



Dave Hutchison, CERTIFIED FINANCIAL PLANNER™

1720 E Calle Santa Cruz

Phoenix Arizona 85022

HUTCHISON INVESTMENT ADVISORS

Registered Investment Advisor

Founded on a CPA Firm Background

(602) 955-7500

E-mail: dave@hutchisonria.com

website: www.hutchisonria.com

Fax (602) 955-1458

November 2023 Market and Economic Update

Large Cap Tech's Market Tumble Spreads to Wider Markets

US Economy's Blockbuster Performance in Third Quarter

PCE Inflation Index Surges for Month as Spending Increases, but Annualized is Lower

Large Cap Tech's Market Tumble Spreads to Wider Markets

Tech's Mess [Barron's 10/26/2023 Highlights](#)

Even as the Big Tech companies were delivering earnings "beats," the tech-heavy Nasdaq Composite is down 12.3% since its 52-week high on July 19.

The moves feel like an inevitable reaction to the AI hype that surrounded markets earlier this year. You can be skeptical about the Chatbot revolution, but you can be bullish about the long-term impact of AI and still understand the recent selloff. Even as companies talk about the potential of AI, very few are actually seeing a current payoff.

The Big Tech selloff is rippling through the rest of the market. At some point, markets will stabilize.

US Economy Delivers Blockbuster Performance in Third Quarter

WASHINGTON, Oct 26 (Reuters) - The US economy grew almost 5% in the third quarter as higher wages from a tight labor market helped to fuel consumer spending and businesses restocked at a brisk clip to meet the strong demand. The fastest growth pace in nearly two years was also spurred by a rebound in residential investment after contracting for nine straight quarters.

[Sales of new single-family homes surged to a 19-month high, even with mortgage rates near 8%, primarily due to new construction. A shortage of previously owned homes on the market is driving buyers to new construction. [Reuters 10/25/2023](#)] See the 30-year mortgage chart on the last page.

Though the blockbuster performance over the summer is likely not sustainable, it showcased the economy's stamina despite aggressive interest rate increases from the Federal Reserve. Growth could slow in the fourth quarter because of the United Auto Workers strikes, the resumption of student loan repayments by millions of Americans, and the lagged effects of the rate hikes.

Gross domestic product increased at a 4.9% annualized rate last quarter, the fastest since the fourth quarter of 2021. The economy grew at a 2.1% pace in the April-June quarter.

US Core PCE Prices Jump Most in Four Months as Spending Picks Up [Bloomberg 10/27/2023 Highlights](#)

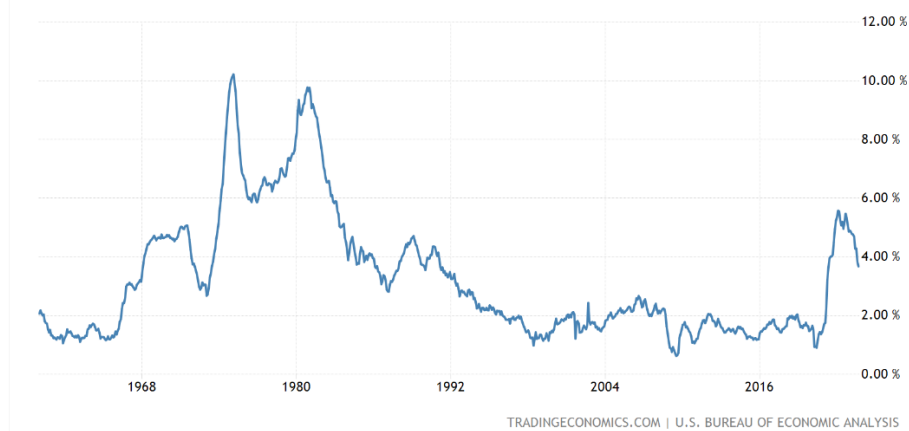
The Core Personal Consumption Expenditures price index, which strips out the volatile food and energy components, rose 0.3% in September, according to the Bureau of Economic Analysis (BEA) report out Friday. Inflation-adjusted consumer spending jumped 0.4% last month.

The Federal Reserve's preferred PCE measure of inflation accelerated to a four-month high in September and consumer spending picked up, keeping the door open to another interest-rate hike in the months ahead.

[While the monthly core PCE accelerated to a four-month high, the BEA reported that its 3.7% **annual** increase was the least since May 2021, down from 3.8% the prior month. This latest annualized rate remains above the Fed's stated 2% target rate.

[Dave notes: The core PCE index is considered a better indication of inflation trends since the excluded food and energy prices can obscure inflation due to their more frequent volatility compared to other prices.

United States Core PCE Price Index Annual Change



In addition, food and energy costs reflect more global factors such as severe weather, lack of exports from Ukraine (the world's breadbasket), and OPEC+ oil production that affects energy prices.]

Resilient household demand paired with a pickup in inflation underscores momentum heading into the fourth quarter. While economists generally expect consumer spending to slow in the coming months, Fed officials

have warned that strong data could lead them to keep tightening.

Spending was driven by both goods and services, including on cars, prescription drugs and international travel.

The most important support for household spending is the strength of the labor market, which at the moment remains healthy. But other factors, like a record surge in household wealth coming into this year and lingering pandemic-era savings, have played a part as well.

While wages and salaries rose 0.4%, real disposable income fell for a third straight month. As a result, consumers have been saving less to support their spending. The saving rate fell to 3.4%, the lowest this year. That may raise concerns about Americans' ability to keep spending at such a pace through year-end.

Fed's Inflation Fight [Bloomberg 10/26/2023](#)

"Growth this strong means the Fed will indicate it is still contemplating higher rates," Chris Low, chief economist at FHN Financial, said in a note. "The Fed cannot declare tightening over with growth this strong and inflation still above target."

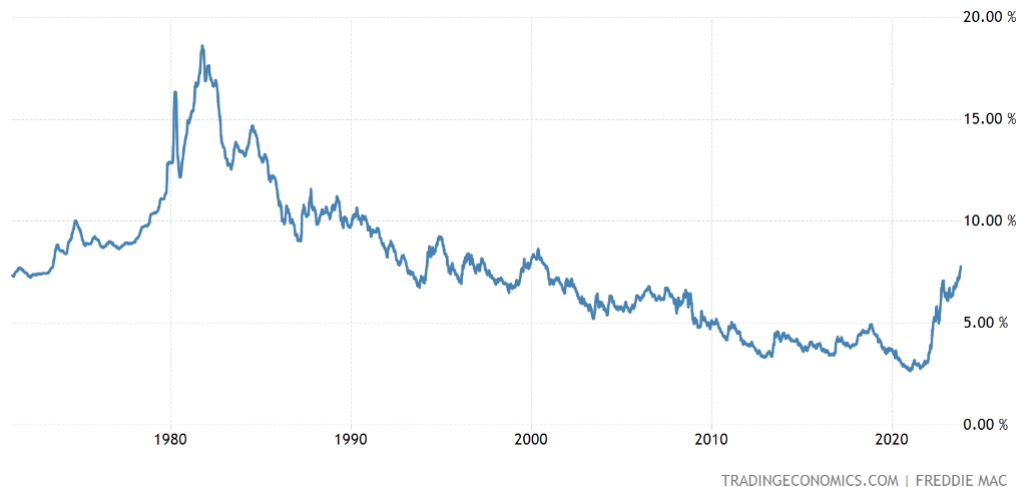


Chart of US 30-Year Mortgage Rates as of 10/25/2023

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The Nasdaq Composite Index is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. It is heavily weighted toward the technology sector.

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