

October 9, 2023

Weekly Viewpoint

Consumer Price Index to Take Center Stage

Performance for Week Ending 10/6/2023

The Dow Jones Industrial Average (Dow) finished off 0.30%, the Standard & Poor's 500 Index (S&P 500) gained 0.48% and the Nasdaq Composite Index (NASDAQ) added 1.60%. Sector breadth was negative with 8 of the 11 S&P sector groups closing lower. The Energy (-5.39%) sector was the worst performer followed by Consumer Staples (-3.14%) and Utilities (-2.90%). On the upside Communication Services (+3.05%), Technology (+2.94%) and Healthcare (+0.94%) posted solid gains.

Index*	Closing Price 10/6/2023	Percentage Change for Week Ending 10/6/2023	Year-to-Date Percentage Change Through 10/6/2023
Dow	33407.58	-0.30%	+0.79%
S&P 500	4308.50	+0.48%	+12.22%
Nasdaq	13431.34	+1.60%	+28.33%

Market Observations: 10/2/23 – 10/6/23

Stocks finished the week mostly higher reflecting a pullback in oil prices and a batch of economic data showing that the economy closed out the third quarter with solid momentum. The tech-heavy Nasdaq Composite posted the strongest gains for the second straight week. Third quarter earnings season kicks off this week and the bar is set very low, with analysts expecting overall earnings growth to be flat to modestly lower. The unexpected uptick in economic momentum during September, however, suggests that third quarter results could come in better than feared. WTI oil fell by over \$8 per barrel on the week following data from the Energy Department showing a pullback in gasoline demand, and a 5.2-million-barrel increase in crude products.

On Friday, the Labor Department reported that nonfarm payrolls surged by 336K during the month of September, nearly double what economists were forecasting. In addition, the prior two months of data were revised higher by 119K jobs. The unemployment rate held steady at 3.8% while average hourly earnings slowed modestly to 4.2% from year ago levels, the mildest increase since June 2021. This will be the last

employment report before the Fed meets on October 31/November 1. Despite the strong jobs data and other data showing the economy remains resilient, the Fed is expected to hold rates steady. According to Bloomberg's World Interest Rate Probability tool, there is currently a 70% chance the Fed will leave their benchmark rate unchanged at a range of 5.25-5.50%. In fact, futures are implying that the next move by the Fed will be a rate cut, but that isn't expected until July of next year.

Economic Roundup: New applications for US unemployment benefits remained historically low, highlighting ongoing strength in the labor market. Initial jobless claims ticked up slightly to 207K and were modestly below the 210K expected by economists. The four-week moving average of initial claims, which smooths out some of the week-to-week volatility, edged down to 208,750, the lowest since February. A measure of US factory activity contracted in September by the least in nearly a year, offering hope that the worst may be over for the nation's manufacturing sector. The ISM's manufacturing gauge rose to 49, the highest since November, from 47.6 the month before. After hitting a multi-year low in June, the index has advanced 3 points to mark the biggest three-month gain since March 2021. Growth in the US service sector moderated in September as a measure of new orders slid to the lowest level this year. The ISM's overall gauge of services fell by nearly a point to 53.6. While growth in business activity quickened to a three-month high, an almost six-point drop in the forward-looking new orders component suggests demand for services may be starting to weaken. US job openings unexpectedly increased in August, fueled by a surge in white-collar postings, highlighting the durability of labor demand. The number of available positions increased to 9.61 million from a revised 8.92 million in July, the JOLTS report showed. Hiring edged up, while layoffs remained low. The so-called quits rate, which measures voluntary job leavers as a share of total employment, held at 2.3%, matching the lowest since 2020. Fewer quits implies Americans are less confident in their ability to find another job in the current market. US mortgage rates rose for a fourth straight week, reaching the highest level since December 2000. The average for a 30-year fixed loan was 7.49%, up from 7.31% last week, according to Freddie Mac. Borrowing costs have topped 7% since mid-August, a streak that helped send applications for home-purchase loans to a 28-year low.

The Week in Fed Speak: San Francisco Fed President Mary Daly said policymakers can hold interest rates steady if the labor market and inflation continue to cool or financial conditions remain tight. "If we continue to see a cooling labor market and inflation heading back to our target, we can hold interest rates steady and let the effects of policy continue to work," Daly said in remarks prepared for an event. The Federal Reserve should hold interest rates at elevated levels "for a long time" to bring inflation back down to its 2% target, Atlanta Fed President Raphael Bostic said. "I am not in a hurry to raise, but I am not in a hurry to reduce either," Bostic said at an event, referring to the US central bank's benchmark interest rate. Richmond Fed President Thomas Barkin said surging US Treasury yields reflect strong economic data as well as heavy supply, adding that it's a return to a more normal rate seen in prior years. "There's a lot of fiscal issuance out there, and that's creating a lot of supply. And the data have come in a lot stronger lately." Barkin said. Fed Vice Chair Michael Barr said the US central bank is "likely at or very near" a level of interest rates that is sufficiently restrictive, echoing Chair Jerome Powell's recent message that officials can proceed carefully on whether to hike again. Cleveland Fed President Loretta Mester said she would support another interest-rate

increase at the Fed's next policy meeting if the economy is performing about the same as it was during the September gathering. "If the economy looks the way it did at the next meeting similar to the way it looked at our recent meeting, I would do the further rate increase," Mester told reporters on a conference call.

The Week Ahead: The focal point of the data calendar will be the consumer price index (CPI) report on Thursday. According to Bloomberg, the September headline CPI is expected to rise 3.6% on a year-over-year basis, down slightly from the 3.7% pace in August. The core CPI—which excludes food and energy prices—is forecast to be up 4.1% from a year ago, but down from 4.3% in the prior month. Other economic reports of interest include the producer price index, initial jobless claims, and the University of Michigan sentiment readings. Third quarter earnings season will begin to move to the front burner when a handful of major banks report results on Friday. In total, 14 members of the S&P 500 will release results throughout the week. It will be a busy week for Fed speeches with 15 central bankers scheduled to talk. The Fed is also scheduled to release the minutes from the September FOMC meeting on Wednesday.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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