

WEEKLY ECONOMIC UPDATE OCT. 21, 2024

Stocks posted modest gains last week, with quarterly earnings season in full swing and the election on the horizon.

The Standard & Poor's 500 Index increased 0.85 percent, while the Nasdaq Composite Index rose 0.80 percent. The Dow Jones Industrial Average advanced 0.96 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, fell 0.31 percent.^{1,2}

Six in a Row

Stocks bolted out of the gate as the week began. The S&P 500 and the Dow Industrials hit record highs, with the Dow crossing 43,000 for the first time.³

Midweek, news of stronger-than-expected retail sales report contributed to overall market momentum. Retail sales rose a seasonally adjusted 0.4 percent in September, topping economists forecasts.⁴

As the week wrapped up, the technology sector helped fuel a rally that pushed the S&P and Nasdaq to another record high. It was the sixth straight week of gains for the S&P 500, Nasdaq, and Dow Industrials.⁵

MARKET INSIGHTS



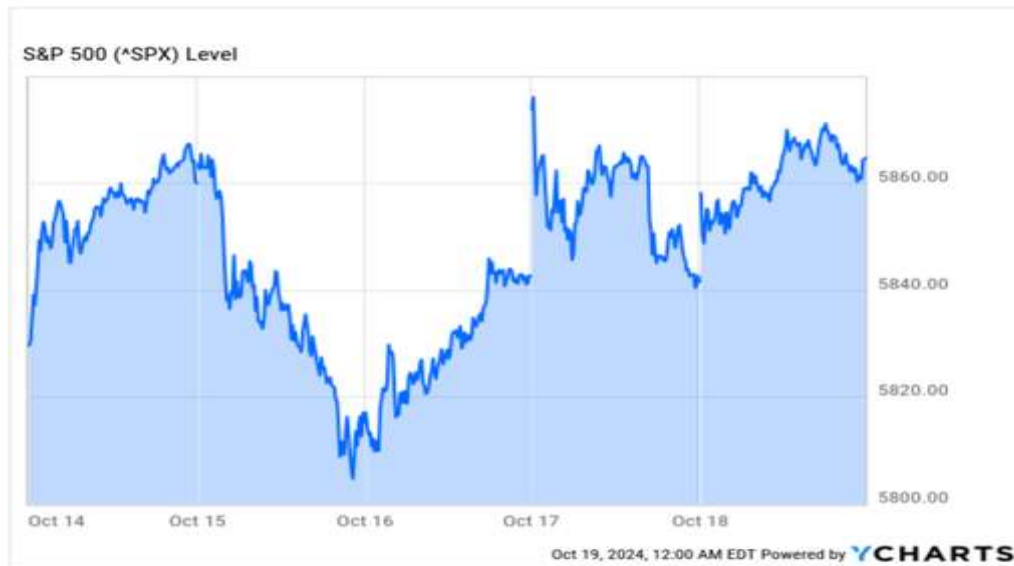
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
<u>Dow Jones Industrial Average</u>	3.98%	16.43%	29.71%	77.49%
<u>MSCI EAFE</u>	-0.28%	10.37%	22.48%	45.10%
<u>Nasdaq Composite</u>	4.26%	23.09%	36.79%	134.5%
<u>S&P 500</u>	3.77%	23.83%	35.53%	111.1%

S&P 500 Daily Close



10-Year Note Review

Indicator Name	Latest Value	1M Ago	1M Change
Date		3M Ago	3M Change
		1Y Ago	1Y Change
<u>10 Year Treasury Rate</u>	4.08%	3.70%	10.27% ▲
10/18/24		4.20%	-2.86% ▼
		4.91%	-16.90% ▼

Insight from Corporate Reports

There were many market forces pushing each other around last week.

Corporate earnings reports drove much of the market action. Some of the most extensive financial stocks surprised on the upside, supporting a narrative that the economy remains strong.

At the same time, a corporate report from one of the world's largest chip manufacturing contractors revealed continued strong global demand for AI microchips. However, increasing investor anxiety was a constant undertow in trading as the November elections drew nearer.⁶

This Week: Key Economic Data

Monday: Fed Officials Lori Logan, Neel Kashkari, and Jeffrey Schmid speak.

Tuesday: Fed Official Patrick Harker speaks.

Wednesday: Existing Home Sales. Beige Book. Fed Officials Michelle Bowman and Thomas Barkin speak.

Thursday: New Home Sales. Weekly Jobless Claims. Fed Official Beth Hammack speaks.

Friday: Durable Goods. Consumer Sentiment.

Quote of the Week



“The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists.”

– Ernest Hemingway

Of Note



Recent Federal Reserve rate cuts won't significantly alter the rapidly climbing interest bill on government debt, making a rise in issuance and structurally higher longer-term yields more likely.

When looking at charts every day, there's the occasional time when – even when you know the broad theme behind it – what you see still shocks you. That applies to the

government's interest bill. It's well known it's rising as issuance has mushroomed, but in the next few years it's expected to make at least 60-year highs relative to tax revenues.

If the Congressional Budget Office's projections are correct, then the net interest expense on government debt as a percentage of tax income is set to jump from 16% today to almost 25% in ten years.

However you finesse it, that sounds like a lot. Yields are off their recent highs, but the interest bill looks set to keep rising. Fed rate cuts or not, the bill is set to keep rising.

With interest payments rising compared to tax revenues, the pressure will rise on yet more issuance. The CBO projects the government will need to keep borrowing \$1.5-2 trillion or more each year for the next ten years. But bear in mind the CBO has often underestimated the government's borrowing needs.

Extra issuance will support structurally higher longer-term yields, especially as the Treasury gradually reduces its reliance on bill issuance. The obvious risk is that issuance and the interest expense start to reinforce one another. We're not there yet, but it's not too difficult to see a path to either more QE, yield curve control, or some sort of financial repression. Fed rate cuts won't move the dial.⁷

Footnotes and Sources

1. The Wall Street Journal, October 18, 2024
2. Investing.com, October 18, 2024
3. CNBC.com, October 15, 2024
4. The Wall Street Journal, October 17, 2024
5. The Wall Street Journal, October 18, 2024
6. The Wall Street Journal, October 18, 2024
7. [zerohedge.com/markets/fed-rate-cuts-wont-fend-washingtons-fubar-fiscal-folly](https://www.zerohedge.com/markets/fed-rate-cuts-wont-fend-washingtons-fubar-fiscal-folly)

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