WEEKLY MARKET RECAP: October 30 –November 03, 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.

Entering 2023, many analysts had pencilled in a mild U.S. recession by mid-year. However, strong incoming economic data kept delaying the start date. Growth remained steady in the first half of the year, despite a hiccup in 1Q23 due to the regional banking crisis, and, more recently, a combination of positive impulses boosted 3Q23 GDP growth to a real annualized rate of 4.9% – the fastest pace in two years.

Zooming in on specifics, a notable summer splurge, particularly by affluent households, propelled private consumption to 4% growth for the quarter. This surge contributed over half of the acceleration in real GDP growth. Inventory accumulation, typically a volatile component, was the second largest contributor, as automakers stockpiled ahead of anticipated strikes. Housing shortages drove residential investment, while national defense spending boosted the government's contribution to GDP, each adding 0.2%-pts. On the flip side, non-residential investment was a major drag on growth – potentially indicating a cautious turn in business sentiment.

While the headline GDP figure seems impressive at first sight, it likely overstates the strength of the economy. A recent backup in long-term yields has weighed on stocks, and poses a risk to the spending surge by wealthier households through negative wealth effects. The positive impulses from inventory build-ups and government spending will also likely be transient; and while the Fed may acknowledge progress on core-PCE inflation when holding rates steady this week, it will likely keep the door open for a December rate hike. As a result, investors should brace for a slowing economy by maintaining well-balanced portfolios of financial assets and may want to consider adding alternatives that can provide durable streams of income, additional diversification, and more robust rates of return.

Thanks for reading! Have a great weekend.