Markets Rally Despite Powell's Insistence that the Fed is in no Hurry to Pivot

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Fed Chairman Powell took the stage this morning at Spelman College in Atlanta and dismissed expectations for rate cuts in the first half of next year, saying it was "premature" to speculate on when policy might ease. Powell went on to warn that committee members are actually prepared to tighten further if appropriate. However, after setting the table with these few hawkish comments, Powell acknowledged progress on inflation, that monetary policy was already "well in restrictive territory," and that the FOMC would proceed *carefully* going forward. The bond market reaction (so far) has been positive with the rally that began six weeks ago continuing.

Earlier this morning, the ISM manufacturing composite index held steady at 46.7 in November, indicating contraction in the factory sector for the 13th straight month. Before dipping below the 50 mark, this key index of manufacturing health had expanded for 28 consecutive months. The current production index fell from 50.4 back into contraction territory at 48.5, while the new orders index climbed from 45.5 to 48.3, signaling contraction for the 15th straight month, the longest streak in over 40 years.

The employment index, consistent with recent signs of labor market softening, fell from 46.8 to 45.8. Other factory subindexes showed similar weakness. The only index component above 50 in November was customer inventories, which isn't necessarily a positive unless final sales were to increase.

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Comments from factory managers within the report were generally negative: "The economy appears to be slowing dramatically" (Computer and Electronics), "Starting to feel softening in the economy" (Chemicals), *Executives have requested inventory levels be reduced considerably, which has caused customer shortages* (Food and Beverage), "Auto sales are still impacted by the UAW strike" (Fabricated Metals).

The glumness of the ISM factory report reinforced widely expected weakening in Q4 GDP, which in turn would keep Fed policy on hold. Further weakness in 2024 might eventually cause policymakers to pivot, but as Powell reminded the markets today, speculation on rate cuts is still a bit premature.

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Also this morning, pending home sales, an index from the National Association of Realtors that measures contract signings to purchase a previously owned home, fell to its lowest level in the 22-year history of the series. On an annual basis through October, pending home sales were down -6.6%.

There are multiple reasons for the sales slump, but the primary problem continues to be an absence of available homes for sale. New homes are gradually being built, but existing homes have historically made up around 85% to 90% of the housing market, and current owners of these properties have been reluctant to part with the 3%-4% fixed loan rates secured during the pandemic. Since pending home sales typically lead existing home sales by approximately two months, today's disappointing data indicates the housing slump is far from over.

Please see disclosure starting on page 2

Market Indications as of 11:08 A.M. Central Time

DOW	Up 226 to 36,176 (HIGH: 36,800)
NASDAQ	Up 44 to 14,271 (HIGH: 15,871)
S&P 500	Up 22 to 4,590 (HIGH: 4,797)
1-Yr T-bill	current yield 5.04%; opening yield 5.10%
2-Yr T-note	current yield 4.60%; opening yield 4.66%
3-Yr T-note	current yield 4.36%; opening yield 4.43%
5-Yr T-note	current yield 4.18%; opening yield 4.25%
10-Yr T-note	current yield 4.25%; opening yield 4.32%
30-Yr T-bond	current yield 4.44%; opening yield 4.49%