# Signs of Softening Growth and Moderating Inflation Continue

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This morning, both personal income and personal spending were reported up just +0.2% in October, matching expectations and pointing to a gradual moderation in spending for many tapped-out consumers.

At the same time, the Fed's preferred inflation series indicated prices continue to decelerate. The monthly PCE deflator was *unchanged* in October, which dragged the year-over-year headline pace down from +3.4% to +3.0%. The PCE *core* deflator retreated from +3.7% to +3.5% on an annual basis, and more importantly *has increased at just a +2.5% pace over the past six months*. Although still above the Fed's +2.0% annual goal, the trend is clearly downward.

On the labor front this morning, continuing unemployment claims climbed above 1.9 million for the first time in two years last week. This is another signal that jobs aren't quite as abundant, which hints at less robust wage growth going forward.

Yesterday afternoon, the *Beige Book* survey of economic conditions across 12 regional Fed Districts showed economic activity has slowed, with six Districts registering slight declines in activity, four reporting modest growth, and two indicating economic conditions were flat to slightly down. The survey also reflected continued easing of labor conditions as most Districts reported "flat to moderate increases in overall employment." On the inflation side, prices have "largely moderated." On the whole, the report reinforces the idea that the broad economy is weakening after surprisingly strong Q3 GDP growth of +5.2%.

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Bond yields are higher this morning in early trading, which seems a little counterintuitive given the amount of soft data released this week. However, a bit of a retrenchment seems reasonable following a furious month long rally. According to Bloomberg News, the Treasury market experienced *its best month since the 80's* as yields dropped sharply across the curve in November.

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A number of prominent Fed speakers found podiums this week, and the overall message signaled that most committee members are satisfied with the progress made so far. Few pushed back against the rally. On Tuesday, Fed Governor Chris Waller, one of the FOMC's most hawkish members, said he's become increasingly confident that monetary policy is well positioned to slow the economy and get the inflation rate back to +2.0%. Cleveland Fed President Loretta Mester, also considered quite hawkish, said on Wednesday she believes the current funds rate is sufficient to restore price stability. And, Chicago Fed President Austan Goolsbee, encouraged by recent price data, reported Tuesday that the U.S. is "*on path to set the highest drop in the inflation rate in 71 years*."

*Please see disclosure starting on page 2*

In all fairness, Fed members continue to emphasize an uncertain outlook and agree that future policy decisions will be data-driven, but the overall message has become a little more dovish. The bond market, at this point, has completely dismissed the possibility of any additional rate hikes, and has now priced in four rate cuts for 2024 beginning in May. This may be a little optimistic given the FOMC's insistence on a higher for-longer interest rate policy.

## Market Indications as of 9:43 A.M. Central Time

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| DOW | Up 277 to 35,708 (HIGH: 36,800) |
| NASDAQ | Down -87 to 14,172 (HIGH: 16,057) |
| S&P 500 | Up 2 to 4,552 (HIGH: 4,797) |
| 1-Yr T-bill | current yield 5.15%; opening yield 5.10% |
| 2-Yr T-note | current yield 4.72%; opening yield 4.65% |
| 3-Yr T-note | current yield 4.48%; opening yield 4.40% |
| 5-Yr T-note | current yield 4.29%; opening yield 4.22% |
| 10-Yr T-note | current yield 4.33%; opening yield 4.27% |
| 30-Yr T-bond | current yield 4.49%; opening yield 4.45% |