

October 2, 2023 – Economic Commentary

If it had just been about the economic data, last week would have been a mostly good week. By the time Friday rolled around and the much-anticipated PCE (Personal Consumption Expenditures) Price Index came in a bit better than expected — coupled with a strong showing from US personal income and spending growth in August — no one much cared, such was the sudden focus on the looming government showdown. However, there were other factors in play and both will have something to say about the week ahead. First, there were the usual games that asset managers and investors find themselves caught up in as various investment positions and specific trades are juggled at the end of the quarter. This influence, on equity markets in particular, will not be a factor as the trading in the new quarter starts this Monday. A more lasting influence will come from the second factor, the spreading acceptance of an interest rate environment that is returning to the far more normal situation of meaningful prices (interest rates) for money. This development is especially dramatic in Europe, where interest rates not long ago were negative (remember THAT?) and last week 10 yr. German debt hit 3%. Why it has taken investors so long to accept this so-called higher-for-longer scenario is a bit of a mystery, but then again, there is no reason to assume that Wall St. is any less vulnerable to recency bias than the general population. Given the strength of US economic fundamentals — the statistics still point to economic growth of at least 3.0%— and the relatively good news on inflation, it will be interesting to see if markets this week return to cautious optimism.

Data to Watch:

1. Purchasing Manager Indices for Manufacturing and Services for September, released Monday and Wednesday, October 2 & 4 by S&P Global and ISM (Institute for Supply Management)
2. US JOLTS Job Openings data for August, released Tuesday, October 3
3. US Nonfarm Payrolls and Unemployment Rate for September, released Friday, October 6

Suggested Reading:

1. [Once Unthinkable Bond Yields Now the New Normal for Markets](#)
2. [Rebound in Immigration Comes to Economy's Aid](#)
3. [How China's Property Crisis Is Testing Its Too-Big-to-Fail Banks](#)

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