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Economic Indicators | November 2024 | By Kim W. Suchy & Brett E. Suchy

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In recent weeks, while many are focused on U.S. elections, investors have turned their attention to China, hoping that their government would roll out stimulus measures to boost its slowing economy. After a brief rally in Chinese stocks that began in late September, the momentum stalled, leaving many who went “all in” disappointed. The Shanghai Composite Index, while up 21% from its September lows, is still down 6.4% from its recent highs, and the overall performance this year mirrors the past 5 years—a modest 10% increase.

Despite expectations, the Chinese Communist Party (CCP) has been cautious about deploying large-scale fiscal stimulus as they may violate strict debt limits. More on this in a bit... Investors, however, are pitching direct support to households to counter deflation, weak consumer spending, weak demographics, and an aging labor force. However, this type of stimulus may be too “socialist,” even for the CCP, as it contrasts with the government's current approach to focusing on boosting asset prices.

Perhaps the most pressing issue in China is waning consumer confidence, which has led to reduced consumer spending. Instead of directly injecting money into households, the government has undertaken measures like lowering interest rates and reducing bank reserve requirements. Two weeks ago, the People’s Bank of China (PBOC) cut its 1-year loan prime rate (LPR) and 5-year LPR by 25 basis points, and the government injected $71B to support brokers and insurers to purchase stocks. So far; no real impact.

However, these moves target the financial markets rather than directly stimulating consumer spending, and they have yet to generate significant excitement. China’s efforts to revive the property market, such as reducing mortgage rates and down payments on second homes, have fallen short of expectations. Even a significant loan quota of $562B for real estate projects failed to give a boost to property stocks.

The key challenge facing China is its debt problem, particularly at the local government level. President Xi Jinping has been focused on beefing up the balance sheets of local government financing vehicles (LGFV), allowing them to continue borrowing for infrastructure projects. Yet, these entities are already highly indebted. Some estimates suggest that China's total off-the-books debt could be as high as $11T, on top of $36T in bank loans, highlighting the enormous debt burden that China faces. These heavy loan balances impede China's growth and certainly serve to restrain consumer confidence.

Across the globe, commodity traders have been skeptical of China's economic policies, and it shows in the price of commodities. The price of copper, a barometer of manufacturing and construction activity, remains weak, while oil prices have been somewhat stable despite geopolitical risks in the Middle East. This weakness in commodity markets signals doubts about China's ability to drive global demand through infrastructure investment.

The yuan has also come under pressure, with concerns that China's monetary easing could devalue the currency too much. A weaker yuan, while helping exports, could lead to capital outflows, especially as Chinese interest rates remain less attractive than those in other countries (U.S. $, Euro, and Yen).

Given these monetary and fiscal challenges, China (along with some bad actor countries) have quietly been increasing their gold reserves, likely as a defensive measure against potential sanctions and tariffs. This helps explain why the price of gold has surged 35% year-to-date, reflecting broader concerns about financial stability in China and beyond along with global tensions.

Here is your look at developments in the global marketplace.

POSITIVE DEVELOPMENTS

- *New* home sales climbed to the highest level in 16 mos. in September continuing the upward trend that began late last year. *New* home sales are a timelier barometer of the housing market because they are calculated when contracts are signed, while *existing* homes are counted after the sale is closed. The anticipation of rate cuts from the Fed may have gotten some buyers off the fence.
    - *The recent downward trend in existing home sales continued in September, with activity falling to the slowest pace since the 2008 Financial Crisis. One surprise recently is that since Federal Reserve rate cuts began last month, 30-year fixed mortgage rates have risen back above 7%. Note, new home sales financing rates can be negotiated through the builder*.

- Retail Sales for September were stronger than analysts expected this past month. Sales were up 0.4% mo. over mo. Grocery stores and general retailers were the largest increases while electronics and appliance store continued their decrease.

- Arkansas is sitting on a $150B 'hidden treasure' trove of lithium that could meet the global demand for EV batteries by 2030 according to The US Geological Survey. They discovered between 5 and 19M tons of lithium in the Smackover Formation, which is 9 times the amount needed to meet the ongoing electric vehicle demand in the US by the end of the decade.

- Consumer sentiment is now showing some signs of life, moving higher for the 3rd straight mo. Sentiment climbed from 66.4 in July to a 6-mo. high of 70.5 in October. Sentiment is now more than 40% above June 2022's low, reflecting modest improvements in buying conditions and lower interest rates.

NEUTRAL DEVELOPMENTS

- The Social Security Administration's 2025 cost-of-living adjustment for Social Security beneficiaries will be 2.5%. The 2025 COLA is smaller than 2024's increase of 3.2%, which followed a near-record increase of 8.7% in 2023.

- New orders for durable goods declined 0.8% in Sept., which is the 3rd drop in 4 mos. – as transportation led orders lower, while prior months data were revised down as well. Transportation orders often swing mo. to mo. as big aircraft orders tend to come in chunks rather than steadily over time. That was the case once again in September, as commercial aircraft orders fell 15.1% and defense aircraft orders declined 2.5%. We may see this reverse next mo.

- FactSet reports that at this stage of the Q3 earnings season 37% of the companies in the SP500 have reported actual results for Q3 2024 to date. Of these companies, 75% have reported actual EPS above estimates, which is below the 5-year average of 77% but equal to the 10-year average of 75%. In aggregate, companies are reporting earnings that are 5.7% above estimates, which is below the 5yr. avg. of 8.5% and below the 10yr. avg. of 6.8%.

NEGATIVE DEVELOPMENTS

- The September inflation report came in hotter than expected. The consumer price index data for September, released Thursday by the Bureau of Labor Statistics, shows inflation ran at 2.4% over the past 12 mos. and was up 0.2% during September on a seasonally adjusted basis. The index for shelter rose 0.2% in September, while the index for food increased 0.4%. Together, these two indexes contributed over 75% of the monthly all items increase. The food at home index increased 0.4% in September, and the food away from home index rose 0.3% over the month. The energy index fell 1.9% over the month, after declining 0.8% the preceding month.

- According to the real estate research firm, Zelman & Associates, early mortgage delinquencies aren't only going delinquent faster but also doing so at a higher rate. This is a direct consequence of people stretching and buying more than they could afford during Covid or government-stimulus days.

- Chris Williamson, chief business economist at S&P Global Market Intelligence, notes that companies are pausing capital spending and hiring ahead of the U.S. election. The latest September Purchasing Managers Index revealed significant uncertainty among U.S. manufacturers about the election, future policy, and the broader business environment, leading to a pullback in hiring.

- The great irony in today's markets is that since the Fed cut rates on Sept. 18, the 10-year Treasury yield has actually risen and taken things like mortgage rates higher with it. So, what's happening? Despite Fed cuts, bond investors are becoming increasingly concerned with election promises (from both sides) and deficits. Higher deficits send yields higher.

THE MARKETS

The U.S. markets were modestly higher this past month despite a fizzle at the end on the month. Tech, finance and communications were positive contributors while health care, materials and consumer staples were relatively weak.

Across the pond, European markets were mostly lower. In Asia, Japan's Nikkei was the shining light as it has been most of this year posting a 3.4% return last month. The Hang Seng and Shanghai markets were 9.5% and 1.7% lower respectively. India took a breather this month after a very robust YTD performance and was off 6.2% in October.

Bond yields, despite a Fed movement to cut rates on the short end of the curve, have crept higher. As noted above, higher deficit concerns are creeping into the bond investment thesis with the 2yr. trading at 4.16% and the 10yr. trading at 4.28%.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	0.1	11.0
Dow Jones	-0.9	19.8
NASDAQ Comp	1.2	20.8
Russell 2000	0.1	8.4

Source: https://tradingeconomics.com/stocks

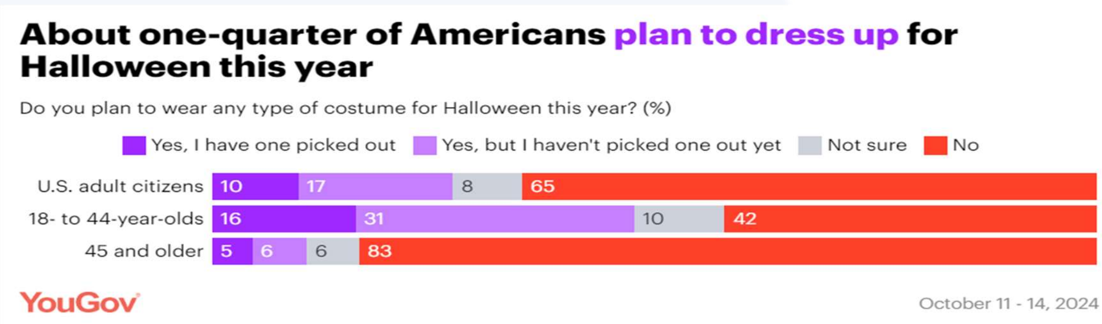
Statistics of the Month: Halloween 2024

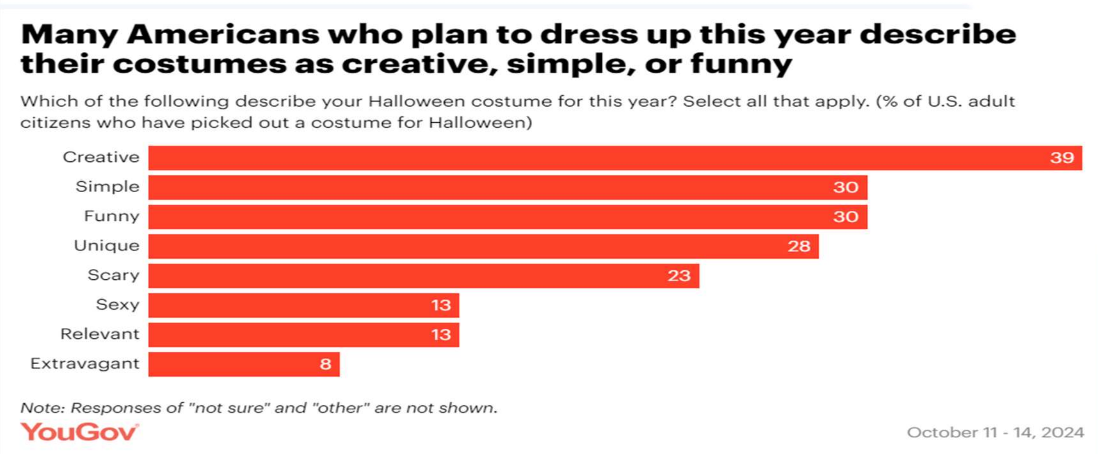
By: Brett E. Suchy

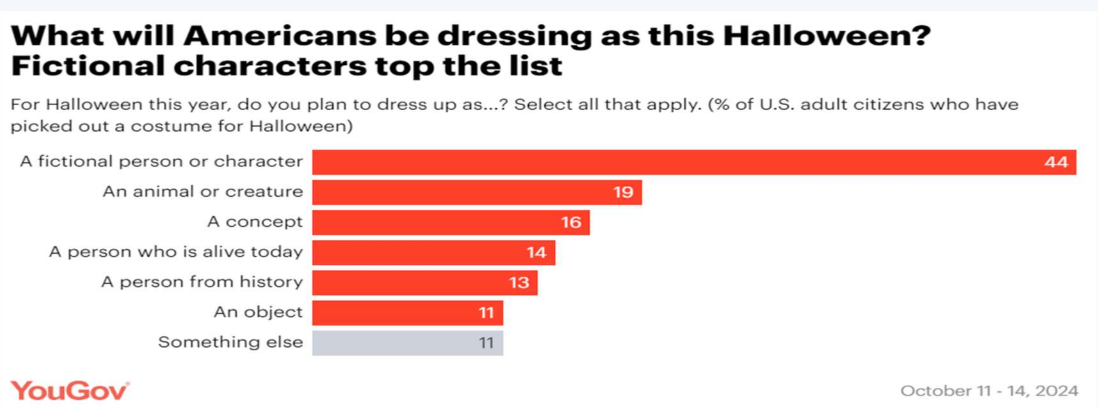
Well, Halloween is finally here, which happens to be my favorite Holiday considering it is the one chance I get a year to be ‘scary’. And, I doubt I am alone in this liking. Each year Halloween forces us to consume high sugar content, be creative and take on alternate personas that draws laughs and lasting memories. This year, I will be digging a bit into my Halloween past to pull forward my Benjamin Button costume from 2007 (of which, I dress younger as the night goes on). This is a memory and costume I wish to re-live with my niece and nephew. Not bad, right?!

Historically, Halloween was rooted in the Celtic festival of Samhain, during a time when people believed that the boundary of the living and supernatural were blurred. By dressing up in encouraging costumes, they believed they were warding off ghosts. Now, fast forward to today, and most of the costumes we are wearing probably wouldn’t ward off too many ghosts. So, let’s take a look at the polls to see what America has in store for Halloween this year.

Source: [YouGov - 2024 Halloween Survey]







NEWS YOU CAN USE

Since the AI boom, it's clear that computer scientists, chatbot makers and Nvidia investors have been beneficiaries, but what about the British territory of Anguilla that was given control of the .ai internet address in the 1990's? The government of Anguilla receives domain registrations for each new .ai domain (i.e. google.ai). Last year, Anguilla domain registration fees quadrupled to $32 million, and is on pace to double those revenues in 2024. Last year, the domain itself accounted for 20% of Anguilla's total revenue, with much room to grow.

AP News - Anguilla Artificial Intelligence .ai

The monstrous hurricanes of Helene and Milton are now being estimated to both join the list of $50B storms. What is an even more somber number is that 95% of the damage (or more in the case of Helene) was uninsured, leading to a more damaging financial hole. There have been just 8 hurricanes that have cost the US more than $50B. The first $50B hurricane was clocked in 1992 (Andrew); however, the remaining seven $50B killers have come in the last seven years.

CBS News - Helene Milton $50B Hurricanes

Paleontologists this month identified a new species of ancient arthropod, *Lomankus edgecombei*, in central New York. The 450-million-year-old fossil, preserved in pyrite (fool's gold), is a distant relative of modern horseshoe crabs. The discovery has offered valuable insights into early arthropod evolution and the environmental conditions of that era. And, perhaps the discovery (in fool's gold) had something to do with the Yankees WS outcome?

Spectacular new fossil arthropod discovered preserved in fool's gold | University of Oxford

As always, if we can be of additional guidance, please feel free to call us at 312.485.6847.

Best regards,

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