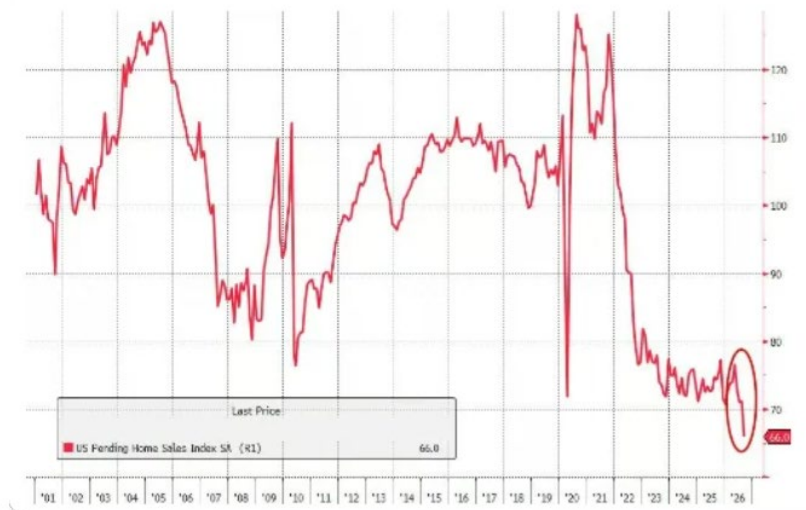


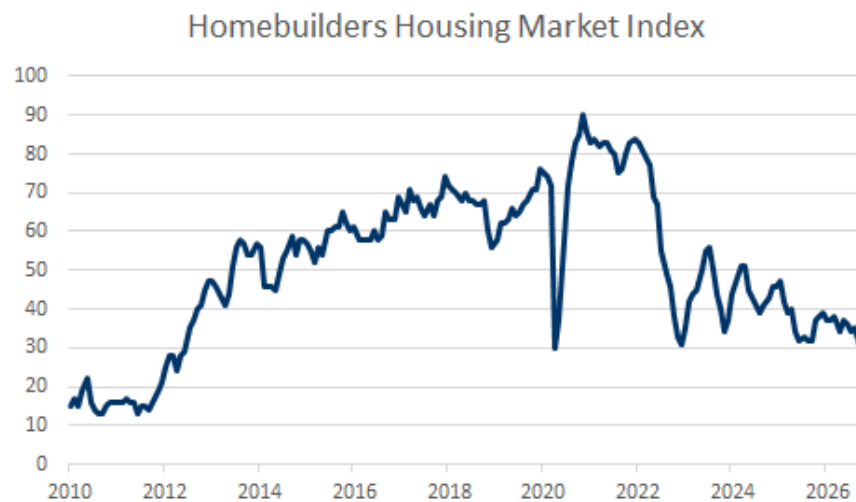
Wall Street jitters escalated this week, with threats coming from a number of fronts. The U.S./Israel war with Iran is poised to heat up, with President Trump warning of another attack after the midterm elections. Investor anxiety over AI continues to mount, sending the tech-laden NASDAQ down around 6 percent over the past two weeks. And despite reports that tankers are shipping more oil out of the Strait of Hormuz than before the war, crude oil prices leaped above \$100/barrel to the highest level in over a month, assuring that energy prices will continue to be an inflation catalyst for the foreseeable future. The bitterly contested midterm elections getting underway are only adding to the cloud of uncertainty overhanging the economic landscape.

Unsurprisingly, a flight to safety has been the dominant trade in the financial markets this week, as investor demand for the bellwether safe haven, Treasury securities, strengthened considerably. The 10-year Treasury yield fell below 5 percent this week for the first time in over a month, before edging back up to that threshold on Friday. The retreat will do little to help the housing market, the most interest-rate sensitive sector of the economy, which continues to be hammered by high mortgage rates and home prices, driving potential buyers to the sidelines. Indeed, pending home sales, i.e., contracts signed to purchase an existing home on the market, fell to an all-time low in September, according to the latest index compiled by the National Association of Realtors.

Pending Home Sales Plunge to Record Low
(Pending Home Sales Index)



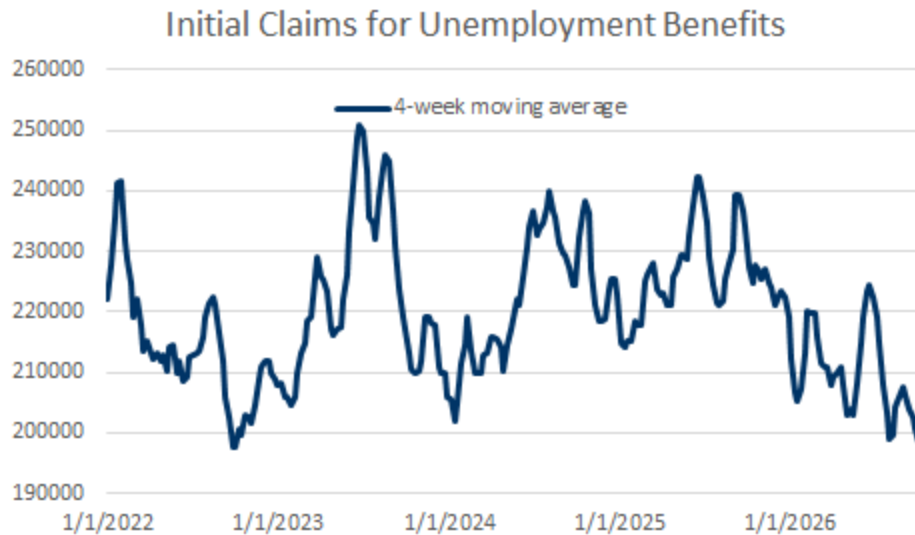
Needless to say, homebuilders are just as despondent. With pending home sales in the doldrums, the incentive to add to supply that would go unsold is also diminished. That mind-set is captured in the latest homebuilder's sentiment index released by the National Association of Homebuilders (NAHB) this week. The index tumbled to a 14-year low in October, and the plunge does not only reflect the dire sales outlook. Builders face an array of hurdles, including a shortage of workers due to tighter immigration policies and competition from data center construction, and from rising material costs due in large part to tariffs. That downbeat sentiment is showing up in construction activity, as housing starts and building permits both fell in September.



The bleak housing outlook, of course, is shared by households, particularly among lower and middle-income families who cite high prices and affordability as their primary concerns. The October household sentiment index revealed in the latest University of Michigan survey confirms that view, as it fell 10 percent below the year-earlier level. One ominous portent of the survey is that buying plans for durable goods declined a whopping 18 percent from the previous month, as respondents blamed high prices and elevated borrowing costs as key deterrents. To be sure, households do not always behave as they feel, as actual sales have held up despite the dour mode of consumers.

There is no guarantee that this disconnect will continue indefinitely and shield the economy from a sudden and severe consumer retreat. But as long as two critical pillars of strength remain intact, that's not likely to happen. Most important is that the job market continues to chug along, generating as many jobs as there are job seekers. The unemployment rate hovers near historical lows of 4.2 percent and shows no signs of moving up. If that were the case, you would see longer lines of applicants at state unemployment offices filing for unemployment benefits. But that is far from the case.

Indeed, initial jobless claims fell another 6000 in the latest week, and the four-week average slumped to 197,750 -- the lowest in four years. What's more, the low level of claims is widespread, falling across more than 70% of states through October. This suggests the unemployment rate will remain stable, if not end the year even lower than its current 4.2 percent as of September. In addition to low layoffs, low labor supply growth due to an older workforce and weak net immigration means the economy does not need to add as many jobs to keep the unemployment rate stable.



Second, while overall consumer sentiment is in the doldrums, not all households are downbeat. The resilience of consumer spending in recent years that has carried over into this year's third quarter reflects the ongoing influence of affluent households whose portfolios have been greatly inflated by ballooning stock market wealth. This so-called wealth effect is propping up spending on discretionary goods and services, including big-ticket items, that is more than offsetting the negative outlook for durable goods purchases suggested by the above-noted sentiment survey of households.

That said, the spending link to wealth is a two-way street. The stock market has been juiced by the enormous appreciation in AI companies, reflecting the ever-growing optimism over the potential returns these companies will deliver. However, faith in that optimism has weakened considerably in recent weeks, particularly among the second-tier companies that have borrowed heavily to finance the AI buildout. As noted earlier, these company shares have taken a big hit, dragging down the NASDAQ index and wiping out a good deal of wealth in the process. The setback has only made a minor dent in the wealth buildup seen in recent years and is unlikely to have a material impact on spending over the near term. But any sustained wealth-

destroying correction would no doubt inject more caution into the minds of upper income households.

Equally as important, should the credit markets turn unreceptive to the massive borrowing needs of these companies, their ability to follow through on their outsize investment spending plans would weaken as would a critical cylinder driving the economy's growth engine. Simply put, the AI trade has moved from spending at any cost to show me the funding and the returns; we expect it to be marked by volatility in tech stocks and broader angst that the boom is turning into a bust.

FINANCIAL INDICATORS

INTEREST RATES	October 23	Week Ago	Month Ago	Year Ago
3-month Treasury bill	4.14	4.17	4.18	3.83
6-month Treasury bill	4.32	4.34	4.37	3.77
2-year Treasury note	4.70	4.72	4.87	3.51
5-year Treasury note	4.82	4.88	5.00	3.62
10-year Treasury note	5.00	5.08	5.17	4.07
30-year Treasury bond	5.33	5.43	5.49	4.72
30-year fixed mortgage rate	7.32	7.40	7.03	6.26
15-year fixed mortgage rate	6.68	6.71	6.42	5.54

STOCK MARKET				
Dow Jones Industrial Index	52,215.16	52,002.41	51,828.60	46,245.41
S&P 500	7,623.68	7,659.44	7,743.41	6,602.99
NASDAQ	25,955.34	26,140.03	27,068.72	22,273.08

COMMODITIES				
Gold (\$ per troy ounce)	4,009.10	4,188.5	43,220.6	4,060.8
Oil (\$ per barrel) - Crude Futures (WTI)	103.36	101.72	92.81	57.98

ECONOMIC INDICATOR	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Qtrs Ago	Average-Past Six Months or Quarters
Housing Starts (September) - 000s	1221	1288	1369	1318
Building Permits (September) - 000s	1400	1403	1433	1407

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