



## MARKET VIEW WEEKLY

October 20<sup>th</sup>, 2023



### ECONOMIC REVIEW<sup>1</sup>

- Retail sales rose 0.7% in September (+1.0% including revisions to prior months), easily beating the consensus expectation of +0.3%. Retail sales are up 3.8% versus a year ago.
  - Sales excluding autos increased by 0.6% in September (+1.0% including revisions to prior months). The median forecast called for a 0.2% gain. These sales are up 3.2% in the past year.
- Housing starts rose to a seasonally adjusted annual rate of 1.358 million last month, falling just short of the median forecast – 1.380 million.
  - This marks a 7.0% increase from August and a 7.2% decline compared to one year ago.
- New residential building permits experienced their largest monthly decline since November 2022 according to the U.S. Census Bureau and the Department of Housing and Urban Development.
  - In September, building permits fell to a seasonally adjusted annual rate of 1.473 million, though surpassed the forecast of 1.445 million. This marks a 4.4% decrease from August and a 7.2% decline compared to one year ago.
- The Conference Board's Leading Economic Index (LEI) fell for the 18th consecutive month in September as future economic weakness looms. The index dropped -0.7% from last month and -7.8% from last year.

#### How do retail sales, housing data, and LEI impact you?

- Retail sales of building materials, which fell 0.2% in September but were essentially unchanged quarter-over-quarter, proved the only exception to an otherwise healthy assessment of consumer spending.
  - Weakness in this measure reflects a historically expensive housing market.
- Single-family starts and new home sales rose at the start of this year as a lack of existing homes enabled homebuilders to capture market share, but that trend is now flattening in the wake of the recent surge in rates.
  - Mortgage rates need to fall substantially before any meaningful increase in home sales can resume, but that is unlikely to happen anytime soon.
- Ultimately, encouraging consumer spending data (recall that consumption accounts for 70% of economic activity) appears to be keeping the economy afloat despite leading indicators suggesting otherwise.
- The return of student loan payments, which officially resumed on October 1, should accelerate the depletion of already waning excess savings accumulated during COVID-19 – providing a true test of consumer strength this quarter.



### A LOOK FORWARD<sup>1</sup>

- Notably, Gross Domestic Product (GDP) and Personal Consumption Expenditures (PCE) data will be published next week.
- Additionally, investors should gain further insight into the housing market with the release of new and pending home sales.

#### How do housing data, GDP, and PCE impact you?

- Economic forecasts for third-quarter GDP were recently revised upward to 5.4%.
  - More than half of the GDP estimate is made up of personal consumption. The surge in retail sales and the sustained strength of the labor market play a major role in this high estimate.
- With mortgage rates surpassing 8%, we would expect new and pending home sales to remain stagnant or decline. With so many homeowners having mortgage rates locked in at less than half of 8%, many are staying put to avoid the higher rates that would accompany a new house.



## MARKET UPDATE<sup>2</sup>

Market Index Returns as of 10/20/2023	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-2.38%	-1.42%	11.47%	14.46%	8.83%	10.72%
NASDAQ	-3.16%	-1.76%	24.87%	20.62%	4.98%	12.74%
Dow Jones Industrial Average	-1.57%	-1.04%	1.67%	8.89%	7.67%	7.73%
Russell Mid-Cap	-2.61%	-3.78%	-0.02%	5.50%	5.08%	7.04%
Russell 2000 (Small Cap)	-2.25%	-5.80%	-3.40%	-2.00%	2.90%	3.12%
MSCI EAFE (International)	-2.59%	-3.46%	3.37%	19.95%	3.92%	3.84%
MSCI Emerging Markets	-2.70%	-2.82%	-1.05%	9.86%	-4.30%	1.50%
Bloomberg US Agg Bond	-1.73%	-1.95%	-3.13%	1.20%	-5.73%	-0.11%
Bloomberg High Yield Corp	-1.17%	-1.85%	3.91%	7.62%	0.62%	2.77%
Bloomberg Global Agg	-1.01%	-1.35%	-3.52%	3.43%	-7.62%	-1.73%



## OBSERVATIONS

- Both stocks and bonds felt the pain as rates moved higher last week – every major index reported a negative return, which registered October as the third straight month of losses.
  - The tech-focused NASDAQ declined the most, returning -3.16%.
  - The Dow Jones, which is comprised of mainly blue-chip companies, fared the best in the equity space – declining just -1.57%.
- International Developed and Emerging Market equities underperformed the S&P 500, returning -2.59% and -2.70% respectively.
- Treasury yields, which fell as recently as last week, rose once again, bringing the 10-year yield briefly above 5% for the first time since 2007.
- US Bonds moved lower returning -1.73%, underperforming Global Bonds which fell -1.01%.
  - The strength of the U.S. economy relative to peers increases the possibility that monetary policy will remain restrictive.



## BY THE NUMBERS

- Electric Vehicle Prices:** Led by steep price cuts from Tesla, the average selling price for EVs has declined 22% over the past year, moving from \$65,000 down to \$50,683 (Cox Automotive). That's now only 6% higher than the average selling price for all vehicles (\$47,899).<sup>3</sup>
- Gas Prices Could be heading higher again:** \$3.565 is the average price for a gallon of gas in the US. However, this is still far off prices at this time last year of \$3.85. Of course, some states are averaging a lot higher—for example, California's sitting around \$5.52 per gallon and Nevada at \$4.72 per gallon.<sup>4</sup> But we could see a tick higher once again. A sharper escalation could bring Israel into direct conflict with Iran. In that scenario, Bloomberg Economics estimates oil prices could soar to \$150 a barrel. Although heavily sanctioned by the U.S., Iran is a large producer of oil, producing around 3 million barrels per day (bbl/day) about 3.19% of the global supply.<sup>5</sup>
- Bio-Banking:** Of the 1,700 U.S. species that are listed as threatened or endangered, about 14 percent of them have had living tissue samples cryopreserved. A new initiative by the Fish and Wildlife Service has picked the tissues of 24 endangered species to preserve in one of the two DNA lending libraries — the San Diego Frozen Zoo and the National Animal Germplasm Program — where those cells will be kept at -196 C. It's a pilot for what could be a larger program to obtain and preserve tissue samples of animals to facilitate the availability of genetic diversity in future recovery efforts.<sup>6</sup>

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## *Economic Definitions*

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

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

**Retail Sales:** Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

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

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

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

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

## *Index Definitions*

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

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

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

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

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

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

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

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

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

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

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

#### *Disclosures*

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly in any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data obtained from Bloomberg as of 10/20/2023.

<sup>2</sup> Data obtained from Morningstar as of 10/20/2023.

<sup>3</sup> <https://bilello.blog/2023/the-week-in-charts-10-15-23>

<sup>4</sup> <https://gasprices.aaa.com/>

<sup>5</sup> <https://www.bloomberg.com/news/features/2023-10-12/israel-hamas-war-impact-could-tip-global-economy-into-recession>

<sup>6</sup> <https://www.numlock.com/>



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