

WEEKLY MARKET RECAP: October 23 – October 27, 2023

Happy Friday, traders.

Welcome to our weekly market wrap, where we look back at these last five trading days with a focus on the market news, economic data and headlines that had the most impact on the financial market – and may continue to into the future for the US Dollar and other key correlated assets.

Consumer strength has been one of the great surprises of 2023. Recent comprehensive GDP revisions suggest that consumers still have a sizable excess savings cushion accumulated from government aid during the pandemic. Indeed, the Federal Reserve’s Distributional Financial Accounts report shows remarkable growth of 28% or \$2.9tn in deposits in checking and savings accounts (incl. money market deposit accounts) between 4Q19 and 2Q23. Of course, households have also had to confront high inflation, so money put in the bank in 2020 isn’t worth the same today. On a real basis, the same measure of liquid assets is 9% higher than in 4Q19—still decent growth, but well off its inflation-adjusted peak of 28%.

The question then becomes, how are these savings distributed? The Fed report provides some insight. After adjusting for inflation, the bottom 80% have mostly exhausted their accumulation in cash deposits, while the top 20% still retain a decent share of deposit growth, as shown in the chart. This support should allow for continued spending gains in areas such as luxury goods, leisure services and consumer durables, while challenging spending on consumer staples by lower and middle-income households. That being said, the economy counts by dollars and not heads, so even if strength is isolated to the top 20%, this can be a significant driver of economic growth. Overall, as strong retail sales data underscored last week, the consumer remains remarkably resilient, and savings cushions still look supportive even after the wave of pent-up spending last year.

Thanks for reading! Have a great weekend.

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