Summary

Last week, all eyes were on the FOMC meeting. As anticipated, the committee did not raise the federal funds rate target but the stock market did not welcome the central bank expectations to keep the interest rate higher longer than previously projected. The Dow Jones Industrial Average lost 1.9%, the S&P 500 dropped 2.9%, and the NASDAQ fell 3.6%.

Last week we also received a handful of reports about the housing market. Housing starts in August were 10.6% below expectations. This disappointing reading was balanced by a better-than-expected number of building permits (annual rate 1.543 million units versus 1.442 million expected). This boost in building permits lends some hope that September will feature better news on the home construction front, which is needed given the tight supply of existing homes for sale. Sales of existing homes also fell short of expectations. At an annual rate, 4.04 million units were sold in August, compared to an expectation of 4.10 million units. Supply is limited because existing homeowners are reluctant to give up a low-rate mortgage for a higher-rate mortgage. Reduced supply is pushing prices up. The median existing-home price for all housing types increased 3.9% year-over-year to $407,100. For the week ending September 16, mortgage applications were up 5.4% from the week before, despite the 30-year fixed mortgage rate topping 7.31%.

The labor market continues to operate in a tight mode. Initial claims for the week ending September 16 declined 20,000 to just 201,000, hitting their lowest level since January. Continuing jobless claims for the week ending September 9 decreased 21,000 to 1.662 million. Notwithstanding this strong labor market, the Conference Board's Leading Economic Indicator continues pointing to a challenging growth period and possible recession. In August, the index declined 0.4%. The Index has been falling for nearly a year and a half.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Housing Starts (Aug – Tu 8:30)	1,283 TUAR	1,435 TUAR	
Building Permits (Aug – Tu 8:30)	1,543 TUAR	1,442TUAR	
MBA Mortgage Applications Index (9/16 – Tu 7:00)	+5.4%	NA	
Initial Clams (9/16 – Th 8:30)	201K	225K	
Continuing Claims (9/9 – Th 8:30)	1,662K	NA	
Current Account Balance (Q2 – Th 8:30)	-$212.1B	-$222.0B	
Existing Home Sales (Aug – Th 10:00)	4.04 MUAR	4.10 MUAR	
Leading Indicators (Aug – Th 10:00)	-0.4%	-0.4%	
Upcoming Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
S&P Case-Shiller Home Price Index	+0.5%	-1.2%	
Consumer Confidence	105.0	106.1	
New Home Sales	695 TUAR	714 TUAR	
MBA Mortgage Applications Index	NA	+5.4%	
Durable Orders	-0.2%	-5.2%	
GDP - Third Estimate	+2.1%	+2.1%	
GDP Deflator - Third Estimate	+2.0%	+2.0%	
Initial Claims	215K	201K	
Continuing Claims	NA	1662K	
Adv. Intl. Trade in Goods	NA	-$91.2B	
Personal Income	+0.5%	+0.2%	
Personal Spending	+0.5%	+0.8%	
PCE Prices	+0.2%	+0.2%	
Univ. of Michigan Consumer Sentiment - Final	67.7	67.7	

**Sources: www.briefing.com and www.federalreserve.gov*

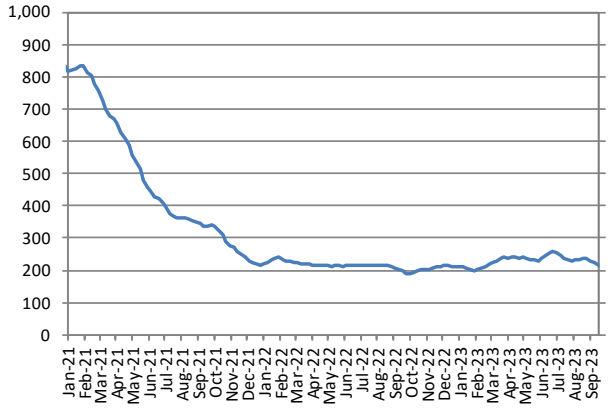
Economic Review

INITIAL CLAIMS declined 20,000 bringing down the four-week average to 217,000. A year ago, the four-week average was 196,500. The decline in initial claims reflects a reduction in layoffs in manufacturing in Ohio (-3,425) and in Missouri (-3,196) as well as a reduction in transportation and warehousing, health care and social assistance, and real estate in New York (-3,051). Other states with notable declines in first claims include California (-1,880), Texas (-1,393), and Hawaii (-1,094). Initial claims jumped in Indiana (+2,627). Overall, initial claims remain low indicating that the labor market is still operating in a tight mode.

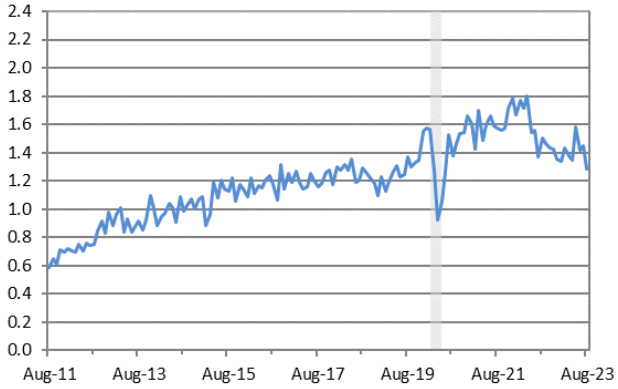
Total HOUSING STARTS declined 11.3% to a seasonally adjusted annual rate of 1.283 million units. Most of the decline was for multi-family units (-26.3%). Single-family starts were down only 4.3%. There was better news on the front of the permits for new units. Total building permits increased 6.9% to 1.543 million. Also, housing completion was up 5.3% from July at a seasonally adjusted annual rate of 1.406 million units. Single-family completions were up 17.6% in the Northeast, 8.2% in the West, and 4.1% in the South. The completion rate remained unchanged in the Midwest.

EXISTING HOME sales decreased 0.7% month-over-month in August to a seasonally adjusted annual rate of 4.04 million. Sales were down 15.3% from the same period a year ago. Existing home sales varied across regions. Sales in the month of August were down 2.6% in the West and 1.1% in the South. Sales were flat in the Northeast, and up 1.0% in the Midwest. Seventy-two percent of homes sold in August were on the market for less than a month. Properties typically remained on the market for 20 days (the same as in July), up from 16 days in August 2022. The housing supply remains tight. Unsold inventory sits at a 3.3-month supply at the current sales pace, unchanged from July. It remains well below the 6-month supply typically associated with a more balanced market.

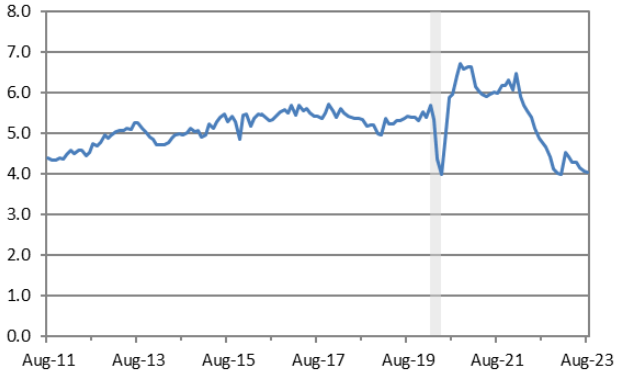
Initial Unemployment Claims
Thousands, 4-Week Moving Average



Total Housing Starts
Million Units, Annualized Rate



Existing Home Sales
Million of Units, Annualized Rate



Fed Speeches

Last week, the FOMC met to discuss monetary policies. This is the 8th meeting of the year. For the second time this year, the FOMC decided to keep the federal funds rate target unchanged but to continue the process of selling off securities holdings. In his press release, Chair Powell cited both encouraging recent readings of price indices as well as the risk of an excessively tight monetary policy as determinants of the committee's decision:

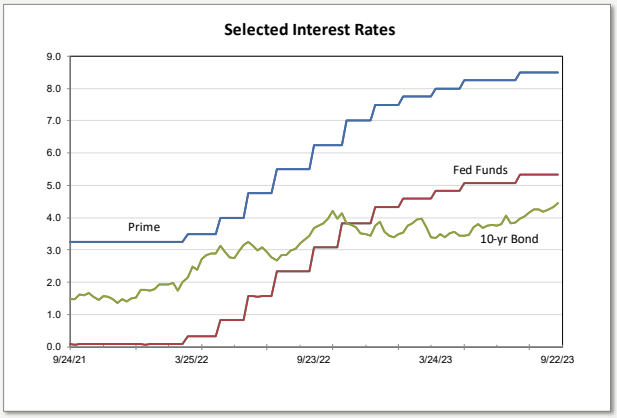
> *"Inflation has moderated somewhat since the middle of last year, and longer-term inflation expectations appear to remain well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets."*

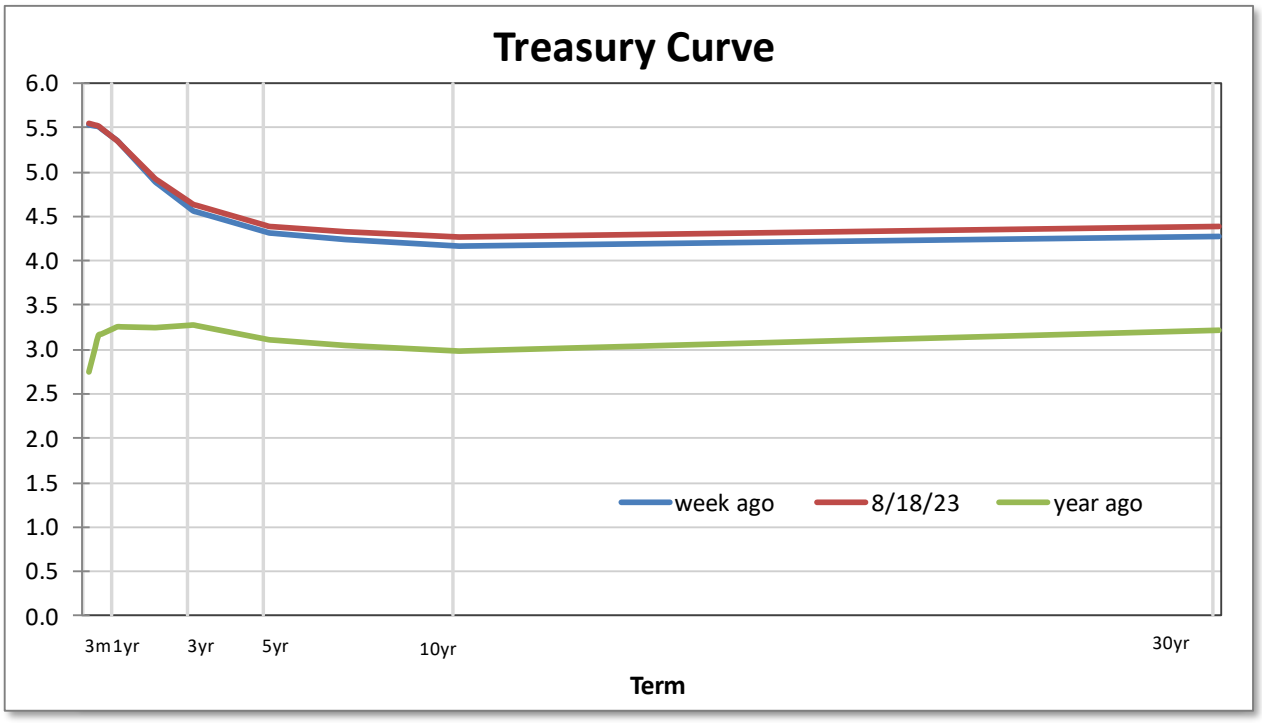
Chair Powell indicated that the FOMC is likely to vote for one more federal fund rate hike before the end of this year, but then rate cuts are likely to happen sometime next year:

> "*If the economy evolves as projected, the median participant projects that the appropriate level of the federal funds rate will be 5.6 percent at the end of this year, 5.1 percent at the end of 2024, and 3.9 percent at the end of 2025."*

Financial Markets

The stock market posted big losses last week, with all major indices losing ground: the Dow Jones Industrial Average retreated 1.9%, the S&P 500 dropped 2.9% and the NASDAQ fell 3.6%. Yields on government securities and municipal bonds rose. Yields on 10-year treasuries are now the highest since 2007. Adjusted for inflation, real yields are the highest since 2009. In the forex market, the U.S. dollar traded flat against the Japanese Yen but rose 0.2% against the euro. Oil prices declined 0.9% and ended the week at $90.13 per barrel.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) kept the federal funds rate target at 5.25% to 5.50% during the Fed's September policy meeting. In the statement released following the September meeting, the FOMC said, "Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have slowed in recent months but remain strong, and the unemployment rate has remained low. Inflation remains elevated. The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3rd Qtr '23	8.4	5.3	5.25	5.6	4.9	4.1	4.2	6.9
4th Qtr	8.7	5.6	5.60	5.8	5.2	4.6	4.7	7.1
1st Qtr '24	8.7	5.6	5.60	5.8	5.3	5.0	5.1	7.2
2nd Qtr	8.6	5.5	5.44	5.7	5.5	5.3	5.4	7.1
3rd Qtr	8.2	5.0	5.02	5.3	5.4	5.6	5.7	6.8

**Forecast as of August 27, 2023*

FINANCIAL MARKET SUMMARY

	As of 9/22/2023	As of 9/15/2023	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	8.50	8.50	0	0	25
Secured Overnight Financing Rate (SOFR)	5.30	5.30	0	0	25
Fed Funds (Wed close)	5.33	5.33	0	0	26
TREASURIES (BE) (Changes in BPs)					
3 Months	5.56	5.56	0	(5)	15
6 Months	5.52	5.49	3	(9)	11
1 Year	5.46	5.43	3	2	21
2 Years	5.10	5.02	8	7	39
5 Years	4.57	4.45	12	13	58
10 Years	4.44	4.33	11	19	70
30 Years	4.53	4.42	11	23	71
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	3.36	3.19	17	16	45
5-Year Muni	3.09	2.93	16	17	49
10-Year Muni	3.16	2.95	21	24	63
30-Year Muni	4.17	3.98	19	24	62
30-Year Conventional Mortgage	7.19	7.18	1	(4)	52
MARKET INDICATORS (Changes in %)					
DJIA	33,963.84	34,618.24	(1.9)	(1.1)	0.7
S&P 500	4,320.06	4,450.32	(2.9)	(1.9)	(0.7)
NASDAQ	13,211.81	13,708.33	(3.6)	(2.8)	(2.1)
CRB Futures	322.02	325.75	(1.1)	3.2	10.2
Oil (WTI Crude)	90.34	91.13	(0.9)	11.1	26.0
Gold	1,925.20	1,923.45	0.1	0.6	0.3
Yen / Dollar	147.85	147.83	0.0	1.7	4.2
Dollar / Euro	1.06	1.07	(0.2)	(1.4)	(2.3)