



Monthly Market Commentary: November 2023

In October, the Consumer Price Index (CPI) showed inflation was flat on a monthly basis, slowing considerably from the 0.4% increase in prices in September¹. The yearly increase of 3.2% was helped by falling gas prices, which fell 5%, though food prices continue to increase. If gas prices continue to fall, then November's inflation report may show headline inflation falling below 3% for the first time since February 2021. Rent played a major role in September's price increases again, making up three-quarters of the yearly price increases. However, data from Zillow shows that rent prices may continue to slow. The report could bolster confidence that the Federal Reserve may refrain from hiking rates even higher. Overall, the report is welcomed, suggesting the current environment may be conducive to sustained improvement in the inflation picture, though monthly data may continue to be a bit noisy.

On the labor front, the October jobs report delivered some discouraging news, revealing a significant slowdown in nonfarm payroll growth and a slight uptick in the unemployment rate². Payrolls increased at a slower rate compared to September, along with some negative revisions to the past month's reports. The auto workers strike impacted manufacturing job growth, though that will bounce back later. The latest report aligns with a broader trend of a cooling jobs market that may also help the inflationary landscape. The Federal Reserve's decision to hold off on raising interest rates for the second consecutive meeting partially reflects this shift in the labor market and may point to increasing odds of potential easing by the Fed next year.

Consumer attitudes have weakened again in the latest report by the University of Michigan. In their preliminary November survey, consumers' feelings toward both the current and future economic conditions slipped, the fourth month in a row that overall attitudes have worsened³. Recent pain at the pump may contribute to this decline, as expectations of future gas prices rose to the highest so far this year, and short-term inflation expectations remain high. Interestingly, the worsening sentiment is more pronounced in younger and lower-income consumers. In contrast, sentiment among the top one-third of consumers who own stocks improved.

The bottom line: Economic and, especially, survey data continue to be noisy. Sentiment in the market and the overall economy is volatile, and it is impacting how the market is digesting the latest data. Recently, data releases suggesting that the Federal Reserve may no longer hike rates and may pivot to easing sooner than previously expected tended to be well-received in the market. However, if jobs slow down *too* fast, then that could spell further trouble for the market. The primary question investors will ask themselves heading into the holiday season is whether the upcoming data will support a less aggressive Fed or if the 'higher for longer' narrative will resurge due to an unexpected development.

Sources:

1. Bureau of Labor Statistics, <https://www.bls.gov/news.release/cpi.nr0.htm>
2. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empstat.nr0.htm>
3. University of Michigan, <http://www.sca.isr.umich.edu/>

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