Financial Markets This Week

2 FEBRUARY 2024

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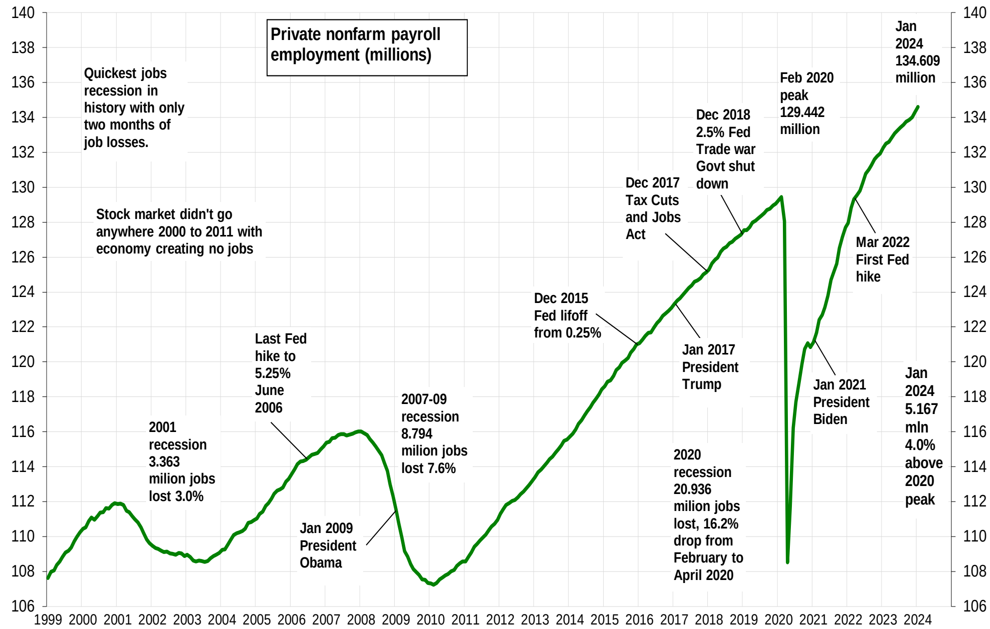
JOBS SHOCKER



Wow. Stunning, incredible and almost unbelievable. Forget the soft anecdotal signs of the labor market with tech layoffs and company executives going all in again for efficiency this year, the economy is producing hundreds of thousands of new jobs. This isn't an economy that is on its last legs. This is an economy where Federal Reserve officials historically have rushed in to take away the punch bowl it is so strong. What did Powell say on Wednesday, they would have to do something if employment turned down? Forget about it. This is one of the strangest business cycles we have ever encountered.

Monthly changes (000s)	Jan	Dec	Nov	Oct	Sep
Payroll employment	353	333	182	165	246
Private jobs	317	278	152	98	196
Leisure/Hospitality jobs	11	38	10	57	27
HH Employment Survey*	-31	-683	586	-270	50
Unemployment rate %	3.7	3.7	3.7	3.8	3.8
Participation rate %	62.5	62.5	62.8	62.7	62.8
Not in labor force (mln)	100.265	100.540	99.695	99.919	99.531
... and Want A Job (mln)	5.793	5.671	5.343	5.376	5.424
Average hourly earnings	$34.55	$34.36	$34.23	$34.10	$34.01
MTM % Chg	0.6	0.4	0.4	0.3	0.3
YOY % Chg	4.5	4.3	4.3	4.3	4.5

* Household (telephone) Survey of employment behind unemployment rate

Wow. Two payroll jobs numbers with 300 thousand prints in a row now after the annual statistical revisions which means the economy is soaring at the turn of the year. There is no soft landing because the economy isn't landing, it is so high above the clouds that only the vapor trails can be seen to know it is up there. Fed officials are going to have to sharpen their pencils on the timing of any interest rate cuts this year because higher rates are sure not slowing the economy down. We cannot get a 353 thousand payroll employment number and pretend to ourselves the economy is nearing the cliffs of recession. Buy stocks, companies are gearing up and profits are sure to follow. Bet on it.

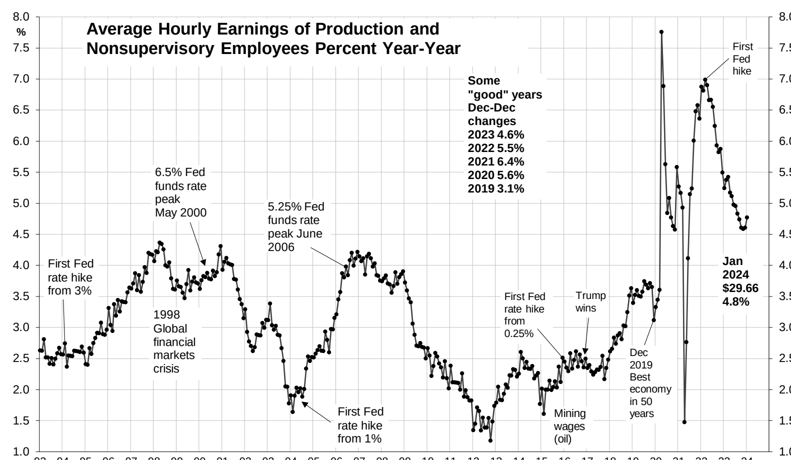
Well, that was fun writing this in the minutes after the jobs report surprise. Nothing really bearish here for the economy except the Household Survey measure of employment which has decreased 348 thousand since last August while payroll jobs jumped 1.279 million. We have seized on the slowdown in the Household Survey of employment as a warning sign for the economy before during this cycle and have gotten burned each time as this measure of jobs picked back up. We can't issue a warning again. Ditto for the aggregate hours worked data which was weak probably due to bad winter weather which may however affect consumer spending and retail sales negatively in January. Car and light truck sales sank 6.8% in January and retail sales for January are reported 830am ET on Thursday, February 15.

As far as the annual revisions, the December employment level was revised 115K higher, but private jobs just 63K higher. State government education jobs were greater than previous estimates. Tech layoffs in the news cannot be found here. Computer, data web hosting job gains were minimal the last two months, but computer systems design jobs actually increased 11K in December and 15K in January.

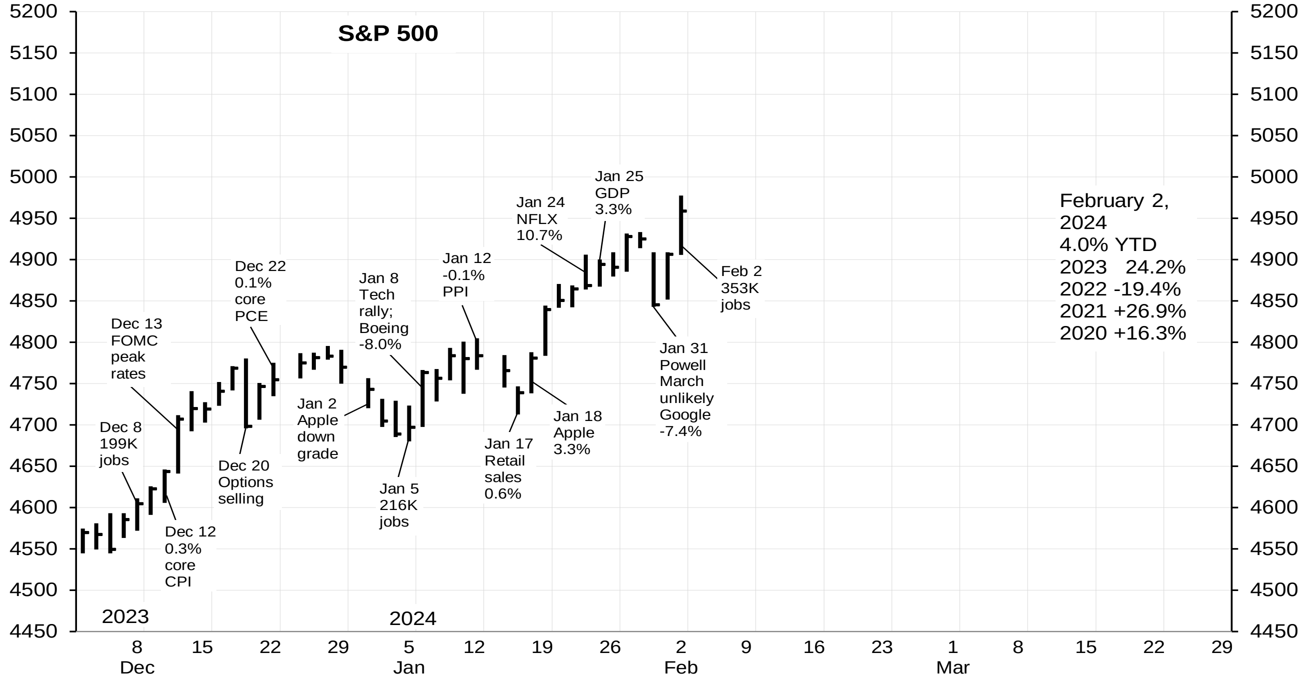
The market did not fear the inflation data in the report as much for once. Average hourly earnings increased 0.6%, probably weather-related, and the workers, not their bosses, wages, production and nonsupervisory employees, have run a steady 0.4% each month since September. Some good years for workers 2020-2023, matching inflation.

Payroll jobs jump at the turn of the year

Data in thousands	Jan 24	Dec 23	Nov 23	Benchmark Level Change	After revision Dec 23	Before revision Dec 23
Nonfarm Payroll Employment	353	333	182	115	157,347	157,232
Total Private (ex-Govt)	317	278	152	63	134,292	134,229
Goods-producing	28	33	36	40	21,723	21,683
Mining	-5	2	-3	2	598	596
Manufacturing	23	8	25	-30	12,956	12,986
Motor Vehicles & parts	3	3	33	-15	1,061	1,076
Computer/electronics	1	1	2	7	1,107	1,100
Food manufacturing	4	4	0	7	1,733	1,726
Construction	11	24	15	70	8,126	8,056
Specialty trade contractors	14	14	11	64	5,155	5,091
Private Service-providing	189	245	116	23	112,569	112,546
Trade, transportation, utilities	64	58	-45	55	28,901	28,846
Retail stores	45	43	-43	70	15,614	15,543
General Merchandise	24	5	-46	45	3,198	3,154
Food & Beverage stores	5	1	3	0	3,248	3,248
Transportation/warehousing	16	2	-11	-102	6,541	6,642
Truck transport	2	3	2	-33	1,553	1,586
Air transportation	-2	4	3	8	570	562
Couriers/messengers	3	-14	-16	-6	1,072	1,078
Warehousing and storage	-6	1	-3	-78	1,774	1,851
Information	15	18	17	-34	3,017	3,051
Computing, data, web hosting	2	4	2	-5	495	500
Financial	8	13	4	92	9,240	9,148
Insurance	5	4	4	38	2,998	2,960
Real Estate	8	8	6	50	2,499	2,449
Commercial Banking	-3	-2	-3	24	1,378	1,354
Securities/investments	-1	4	1	25	1,117	1,093
Professional/business	74	35	10	-42	22,904	22,946
Temp help services	4	-17	-14	-62	2,769	2,831
Management of companies	3	4	-8	33	2,561	2,528
Architectural/engineering	10	1	3	-16	1,675	1,691
Computer systems design	15	11	8	-3	2,529	2,532
Legal services	-4	4	3	2	1,192	1,191
Accounting/bookkeeping	4	4	0	-7	1,155	1,162
Education and health	112	84	110	-47	25,831	25,878
Private Educational services	12	4	4	-148	3,839	3,987
Hospitals	20	16	21	8	5,436	5,429
Ambulatory health care	33	33	44	45	8,638	8,593
Leisure and hospitality	11	38	10	31	16,813	16,782
Hotel/motels	-3	15	-1	28	1,926	1,898
Eating & drinking places	-2	5	1	-79	12,292	12,370
Government	36	55	30	52	23,055	23,003
Federal ex-Post Office	7	6	4	-6	2,356	2,362
State government	10	15	8	72	5,398	5,326
State Govt Education	6	9	7	54	2,633	2,579
Local government	15	35	23	-12	14,700	14,712
Local Govt Education	-4	13	0	2	8,030	8,028



INTEREST RATES

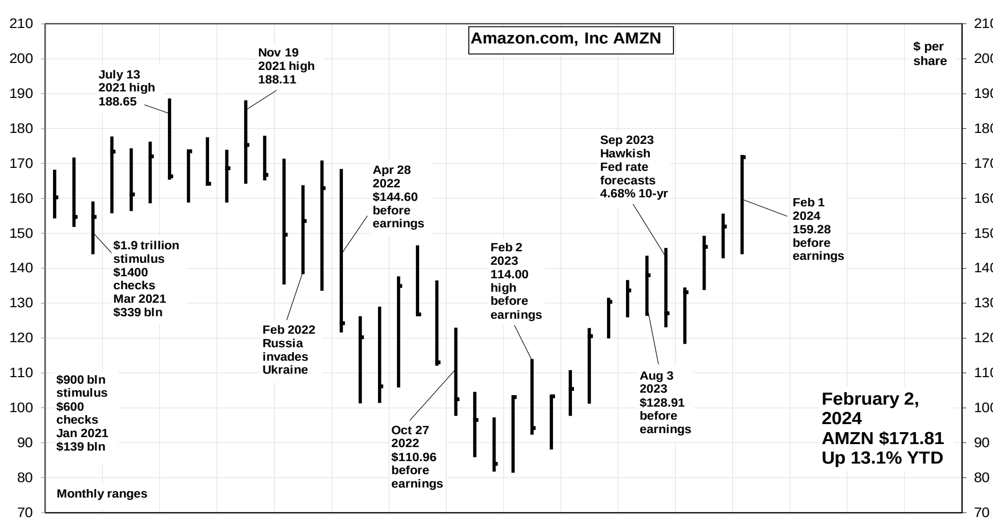


Another [record high for stocks]() during the day on Friday on the strong jobs report. Stocks traded up into the employment report after Meta earnings Thursday night (Meta closed up 20.3% Friday). Stocks fell back after the strong jobs report and 0.6% wages, but a rally in tech brought the stock market back. 10-year Treasury yields jumped 14 bps on Friday to close at 4.02%. Stocks also ended higher despite April Fed funds futures odds of a rate cut on March 20 falling to just 26%. It was Powell's "March rate cut unlikely" comment on Wednesday that extended the stock sell-off (Google fell 7.4% Wednesday after earnings Tuesday night). The Wednesday stock sell-off of 1.6% for the S&P 500 reversed on Thursday. New York Community Bancorp (NYCB) brought yields down briefly on Wednesday and Thursday morning as it reminded traders of the March 2023 bank crisis.

Amazon AMZN up 13.1% YTD

Not sure what Wall Street analysts thought about Thursday night earnings, but when Jassy said give us some time a while back, he was not kidding. Operating income minus AWS was $6.042 billion in Q4 2023 after being negative from Q3 2021 to Q1 2023. What layoffs? 1.525 million employees after Q2 2023 low of 1.461 million. Amazon Prime billed my card $148.21 on Jan 25. Worth it.

S&P 500 Weights	
Top 6: 27% of S&P	
7.29	MSFT
6.63	AAPL
3.78	NVIDIA
2.03	GOOGL
1.73	GOOG
3.52	AMZN
2.13	Meta
27.11	Top 6



FEDERAL RESERVE POLICY

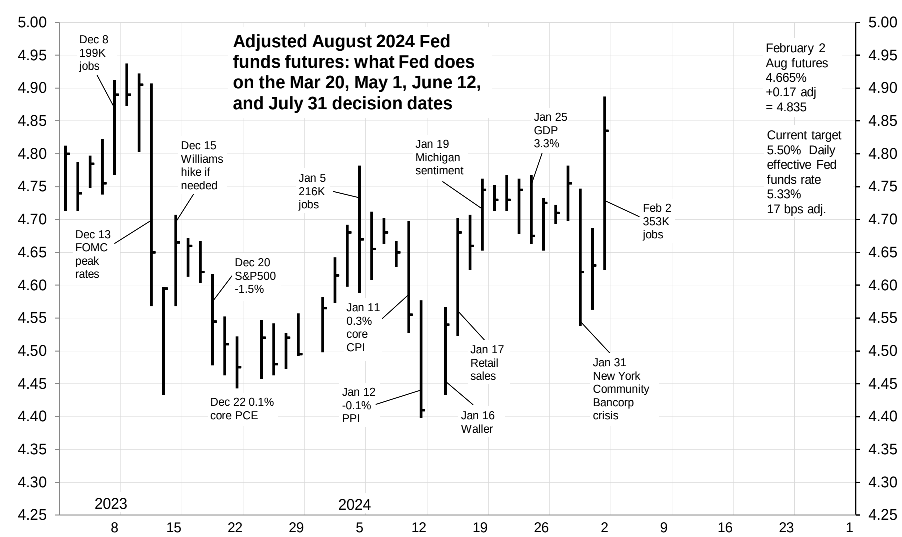
The Fed met January 30-31, 2024 to consider its monetary policy. Major news after the meeting makes the Powell press conference less important. The big jobs report on Friday with 333K in December and 353K in January shows the labor market is not rebalancing. Not a perfect report for some: Chicago Fed President Goolsbee said total hours worked was a sign of weakness, but he has said that before.

The big news in the press conference was Powell saying a March rate hike was not likely. You can read the Q&A for yourself here, but realistically, the Fed press statement usually gives markets a heads up if a rate change is coming, a meeting ahead of time, and it did not on Wednesday. The most likely rate cut would be June given the Fed forecasts from December with 75 bps of cuts in 2024 which logically means 25 bps cuts in June, September, and December this year.

The market is discounting 6.5 bps of a 25 bps rate cut on March 20, the Friday jobs report dropped the odds, not Powell saying "No March" on Wednesday. The new NYCB "bank crisis" pushed the March rate cut odds up at 10am ET the day of the Fed meeting.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	31-Jan	24-Jan	17-Jan	10-Jan	3/11/20*	3/11/20
Factors adding reserves						to Jan 31
U.S. Treasury securities	4692.721	4722.302	4724.025	4751.515	2523.031	2169.690
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2417.156	2428.644	2431.710	2431.773	1371.846	1045.310
Repurchase agreements	0.000	0.000	0.000	0.000	242.375	-242.375
Primary credit (Discount Window)	3.189	2.785	2.295	2.106	0.011	3.178
Bank Term Funding Program	165.238	167.768	161.501	147.694		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	3.320	3.338	3.364	3.413		
Main Street Lending Program	15.083	15.394	15.375	16.192		
Municipal Liquidity Facility	0.001	0.001	0.214	0.214		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.046	0.046		
Central bank liquidity swaps	0.219	0.224	0.216	0.223	0.058	0.161
Federal Reserve Total Assets	7680.2	7728.0	7724.6	7737.5	4360.0	3320.216
~~3-month Libor %~~ SOFR %	5.32	5.31	5.32	5.31	1.15	4.170
Factors draining reserves						
Currency in circulation	2326.951	2329.477	2335.971	2340.501	1818.957	507.994
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	865.481	815.159	773.544	727.856	372.337	493.144
Treasury credit facilities contribution	7.438	7.438	7.438	7.438		
Reverse repurchases w/others	615.379	639.560	590.191	679.961	1.325	614.054
Federal Reserve Liabilities	4268.525	4238.298	4132.281	4200.134	2580.036	1688.489
Reserve Balances (Net Liquidity)	3411.717	3489.709	3592.326	3537.383	1779.990	1631.727
Treasuries within 15 days	83.218	69.991	67.690	59.873	21.427	61.791
Treasuries 16 to 90 days	229.458	250.636	250.063	245.629	221.961	7.497
Treasuries 91 days to 1 year	530.721	552.163	556.572	554.436	378.403	152.318
Treasuries over 1-yr to 5 years	1602.637	1594.803	1594.890	1614.845	915.101	687.536
Treasuries over 5-yrs to 10 years	741.790	749.752	749.792	771.654	327.906	413.884
Treasuries over 10-years	1504.897	1504.956	1505.016	1505.076	658.232	846.665
Note: QT starts June 1, 2022	Change	1/31/2024	6/1/2022			
U.S. Treasury securities	-1078.058	4692.721	5770.779			
Mortgage-backed securities (MBS)	-290.290	2417.156	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Q. So as I've heard from some district Fed presidents, is it in your view a little premature to think that rate cuts are right around the corner? A. So I'll point you to that language on your first question. We included that language in the statement to signal clearly that with strong growth, strong labor market, inflation coming down, the Committee intends to move carefully as we consider when to begin to dial back the restrictive stance that we have in place. So if you take that to the current context, we're going to be data-dependent. We're going to be looking at this meeting by meeting. Based on the meeting today, I would tell you that I don't think it's likely that the Committee will reach a level of confidence by the time of the March meeting to identify March as the time to do that. But that's to be seen. So I wouldn't call -- you know, when you ask me about in the near term, I'm hearing that as March. I would say that's probably not the most likely case or what we would call the base case.

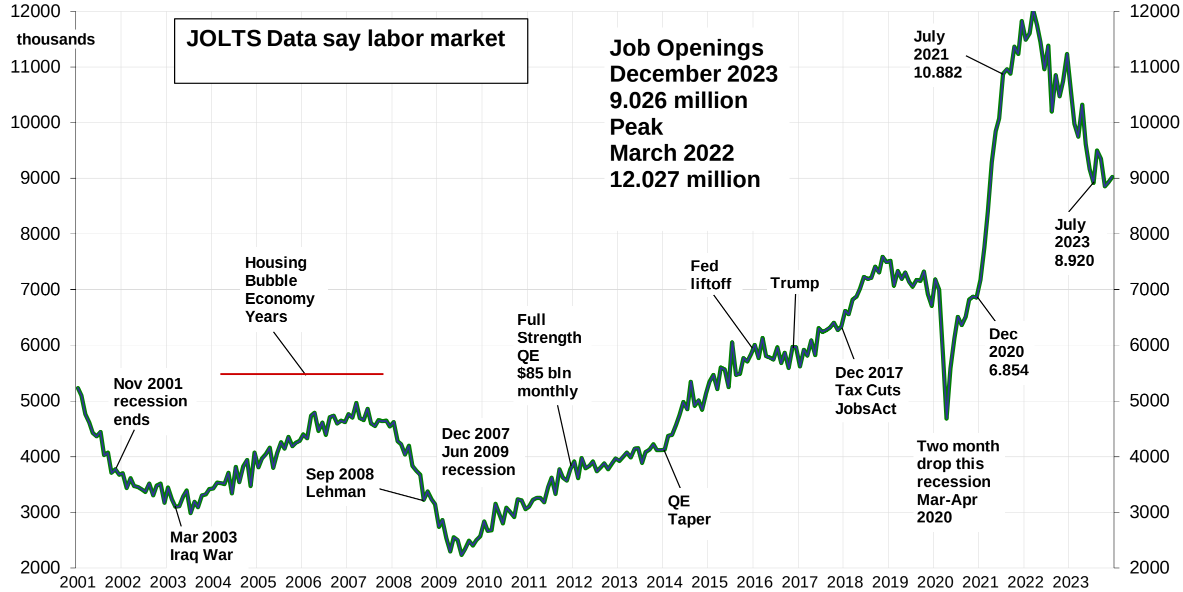


Fed funds futures call Fed hikes		
Current target: February 2 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.435	Apr 2024	Mar 20
4.830	Aug 2024	May 1, Jun 12, Jul 31
Last trade, not settlement price		

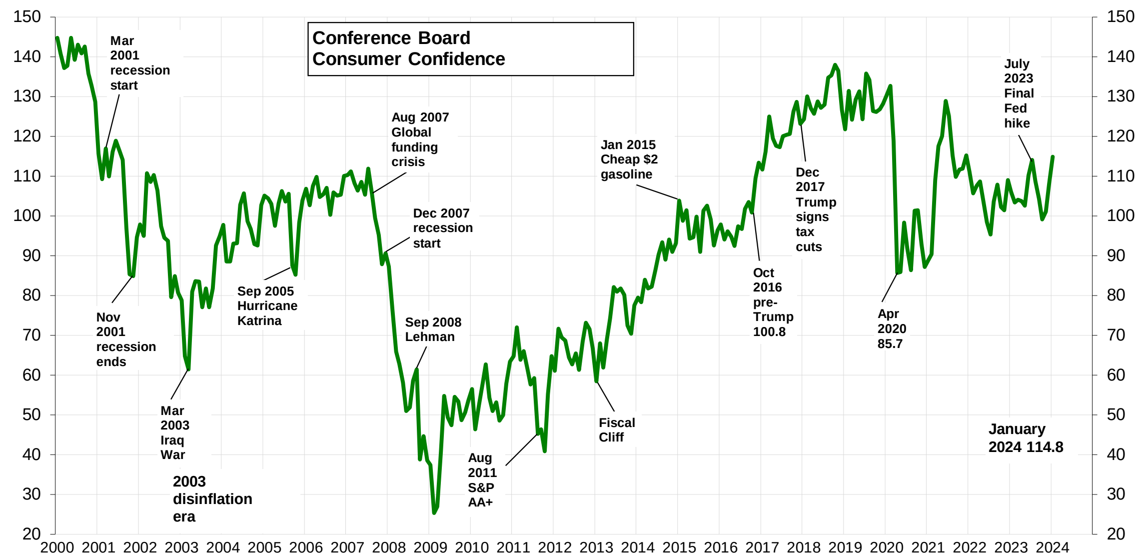
OTHER ECONOMIC NEWS

Jolts and confidence (Tuesday)

Breaking economy news. Jolts and consumer confidence. The Job openings data have certainly moved the markets in recent months even if the data are reported with a lag. Job openings were 8.790 million in November which was revised 135K higher to 8.925 million and now the data reported for the end of December says openings are 9.026 million. The interpretation is that the labor market is not “rebalancing” as much as Fed officials hoped, but the overall downtrend in openings the last two years remains intact.



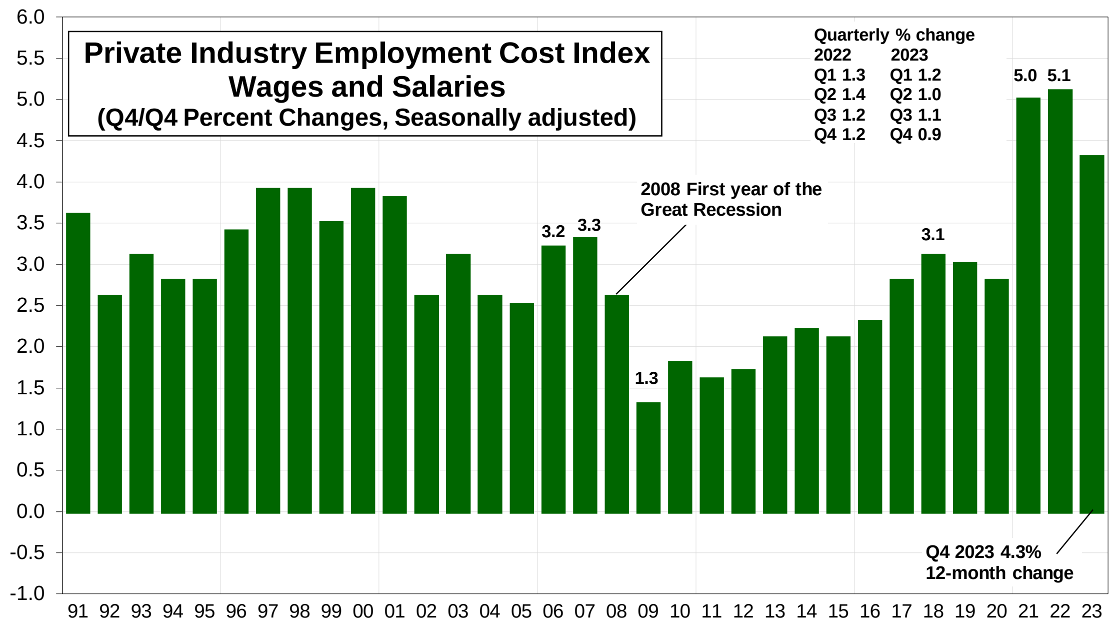
Consumer confidence from the Conference Board has not been trending well the last few years if trying to tell a story. December was 110.7, revised it down to 108.0, and now an increase to 114.8 in January. The survey did point to stronger labor market data on Friday. 45.5% said jobs were plentiful, up from 40.4%, and 9.8% said jobs were hard to get in January, down from 13.1% in December.



Wages going the Fed's way (Wednesday)

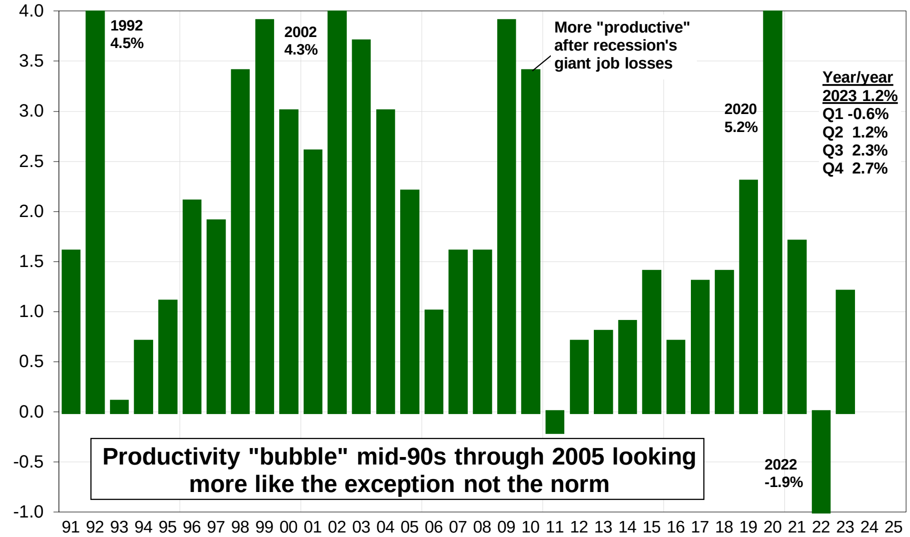
Breaking economy news. Employment cost index for the fourth quarter slowed to 0.9% from 1.1% in Q3 2023, and this was identical to wages and salaries as well for private industry that we follow closely. It is always a chicken or egg thing when it comes to the interaction between wages and inflation, but at least employer labor costs are cooling and this will give the Fed the courage to start to reverse the monetary policy tightening they have put in place to fight inflation. The jury is out on whether they cut rates as early as their next meeting in March, and we will find out soon enough of course at 2pm ET today when the press statement is released.

Net, net, wages and salaries are moving in the Fed inflation-fighters' direction at the end of the year which takes some of the worry away that inflation will suddenly reignite if policymakers take steps to ease the substantial monetary restraint they have put in place. Fed Chair Powell seems to believe wages follow inflation and not the other way around, but not all the FOMC meeting participants feel the same way. Wages are cooling back down and at the very least this means that workers are not aggressively demanding salary increases like they were a couple of years ago during the pandemic demand surge of inflation. Fed officials can agree to talk about the timing of rate cuts this year as wage pressures have diminished and this will give them the confidence to proceed with dismantling some of the tightening put in place both in terms of interest rates, and quantitative tightening as well that is adding $60 billion per month to the Treasury's borrowing requirement which keeps market rates higher than they need to be.



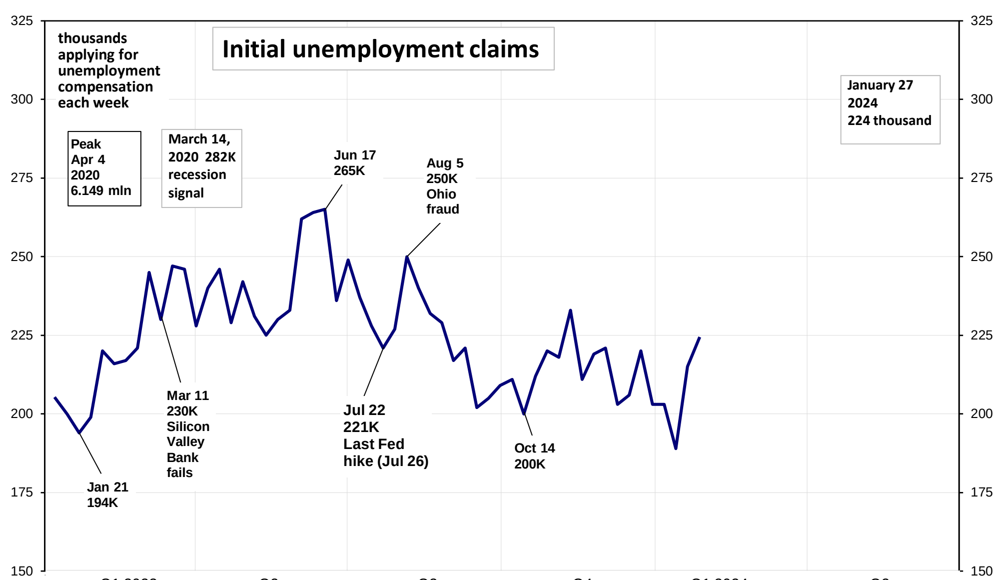
Productivity and layoffs hold inflation in check (Thursday 830am ET)

Breaking economy news. Fourth quarter nonfarm business productivity was 3.2% and this is keeping unit labor costs down with an increase of 0.5% after workers received hourly compensation of 3.7%. Company executives always say they can pay their employees more if they remain productive, and for this quarter anyway, it is true. Worker wages by this measure are slowing modestly from 4.9% in 2021 coming out of the pandemic, to 3.7% in 2022 and 4.2% in 2023. Inflation pressures are being held at bay by the favorable trend in productivity.



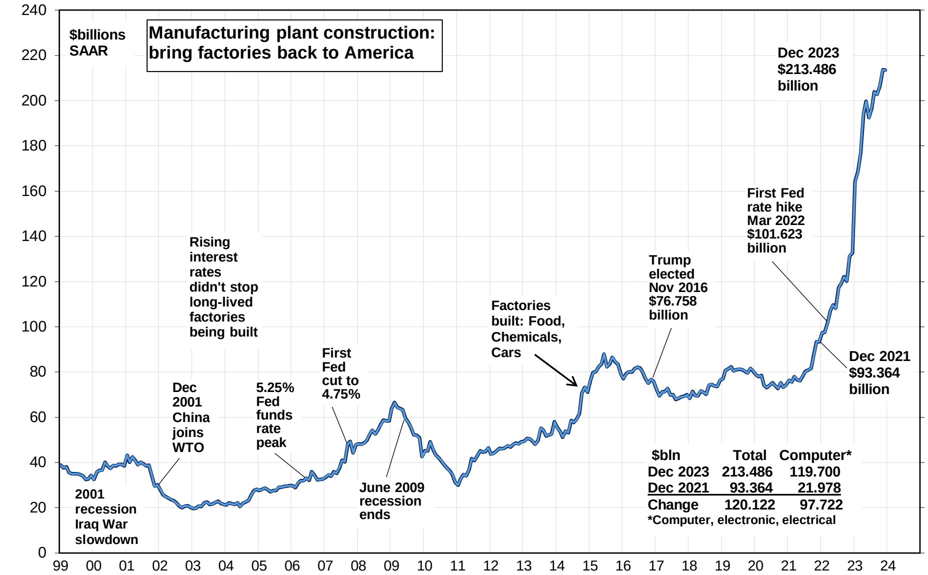
Weekly jobless claims keep moving up sharply from the 189K level in the January 13 week. First time jobless claims were 224K in the January 27 week verus 215K in the January 20 week. There were big increases of 5,599 in California, 4,316 in New York, and 4,036 in Oregon. The California economy has enough job losses in recent months to qualify for being in recession, possibly due to the tech industry layoffs.

Net, net, there were fresh signs that inflation is increasingly coming back under control as the economy is more productive keeping labor costs in check and the labor market is rebalancing further with the news headlines of company layoffs especially in technology causing a jump in jobless benefits filings in the most recent week. Productivity and more layoffs are holding inflation pressures in check and this is what Fed officials are looking for in order to deliver the interest rate cuts the market is clamoring for later on this year.



ISM manufacturing survey and construction (Thursday 10am ET)

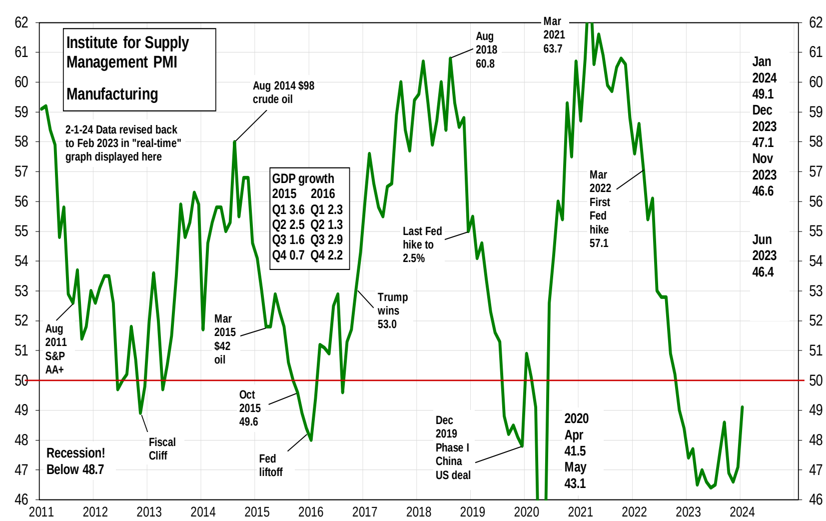
Breaking economy news. Construction spending fell 0.2% in December, but is up 19.1% from a year ago thanks to manufacturing construction of course, but double-digit year-year gains as well in Power, Health care, Educational, and Religious. Office building continues at $85.4 billion, an increase of 3.1% from last December, despite what is thought to be a supply glut and looming defaults for many properties.



Manufacturing activity was on the upswing at the turn of the year where purchasing managers said new orders jumped in January, and factory executives no longer see the broader economy in recession, while manufacturing factory construction was firing on all cylinders in the final months of 2023 thanks to the Chips Act. There are still questions about the health of the manufacturing sector as overall activity is contracting and the building of semiconductor factories may have reached its peak following the CHIPS and Science Act of 2022 where the $52 billion that was given to spur domestic production is looking close to being completely spent if it isn't already. Manufacturing construction reached $213.5 billion in December which is $80.7 billion higher than the level in December 2022. Manufacturing orders and construction are going great guns, but for how long is the million dollar question when it comes to the broader economic outlook in 2024. Stay tuned.

ISM manufacturing index

	Jan 24	Dec 23	Nov	Oct 23
PMI index	49.1	47.1	46.6	46.9
Prices	52.9	45.2	49.9	45.1
Production	50.4	49.9	48.8	50.0
New orders	52.5	47.0	47.8	46.2
Supplier deliveries	49.1	47.0	46.2	47.7
Employment	47.1	47.5	46.1	47.1
Export orders	45.2	49.9	46.0	49.4



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