

# Market Struggles Despite Strong Economic Growth

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The last few days of trading in October relieved some of the downward pressure on equity markets after many indices had lost around 10% from their summer highs. While markets remain up around 8–9% on the year, the gains have come with greater volatility than past years.

The market's recent stumbles have come despite strong third-quarter growth of 4.9% annualized, which was much stronger than expected just a few months ago. The big driver of growth was consumer spending, which grew at

Yet, despite all this good news, the stock market struggled because many investors and forecasters expect a slowdown as Americans face growing economic hurdles. Many concerns are centered around high interest rates. A climb in mortgage rates to near 8% is expected to hit residential real estate as home demand slides. Similarly, the number of small firms reporting that it was harder to access credit moved higher in September. Auto loans are taking a larger percentage of family budgets.

Inflation also remains, and further Fed interest rate hikes remain possible. The recent jobs report revealed the strength of the economy but also highlighted the Fed's challenges in slowing the demand. The expectation is that higher rates and other headwinds will take a

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an annual rate of 4.0% in the third quarter, increasing considerably from 0.8% growth during second quarter.

By many measures, the labor market continued to strengthen during the third quarter as well. Employers added 336,000 jobs in September, which was even higher than August's 227,000 and July's 236,000. Manufacturing, which slumped in the spring, is also showing signs of rebounding and will be helped by the recently ended auto strike. Factory output was up 0.4% in September after a 0.1% decline in August. Strong hiring continues to fuel spending.

greater toll on the economy and consumers. Despite third quarter's strong growth, seemingly no one expects the recent trend to continue.

Even though hourly wages are going up, fewer hours worked are resulting in year-over-year weekly wages falling 0.2% in September. This marks the second straight monthly decline after 0.4% in August. Real wages are up only 0.5% in the past 12 months and are down during the Biden Presidency. Inflation is the culprit and remains a concern as the economy could continue to run hot, which could prompt the Fed to resume interest rate increases.

Another looming concern is the federal deficit which unexpectedly doubled this year to about \$2 trillion. A deficit of more than 7% of GDP can lift growth, but outside war or severe recession, is widely viewed as irresponsible fiscal management. The cost of a deficit of this size is higher interest rates and more restrictive fiscal policy, both of which affect future growth.

The economy continues to perform better than expected given the obvious headwinds of higher rates, two wars, ongoing strikes (Hollywood) and surging government spending. The future market direction will ultimately be determined by economic growth, but determining its future direction remains difficult given the many moving parts of the economy still adjusting post-COVID. Continued volatility, both up and down, likely remains a major theme for markets.

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