care providers routinely. These are all labor-intensive services that need more workers to satisfy the demand from their customers, especially the Baby Boomers. So for example, consider the following:

(1) *Food services retail sales* rose to a record $1.1 trillion (saar) during September, exceeding meals at home by 11.3% (*Fig. 13*). Employment in food services & drinking places has fully recovered from the pandemic, but they still have more than a million job openings including in accommodations services (*Fig. 14*).

(2) *Personal consumption expenditures on health care services* rose to a record high of $3.0 trillion (saar) during August (*Fig. 15*). Payroll employment in health care and social services rose to a record 21.6 million (*Fig. 16*). During August, there were 1.8 million job openings in these two industries.

Movie. "Past Lives" (+) (*link*) is a movie with a romantic story but a realistic one. That's because love doesn't always conquer all. There are lots of extenuating circumstances in

any relationship. This movie follows the relationship of childhood sweethearts in South Korea. They are separated when one of them moves to Canada and then to the US. Nevertheless, they still have feelings for one another when they are young adults. Will they or won't they reconnect and surmount new obstacles? In other words, this is a realistic romantic suspense movie. That might be a new genre.

Calendars

US: **Mon:** Chicago Fed National Activity Index. **Tues:** M-PMI & NM-PMI Flash Estimates 49.5/49.9; Richmond Fed Manufacturing Index 3.0; API Weekly Crude Oil Stock. (FXStreet estimates)

Global: **Mon:** Eurozone Consumer Confidence -18.1. **Tues:** Eurozone, Germany, and France C-PMI Flash Estimates 47.4/46.5/44.2; Eurozone, Germany, and France M-PMI Flash Estimates 43,7/40.0/44.8; Eurozone, Germany, and France NM-PMI Flash Estimates 48.6/50.0/44.6; Germany Gfk Consumer Climate -26.8; UK C-PMI, M-PMI & NM-PMI Flash Estimates 48.8/44.6/49.5; UK Employment Change 3m/3m -198k; UK Unemployment Rate 4.3%; UK Claimant Count Change 2.3k; UK Labor Productivity 0.7%; Australia CPI 1.1%q/q/53%y/y; Lagarde; Bullock. (FXStreet estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 2.5% in its fifth weekly drop of the last seven weeks and is back in a correction at 13.1% below its record high on December 27, 2021. The US MSCI ranked 26th of the 48 global stock markets that we follow in a week when eight of the 48 countries rose in US dollar terms. The AC World ex-US index underperformed slightly with a drop of 2.6% for the week and slipped deeper into bear market territory at 22.2% below its June 15, 2021 record high. Nearly all regions fell w/w. EM Eastern Europe was the best performer with a gain of 4.2%, ahead of EMEA (-0.7%), EMU (-2.1), and EM Latin America (-2.3). BIC was the worst performing region last week with a 3.3% decline, followed by EM Asia (-3.0) and EAFE (-2.6). Poland was the best-performing country last week, with a gain of 5.3%, followed by Hungary (2.6), Greece (2.6), Colombia (1.5), and Pakistan (1.3). Among the 20 countries that underperformed the AC World ex-US MSCI last week, the 8.3% decline for Turkey was the biggest, followed by those of Finland (-5.4), Ireland (-5.3), Denmark (-4.7), and China (-4.7). Looking at 2023's

performance so far, the US MSCI is up 10.4%; its ytd ranking dropped three places w/w to 13/48. Trailing the US's gain, the AC World ex-US has a ytd decline of 0.5%, with 24/48 countries in positive territory. EM Eastern Europe is the best regional performer ytd with a gain of 17.8%, followed by EMU (2.5), EM Latin America (2.3), and EAFE (0.8). The regional laggards so far in 2023: BIC (-6.7), EMEA (-3.6), and EM Asia (-3.3). This year's best ytd country performers: Sri Lanka (29.0), Greece (28.4), Hungary (26.8), Argentina (20.3), and the Czech Republic (17.1). Here are the worst-performing countries of the year so far: Hong Kong (-21.6), Finland (-21.6), Pakistan (-20.7), Thailand (-19.2), and Chile (-14.8).

S&P 500/400/600 Performance (*link*): All three of these indexes fell w/w and posted their biggest drops in four weeks. LargeCap's 2.4% decline was bigger than the 2.0% and 1.7% drops recorded by MidCap and SmallCap. At Friday's close, LargeCap was back in an 11.9% correction from its record high on January 3, 2022, MidCap remained in a deep 17.8% correction from its record high on November 16, 2021, and SmallCap slipped further into bear market territory at 25.4% from its November 8, 2021 record high. Seven of the 33 LargeCap and SMidCap sectors moved higher for the week, compared to 14 rising a week earlier. LargeCap Consumer Staples and LargeCap Energy were the best performers with gains of 0.7%, followed by SmallCap Consumer Discretionary (0.4), MidCap Energy (0.4), and SmallCap Communication Services (0.4). Among the biggest underperformers for the week were LargeCap Real Estate (-4.6), LargeCap Consumer Discretionary (-4.5), SmallCap Tech (-4.4), MidCap Tech (-4.0), and MidCap Industrials (-3.6). Looking at performances so far in 2023, LargeCap, with a gain of 10.0%, remains well ahead of MidCap (-1.5) and SmallCap (-5.5); 14 of the 33 sectors are higher ytd compared to 19 several weeks earlier. The top sector performers in 2023: LargeCap Communication Services (42.6), LargeCap Tech (33.6), LargeCap Consumer Discretionary (19.0), MidCap Energy (13.1), SmallCap Energy (10.7), and MidCap Industrials (10.0). Here are 2023's biggest laggards: MidCap Utilities (-23.3), SmallCap Utilities (-19.5), SmallCap Financials (-19.5), SmallCap Health Care (-18.6), and MidCap Communication Services (-18.0).

S&P 500 Sectors and Industries Performance (*link*): Two of the 11 S&P 500 sectors rose last week and five outperformed the composite index's 2.4% decline. That compares to a 0.4% gain for the S&P 500 a week earlier, when eight sectors rose and five outperformed the index. Consumer Staples and Energy were the best performers with gains of 0.7%, followed by Communication Services (-0.5%), Health Care (-1.6), and Utilities (-2.1). Real Estate was the worst performer, with a drop of 4.6%, followed by Consumer Discretionary (-4.5), Tech (-3.1), Materials (-3.0), Industrials (-3.0), and Financials (-2.9). Looking at 2023's performance so far, the S&P 500 is up 10.0% ytd, with just three sectors still outperforming

the index and five higher for the year. The best ytd performers: Communication Services (42.6), Tech (33.6), and Consumer Discretionary (19.0). These are 2023's worst performers: Utilities (-17.8), Real Estate (-11.6), Consumer Staples (-8.8), Financials (-5.9), Health Care (-5.9), Materials (-3.2), Industrials (0.5), and Energy (2.8).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.4% last week and weakened considerably relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index remained below its 50-dma for a seventh week, and dropped below its 200-dma for the first time in 31 weeks. As for what the dmas themselves have been doing, the 50-dma moved lower for a fifth week, but the 200-dma rose for a 21st week in its longest positive streak since March 2022. The S&P 500 fell to 3.7% below its falling 50-dma from 1.7% a week earlier, but remains above its 50-week low of 4.7% below its falling 50-dma at the beginning of October. For perspective, the latest reading is down from a 20-week high of 5.4% above its (rising) 50-dma in mid-June. Other comparison points include: a four-month low of 10.6% below its (falling) 50-dma at the end of September 2022, a 23-month high of 8.7% above its (rising) 50-dma in August 2022, and a 27-month low of 11.1% below its (falling) 50-dma in June 2022. The index had been trading above its 50-dma from most of 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. Turning to the 200-dma, the price index dropped to a seven-month low of 0.5% below its (rising) 200-dma from 2.2% above a week earlier. That compares to a 24-month high of 12.4% above its (rising) 200-dma in mid-July. The S&P 500 is well above its 26-month low of 17.1% below its (falling) 200-dma in June 2022 and 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 level of the Great Financial Crisis following the failure of Lehman Brothers, the S&P 500 index was 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Just two of the 11 S&P 500 sectors trade above their 50-dmas now, as Tech turned negative again last week and left Communication Services and Energy as the only sectors in the positive club. That compares to all 11 S&P 500 sectors above their 50-dmas in the three weeks before the end of July. Communication Services and Energy also remain the only sectors with a rising 50-dma. Looking at the more stable longer-term 200-dmas, the positive club dropped to three members w/w from four as Consumer Discretionary exited that club. The three sectors still trading above their 200-dmas are Communication Services, Energy, and Information Technology. The rising 200-

dma club shrunk w/w to four sectors, as Industrials turned down w/w. Still in the rising 200-dma club are Communication Services, Consumer Discretionary, Energy, and Information Technology.

US Economic Indicators

Leading Indicators (*link*): Leading indicators continued to plunge in September, while coincident indicators set yet another new record high. The *Leading Economic Indicators* (LEI) fell in September for the 18th straight month, sinking a larger-than-expected 0.7% m/m (vs 0.3%) and dropping 11.1% over the period—the longest losing streak since 2007-08—to the lowest level since mid-2020. Over the six months through September, the LEI dropped 3.4%, somewhat less negative than the 4.6% drop over the previous six-month period through March. Leading indicators is biased toward the goods economy. In September, six of the 10 components contributed negatively, two positively, and two—the average workweek and real core capital goods orders—unchanged. The *biggest negative contributors* to September's LEI were consumer expectations (-0.19pps), the new orders diffusion index (-0.14ppts), building permits (-0.14), and the interest rate spread (-0.12), followed by the leading credit index (-0.06) and stock prices (-0.05). *Positive contributions* were recorded by initial claims (+013) and real consumer goods orders (+0.01).

Coincident Indicators (*link*): The Coincident economic Indicators (CEI) index has posted only one decline so far this year, though there have been a couple of flat readings. The CEI posted six positive readings during first nine months of this year, climbing 0.3% in September and 1.5% ytd to yet another new record high. It exceeds its previous record high, just before the pandemic, by 3.4%. All four CEI components rose in September: 1) *Payroll employment (+0.07)* was a surprise on the upside, climbing 336,000, and there were upward revisions to the prior two months for a net gain of 119,000. Nonfarm payrolls posted the largest monthly gain since January's 472,000 after averaging monthly gains of 219,000 during the seven months through August. 2) *Real personal income less transfer payments (+0.07ppt)* hasn't posted a decline this year, climbing 0.2% in September and 2.2% ytd to a new record high; it's up 14.1% from its April 2020 bottom. 3) *Industrial production (+0.06ppts)* was another upside surprise, with the auto strike having little impact. *Headline production* rose 0.3% in September, triple the expected 0.1% gain, though August's increase was revised down from 0.4% to flat; that followed a 1.0% rebound in July. Output is up 2.1% ytd to a new cyclical high—and within 0.5% of its record high recorded. 4) *Real manufacturing & trade sales (+0.03)* rose for the fourth month time in five months, by 0.2% in September and 2.2% over the period to a new record high.

Regional M-PMIs (*link*): Two Fed districts have reported on manufacturing activity for October—New York and Philadelphia—and both show a contraction in manufacturing during the month. *Manufacturing activity* (to -6.8 from -5.8) continued to decline, as the New York (-4.6 from 1.9) measure moved from expansion to contraction, while Philadelphia's (-9.0 from -13.5) declined at a slower pace. *New orders* (0.1 from –2.6) held around the breakeven point between expansion and contraction this month, as billings in the Philadelphia (4.4 from -10.2) area posted a 14.6-point swing back into expansionary territory, while New York's (-4.2 from 5.1) measure recorded a negative 9.3-point swing back into contractionary territory. *Employment* (3.6 from -4.2) showed factories are slow to hire, bouncing around zero the past few months, as both New York (3.1 from -2.7) and Philadelphia (4.0 from -5.7) manufacturers hired at a sluggish pace. Looking at *prices-paid* indexes, the Philadelphia (23.1 from 25.7) measure held steady this month, though is up from April's 8.2 reading—which was its lowest since mid-2020—while New York's (25.5 from 25.8) measure also showed little change this month. *Prices-received* indexes saw New York's (11.7 from 19.6) gauge slow a bit, though was up from July's three-year low of 3.9, while Philadelphia's (14.6 from 14.8) measure barely budged again this month, though did ease from May's 23.0. New York's gauge was at a record high of 56.1 in March 2022, while Philadelphia's reached its record high of 65.8 in November 2021.

Existing Home Sales (*link*): "As has been the case throughout this year, limited inventory and low housing affordability continue to hamper home sales," noted Lawrence Yun, NAR's chief economist. He went on to say, "The Federal Reserve simply cannot keep raising interest rates in light of softening inflation and weakening job gains." *Existing home* sales contracted in six of the past seven months, by 2.0% in September and 13.0% over the period to 3.96mu (saar)—its lowest level since October 2010. *Single-family* sales dropped for the seventh successive month in September, by 13.9% over the period to 3.53mu (saar) after a 14.2% jump in February. These sales fell 15.8% y/y, also to the lowest level since October 2010. *Multi-family* sales have been in a volatile flat trend around recent lows, falling 2.3% in September to 430,000 units (saar) following a 4.8% gain and a 4.6% loss the prior two months. These sales are 12.2% below a year ago. Existing home sales were a mixed bag in September, rising in one region, falling in three regions, and continuing to post double-digit declines on a y/y basis across all four regions: Northeast (+4.2% m/m & -16.7), South (-1.1 & -11.7), Midwest (-4.1 & -18.4), and West (-5.3 & -19.3). Total *housing inventory* at the end of September was 1.13 million units, up 2.7% from August but down 8.1% y/y, with unsold inventory sitting at a 3.4 months' supply at the current sales pace. Yun noted, "For the third straight month, home prices are up from a year ago, confirming the pressing need for more housing supply."

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102

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