

Key Takeaways:

- Headline inflation proving problematic.
- Three-month annualized core inflation increased by most since April.
- Shelter costs remain elevated amid tight supply of homes and elevated building costs.
- Insurance premiums putting hole in consumers' wallet.
- Fed to remain data dependent into the future.

Where Inflation is (and Isn't)

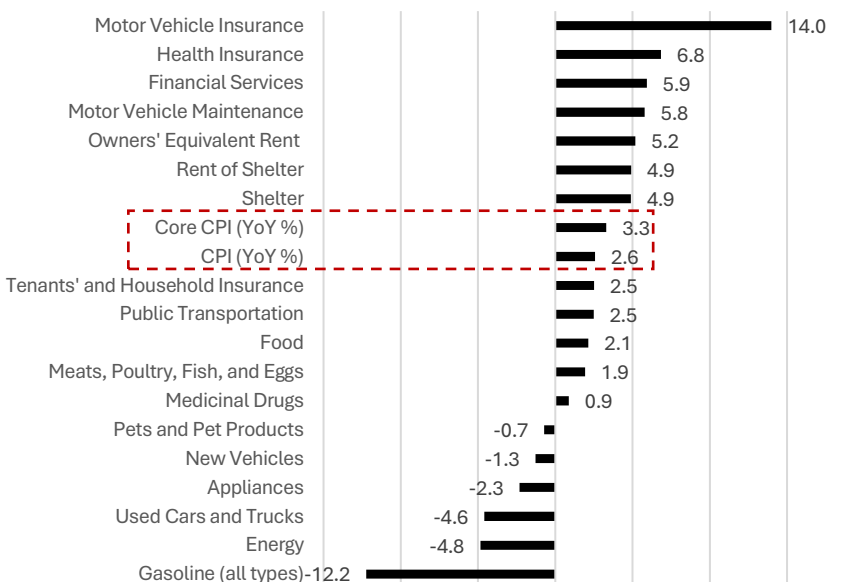
Last week, investors got further signs of the inflation picture. For the month of October, the Consumer Price Index increased at the fastest year over year pace in three months, highlighting ongoing risks the Federal Reserve faces in trying to bring inflation to their 2% target. Core prices, which exclude volatile food and energy prices, increased at the fastest three-month annualized rate since April. This week, we compiled a table showing where inflation remains the most sticky, and where consumers may be getting relief.

In October, shelter costs accounted for over half of the overall monthly advance. A tight supply of homes and increasing development costs are fueling higher shelter costs in general. Insurance costs are eating into consumers' ability to spend amid climbing premiums. Insurance premiums have been on the rise amid higher input costs for housing materials (household insurance) and vehicle parts (motor vehicle insurance). Despite geopolitical uncertainty in the Middle East, energy related costs have helped consumers the most, specifically gasoline prices which are down more than 10% over the past year.

The Bottom Line:

The Federal Reserve remains committed to bringing inflation back to the 2% level. Investors are pricing in a ~60% chance of a 25bps cut in December, down sharply from a ~85% chance a month ago. Fed officials, including chairman Powell, have reiterated the need to remain data dependent. There are roughly five weeks until the next Federal

Reserve interest rate decision. We expect the Committee to move rates closer to their neutral rate with a 25bps cut in December, but think investors are too optimistic for 2025 rate cuts (participants currently have at least three 25bps cuts priced in). We anticipate the Fed to remain firm in their data dependency, however, and expect the Committee to react accordingly should inflation remain stubborn in the months to come.



Data shown is the Consumer Price Index annualized year-over-year (%) as of October 2024.
Source: FactSet Research Systems, Verdence Capital Advisors

Weekly Economic Recap –

Retail Sales Remain Robust in the Face of Stubborn Inflation

Small business optimism increased in October, matching its highest reading since early 2022 (93.7). Nine of the ten components that make up the index increased during the month, with the business outlook gauge increasing the most as respondents expect the economy to improve under Trump.

Headline inflation, as tracked by the Consumer Price Index, increased at the fastest year over year pace in three months. Shelter costs accounted for over half of the overall monthly advance, according to the Bureau of Labor Statistics. Core CPI, which excludes volatile food and energy prices, ticked higher by 0.3% for the month, pushing the three-month annualized rate to 3.6%, the fastest since April.

Americans owe a record \$1.17 trillion on their credit cards. Balances increased by \$24 billion in 3Q24 and are 8.1% higher than a year ago. Despite the increase, delinquency rates decreased to 8.8% (from 9.1%) over the last year. TransUnion found that the average balance per consumer stands at \$6,329, increasing only 4.8% year-over-year, significantly slower than the 11.2% YoY increase the prior year.

Producer prices increased in October on both an annualized and monthly basis. Services costs led the increase. Airfares increased by the most since 2022 and portfolio management fees increased by the most in six months.

Retail sales increased to the highest annualized level since July in October. Auto sales led the increase, posting the largest increase since December 2023. The control group, which tracks sales excluding volatile components, posted a notable decrease in October after posting its strongest advance last month since the start of 2023.

Key Takeaways:

- Small business optimism surges after Trump election victory.
- Inflation progress stalling.
- Retail sales remain robust driven by services costs.
- Global equities falter as traders assess Fed commentary.
- Treasury yields rise on Powell comments.
- Commodities lower driven by oil and gold, primarily.

Weekly Market Recap –

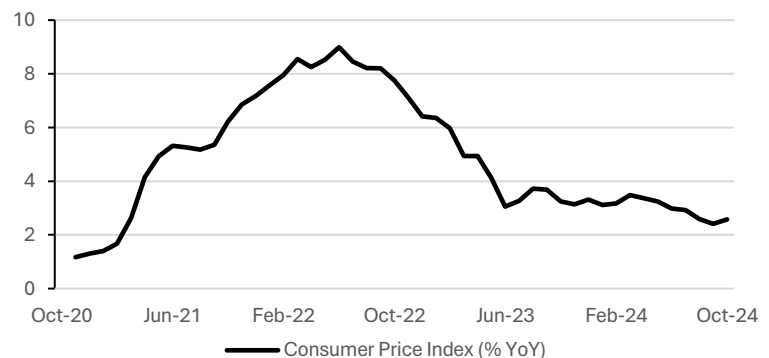
Global Equities Fall on Expectation for Less Aggressive Fed Rate Cuts

Equities: The MSCI AC World Index was lower for the third time in four weeks. Investors digested the latest Fed commentary which suggested the possibility of slower than anticipated rate cuts. Major averages in the U.S. were sharply lower, led by rate-sensitive areas of the market and small cap stocks. The tech-heavy Nasdaq and small-cap Russell 2000 both fell by the most since September.

Fixed Income: The Bloomberg Aggregate Index was lower for the third time in four weeks. Treasury yields increased after Fed Chairman Powell suggested the Committee does not need to be in a hurry to cut rates, based on data. Municipal bonds posted a marginal gain for the second straight week and was the only area of fixed income markets higher.

Commodities/FX: The Bloomberg Commodity Index was lower for the second time in three weeks. Crude oil prices were lower after the IEA forecast a surplus of more than a million barrels per day on robust production in the U.S. Gold prices fell by the most since June 2021 on an expectation for less aggressive Fed rate cuts.

Headline Inflation Increases Slightly



Footnotes: Data is as of October 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

Hawkish Fed Speech Hampers Equity Returns

U.S. Equities								International Equities							
	Current	1WK	1MO	3MO	1YR	YTD		Current	1WK	1MO	3MO	1YR	YTD		
Dow Jones Industrial Average	43,445	-1.2%	1.8%	7.6%	26.6%	17.1%	MSCI AC World (USD)	843	-2.3%	-0.9%	4.0%	25.1%	17.5%		
S&P 500	5,871	-2.0%	1.0%	6.2%	32.2%	24.5%	MSCI EAFE (USD)	2,275	-2.6%	-5.5%	-2.5%	11.9%	4.3%		
Russell 1000 Growth	3,902	-2.7%	2.1%	6.9%	36.0%	28.6%	MSCI Europe ex UK (USD)	2,493	-2.7%	-6.9%	-5.4%	9.0%	1.3%		
Russell 1000 Value	1,897	-1.2%	0.6%	6.8%	27.8%	18.6%	MSCI Japan (USD)	3,882	-2.8%	-4.0%	1.0%	13.7%	6.9%		
Russell Midcap	3,639	-1.6%	2.1%	8.9%	30.5%	18.5%	MSCI UK (USD)	1,211	-2.4%	-5.5%	-4.8%	13.4%	6.7%		
Russell 2000	2,304	-4.0%	2.5%	8.2%	29.7%	15.0%	MSCI EM (USD)	1,085	-4.4%	-5.7%	1.1%	13.0%	8.3%		
Nasdaq	18,680	-3.1%	2.0%	6.3%	33.5%	25.2%	MSCI Asia ex Japan (USD)	705	-4.7%	-5.8%	3.3%	15.9%	12.0%		

Fixed Income								Commodities							
	Current Yield	1WK	1MO	3MO	1YR	YTD		Current	1WK	1MO	3MO	1YR	YTD		
U.S. Aggregate	4.8%	-0.8%	-1.9%	-1.3%	7.1%	1.3%	Bloomberg Commodity Index	231	-2.0%	-2.0%	1.2%	-2.0%	2.0%		
U.S. Govt/Credit	4.7%	-0.8%	-1.9%	-1.3%	6.9%	1.3%	Crude Oil (USD/bbl)	\$68.1	0.1%	-1.1%	-8.5%	-7.8%	-3.5%		
U.S. 10 Year Treasury	4.4%	-1.1%	-2.9%	-3.2%	4.9%	-1.2%	Gold (\$/oz)	\$2,563.2	-0.4%	-4.1%	4.0%	31.7%	26.5%		
U.S. TIPS (1-10YR)	4.5%	-0.6%	-1.2%	0.0%	6.2%	3.1%	Copper	\$406.5	-3.5%	-7.0%	-1.6%	9.1%	4.8%		
U.S. High Yield	7.3%	-0.4%	0.1%	2.6%	13.6%	7.9%	Wheat	\$554.0	-4.0%	-6.0%	-2.5%	-14.3%	-18.0%		
EM Bonds (USD)	6.6%	-0.7%	-1.0%	1.2%	13.9%	6.5%	U.S. Dollar	107	1.0%	3.0%	4.0%	2.5%	5.2%		
Municipal Bonds	3.6%	0.1%	-0.3%	0.3%	6.7%	1.5%	VIX Index	16.1	8.0%	-21.8%	6.0%	13.8%	29.6%		

Footnotes: Data is as of November 15, 2024.

Data Source: Bloomberg Finance LP, Verdense Capital Advisors.

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