Financial Markets This Week

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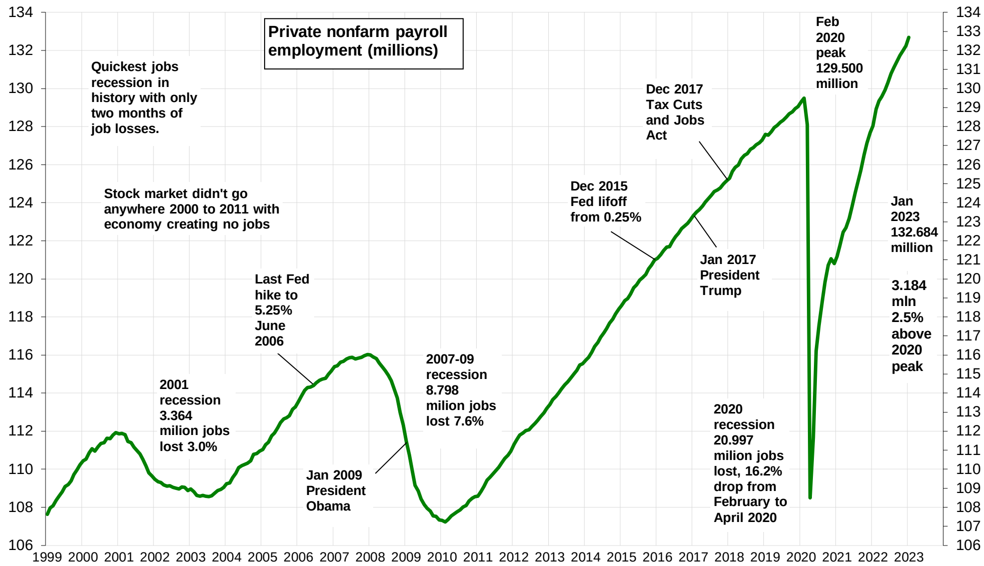
HALF A MILLION JOBS, CALL THE RECESSION OFF



The monthly employment situation report for January was a surprise. Wages were slower, less wage push inflation, but so what. Well, employers said at the end of December they needed to hire over 11 million workers in the Jolts data, and now it looks like they found them somehow even with unemployment at just 3.4%. The Household Survey of employment behind the 3.4% unemployment rate also rose a large 894 thousand today after 717K in December. Technically you can't use the December-January 894 thousand change because it is the result of updated population controls (population is 954 thousand higher now), but still, today's jobs report says this is an economy that is booming and far, far away from any hint of decline.

The 517 thousand payroll jobs came from simply everywhere this month, but there were big changes in leisure and hospitality (128K), professional and business services (82K), health care and social assistance (79K). Even temporary help jobs, the first to go in a recession, climbed back 25.9K in January. Nothing adds up. ISM purchasing managers say manufacturing is in recession, but manufacturing payroll employment rose 19 thousand. Housing is in recession, but construction added 25K more jobs, mostly in nonresidential specialty trade contractors. Retail sales plummeted in November and December, but retail trade jobs rose 30K. Big Tech layoffs are in the news, but information jobs dropped only 5K, and computer systems jobs showed a small increase of less than 1K.

It isn't just the January 517K gain. August-December monthly gains are much stronger after annual benchmark revision.

	Before	After	Change
Aug	292	352	60
Sep	269	350	81
Oct	263	324	61
Nov	256	290	34
Dec	223	260	37

To conclude, the economy isn't doing what we thought it would. The economy is further away from recession than ever with over half a million new payroll jobs to start the new year off right. This is one of the days where economists don't pick up the phone because they simply do not know what to say. All those purchasing managers indexes and surveys of plugged-in CEOs can be thrown in the rubbish because 517 thousand more jobs means there is no recession coming later on this year... unless you think the Fed will push rates to 8%. Powell said this pandemic recession and recovery wasn't a normal business cycle downturn and he had that right. We are astonished how with a rock-bottom 3.4% low in the unemployment rate, the lowest since the 1960s, how can companies find workers to hire? It's a good thing Fed Chair Powell said they wouldn't necessarily keep raising rates if the labor market stays strong, because the jobs report today shows the economy is booming. Bet on it. Half a million jobs, climb down off the wall, call the recession off. This isn't a soft-landing, the economy is still flying high.

Note: Wages, average hourly earnings slowed to 0.3% this month for a 4.4% year-year gain. This isn't the key to getting inflation under control. We will see wages of 0.3 or 0.4 percent for the rest of the year.

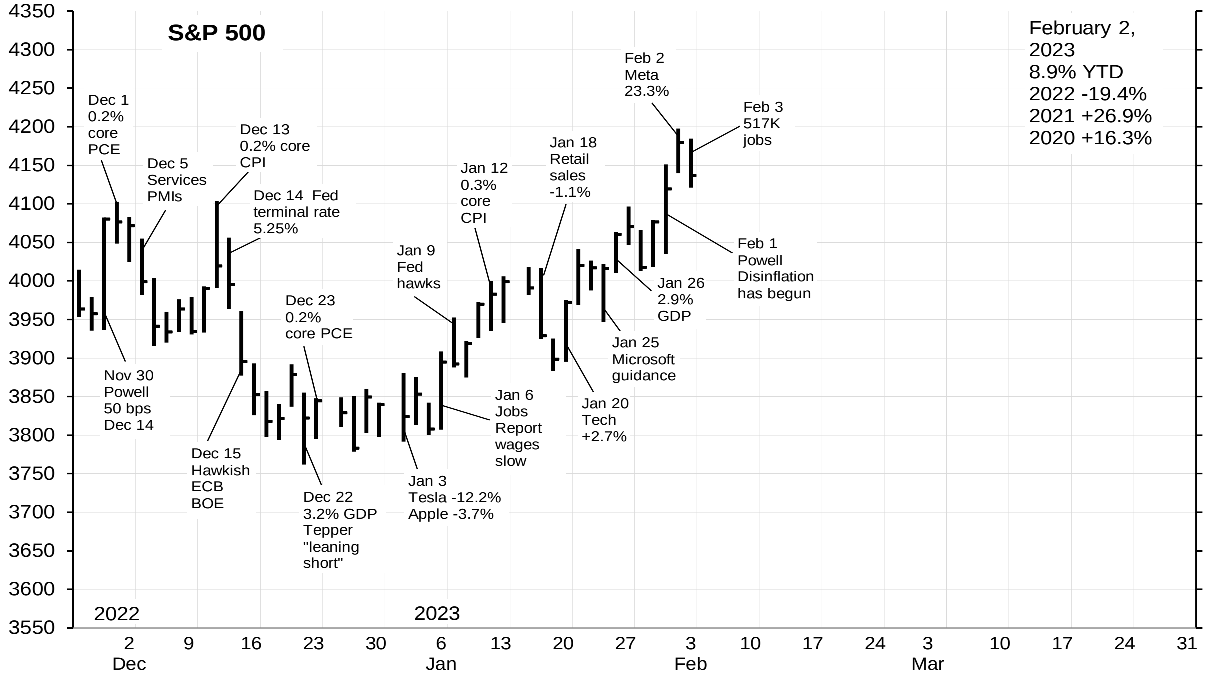
Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Jan 23	Dec 22	Nov 22	35 months Feb 20 Jan 23	Jan 23	Feb 2020
Nonfarm Payroll Employment	517	260	290	2,702	155,073	152,371
Total Private (ex-Govt)	443	269	228	3,184	132,684	129,500
Goods-producing	46	43	41	435	21,514	21,079
Mining	3	4	8	-52	586	638
Manufacturing	19	12	14	214	12,999	12,785
Motor Vehicles & parts	-7	9	6	56	1,041	985
Computer/electronics	-1	1	2	19	1,100	1,081
Food manufacturing	7	5	7	72	1,726	1,655
Construction	25	26	19	276	7,884	7,608
Specialty trade contractors	22	13	5	195	5,016	4,821
Private Service-providing	397	226	187	2,749	111,170	108,421
Trade, transportation, utilities	27	-41	3	914	28,746	27,832
Retail stores	30	1	-46	-37	15,483	15,520
General Merchandise	16	-10	-54	-44	3,058	3,102
Food & Beverage stores	2	8	9	105	3,229	3,124
Transportation/warehousing	23	13	-37	955	6,741	5,786
Truck transport	4	5	0	95	1,615	1,520
Air transportation	3	3	4	10	527	517
Couriers/messengers	-3	-10	-35	243	1,108	865
Warehousing and storage	3	2	-14	623	1,940	1,317
Information	-5	-5	13	211	3,119	2,908
Computing, data, web hosting	-1	7	-1	123	485	363
Financial	6	11	11	245	9,114	8,869
Insurance	-5	0	1	65	2,917	2,851
Real Estate	4	11	14	50	2,415	2,365
Commercial Banking	-1	0	2	-23	1,376	1,398
Securities/investments	7	3	5	112	1,078	966
Professional/business	82	39	0	1,475	22,912	21,437
Temp help services	26	-41	-49	194	3,078	2,884
Management of companies	-3	8	2	30	2,513	2,483
Architectural/engineering	6	5	5	103	1,651	1,548
Computer systems design	1	3	1	259	2,494	2,234
Legal services	2	1	1	20	1,184	1,164
Accounting/bookkeeping	7	-2	-2	106	1,139	1,033
Education and health	105	76	95	361	24,937	24,576
Private Educational services	26	-5	13	83	3,881	3,798
Hospitals	11	14	10	19	5,254	5,236
Ambulatory health care	30	28	33	441	8,308	7,867
Leisure and hospitality	128	64	123	-495	16,450	16,945
Hotel/motels	15	12	15	-251	1,862	2,113
Eating & drinking places	99	32	87	-166	12,173	12,339
Government	74	-9	62	-482	22,389	22,871
Federal ex-Post Office	3	2	7	22	2,282	2,260
State government	39	-38	12	-200	5,117	5,317
State Govt Education	35	-41	7	-166	2,447	2,613
Local government	30	29	48	-305	14,394	14,699
Local Govt Education	17	16	22	-174	7,882	8,056

Monthly changes (000s)	Jan	Dec	Nov	Oct	Sep
Payroll employment	517	260	290	324	350
Private jobs	443	269	228	299	344
Leisure/Hospitality jobs	128	64	123	61	139
HH Employment Survey*	894	717	-66	-257	156
Unemployment rate %	3.4	3.5	3.6	3.7	3.5
Participation rate %	62.4	62.3	62.2	62.2	62.3
Not in labor force (mln)	100.130	99.878	100.181	99.890	99.736
... and Want A Job (mln)	5.314	5.176	5.528	5.681	5.813
Average hourly earnings	$33.03	$32.93	$32.80	$32.66	$32.53
MTM % Chg	0.3	0.4	0.4	0.4	0.3
YOY % Chg	4.4	4.8	5.0	4.9	5.1

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES

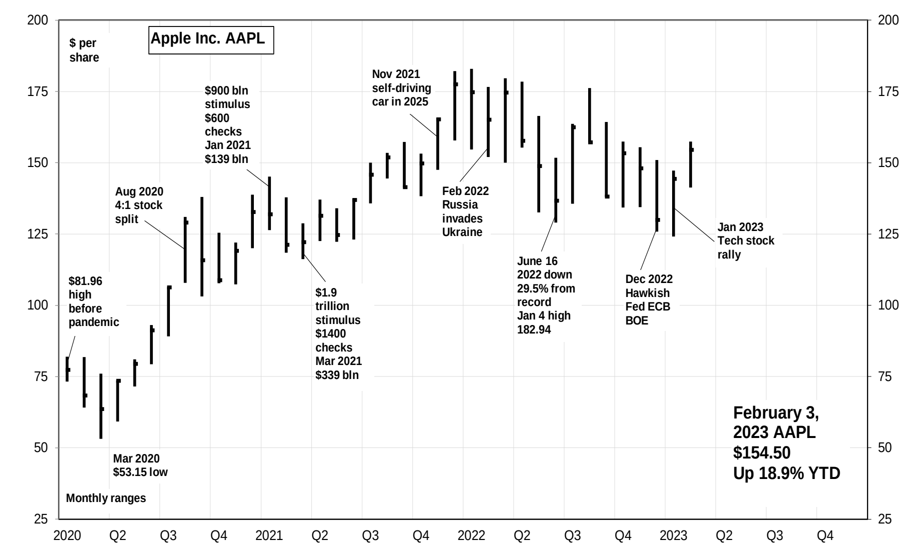


10-year yields rose 12 bps Friday after the mega jobs report to close the week at 3.52%. The yield spread to the 5.0% Fed funds rate on March 22 is going for the record books especially if there is no recession to bring some Fed rate cuts. The S&P 500 fell 1.2% on the jobs report, rallied back to unchanged and closed the week down 1.0% on the day. It is less clear what a 517K jobs number means for stocks if the Fed is not going to move rates higher than 5.25% which is only 50 bps away. If the economy is holding up, not sending workers to the unemployment lines, maybe it is not as worrisome for stocks and earnings. For the record, the magical 50-day average moved above the 200-day average on Thursday, the Golden Cross, which seemed to bring in more buyers. The S&P 500 at 4136.48 at Friday's close is still down 14.2% from the January 2022 record high and discounts a lot.

Apple, Inc. AAPL Earnings miss, but stock is 18.9% higher this year

Amazon, Alphabet, Apple all fell after reporting earnings Thursday evening, although Apple closed higher Friday by 2.4%. Friday losses: Amazon 8.4%, Alphabet 2.7%. First year-to-year drop in sales since before the pandemic. The sales of iPhone 14 were down partly on closed China factories. Company also cites the macroeconomic environment, and strong dollar.

Calendar Year Mln $	Operating Income	Net Sales	iPhone	Greater China
Q4 2022	36,016	117,154	65,775	23,905
Q3 2022	24,894	90,146	42,626	15,470
Q2 2022	23,076	82,959	40,665	14,604
Q1 2022	29,979	97,278	50,570	18,343
Q4 2021	41,488	123,945	71,628	25,783
Q3 2021	23,786	83,360	38,868	14,563
Q2 2021	24,126	81,434	39,570	14,762
Q1 2021	27,503	89,584	47,938	17,728
Q4 2020	33,534	111,439	65,597	21,313



FEDERAL RESERVE POLICY

The Fed met January 31-February 1, 2023 to consider its monetary policy. They raised rates 25 bps to 4.75%. 50 left to go to the 5.25% terminal rate in 2023. The market took the Q&A session as being dovish and the S&P 500 rallied 1.0% Wednesday to a new 2023 high, up 7.3% YTD.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	1-Feb	25-Jan	18-Jan	11-Jan	3/11/20*	3/11/20
Factors adding reserves						to Feb 1
U.S. Treasury securities	5397.388	5435.582	5436.722	5456.426	2523.031	2874.357
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2624.735	2624.735	2639.940	2641.402	1371.846	1252.889
Repurchase agreements	0.000	0.000	0.001	0.000	242.375	-242.375
Primary credit (Discount Window)	4.700	5.106	4.603	3.860	0.011	4.689
Paycheck Protection Facility	11.070	11.183	11.270	11.347		
Main Street Lending Program	22.598	22.291	22.270	22.590		
Municipal Liquidity Facility	5.581	5.579	5.576	5.574		
Term Asset-Backed Facility (TALF II)	1.948	1.961	1.960	1.958		
Central bank liquidity swaps	0.427	0.387	0.198	0.191	0.058	0.369
Federal Reserve Total Assets	8483.2	8520.6	8539.0	8558.6	4360.0	4123.180
~~3-month Libor %~~ SOFR %	4.31	4.31	4.30	4.30	1.15	3.160
Factors draining reserves						
Currency in circulation	2296.774	2291.233	2295.031	2299.041	1818.957	477.817
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	500.852	572.622	377.500	346.426	372.337	128.515
Treasury credit facilities contribution	15.347	15.347	15.347	15.347		
Reverse repurchases w/others	2038.262	2031.561	2131.678	2199.170	1.325	2036.937
Federal Reserve Liabilities	5452.921	5520.031	5420.778	5441.807	2580.036	2872.885
Reserve Balances (Net Liquidity)	3030.286	3000.541	3118.236	3116.831	1779.990	1250.296
Treasuries within 15 days	115.293	85.234	86.064	64.646	21.427	93.866
Treasuries 16 to 90 days	326.104	338.952	334.494	353.364	221.961	104.143
Treasuries 91 days to 1 year	692.347	720.122	724.788	721.247	378.403	313.944
Treasuries over 1-yr to 5 years	1888.657	1907.204	1907.249	1915.402	915.101	973.556
Treasuries over 5-yrs to 10 years	910.493	919.538	919.568	937.178	327.906	582.587
Treasuries over 10-years	1464.494	1464.532	1464.560	1464.589	658.232	806.262
Note: QT starts June 1, 2022	Change	2/1/2023	6/1/2022			
U.S. Treasury securities	-373.391	5397.388	5770.779			
Mortgage-backed securities (MBS)	-82.711	2624.735	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

After the monster 517K jobs report on Friday, it seems like it was years ago that Powell "told" the public he wasn't concerned about current financial conditions in the question and answer period at Wednesday's press conference and his comment sent stocks straight up. The rally wasn't all on financial conditions as he did say the disinflationary process has started.

Q&A Wednesday press conference
Financial conditions have eased, bond yields down, stock market up, does this make your job to bring inflation down harder?

Powell: So, it is important that overall financial conditions continue to reflect the policy restraint that we're putting in place in order to bring inflation down to 2 percent. And of course, financial conditions have tightened very significantly over the past year. I would say that our focus is not on short-term moves but on sustained changes to broader financial conditions. And it is our judgment that we're not yet at a sufficiently restrictive policy stance, which is why we say that we expect ongoing hikes will be appropriate. Of course, many things affect financial conditions, not just our policy. And we will take into account overall financial conditions along with many other factors as we set policy.

The key will be whether the Fed thinks rates have to go higher than the current terminal 5.25% rate because the labor market is the tightest since the 1950s. If inflation comes down with CPI reports on February 14 and March 14 before the next Fed meeting, they may not change the terminal rate forecast at the March meeting. Maybe their economic models on the inflation-unemployment tradeoff are broken.

Fed funds futures call Fed hikes		
Current target: Feb 3 -- 4.75%		
Rate+0.17	Contract	Fed decision dates
4.985	Apr 2023	Mar 22
5.17	Aug 2023	Mar, May, June, July

Powell said a couple of times in the press conference maybe unemployment doesn't need to rise significantly. But he did think inflation probably wouldn't return to the 2% target without a "better balance" in the labor market. Perhaps that means a reduction in labor demand with falling job openings in the Jolts data. It remains an open question whether they can pause rates at 5.25% with a rock-bottom 3.4% unemployment rate. The market doesn't think so yet. August Fed funds futures yields rose from 4.995% Thursday to 5.17% after the 517K jobs, 3.4% jobless report. Futures call for the March 21-22 meeting remains 25 bps to 5.0%.

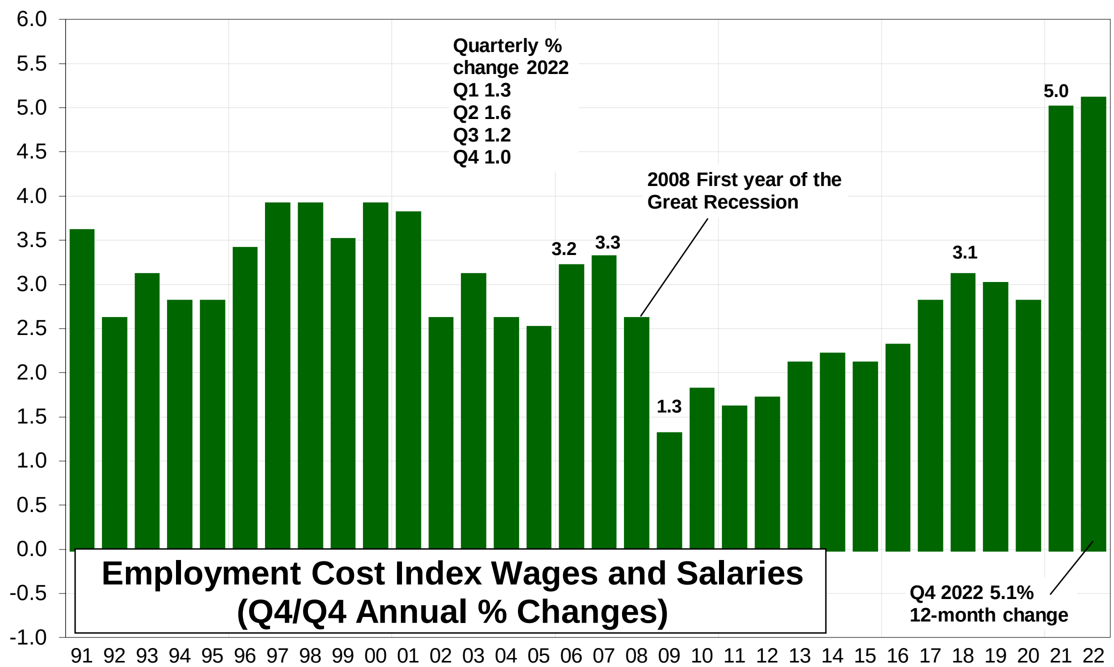
OTHER ECONOMIC NEWS

Wages are slowing, we're telling ya (Tuesday)

Breaking economy news. While waiting for the Golden Cross to, well, cross, on the technical charts, the stock market found some economic news to rally on. The Employment Cost Index (ECI), wages to you, rose 1.0% in Q4 2022 instead of the 1.1% consensus number. A beat on the top line. Quite a stretch. But wages are cooling so the main cost-driven element of inflation is cooling.

1.0% in Q4 2022 is slower than the 1.4% Q1 2022 surge that matched the inflation spike after Russia entered Ukraine. 1.3% in Q2 2022, 1.2% in Q3 2022, so 1.0% represents some more good news perhaps. 1.0% X 4 = 4.0% not the Q4 2022 5.1% year-year rate. The soft spots were Manufacturing 0.8%, Retail 0.6%, Restaurants and hotels 0.8%, Realtors 0.6%. The bright spots were banks 1.6%, Education 1.3%, Hospitals 1.2%, Tech 1.3%.

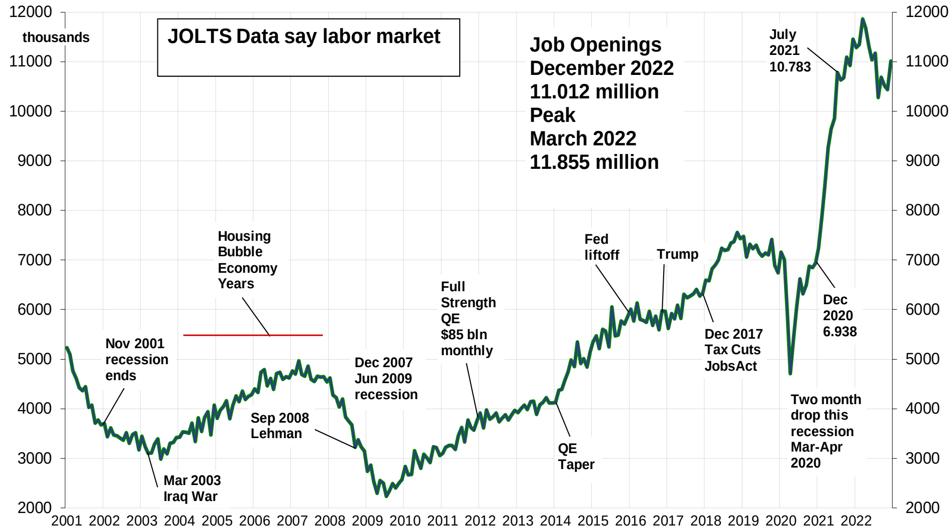
Net, net, whether wages lead inflation or lag inflation, employment compensation is rising less rapidly than it was at the start of last year which provides additional evidence that the Fed's aggressive rate hikes beginning in March 2022 last year are having their intended effect. This wage slowdown is the final economic news the Fed receives before it meets later today and supports downshifting further to a 25 bps rate hike this month. The Fed funds rate will be 4.75% and that is above the 4.0% "annualized" rate of the ECI data for Q4 2022. Federal Reserve rate hikes work to slow economic demand like sales and factory production, and a slowdown in wages is a sign that employers are attempting to rein in their variable costs in an increasingly uncertain economic environment with a majority of corporate leaders battening down the hatches against the threat of recession this year. Stay tuned. Story developing. We forgot. The Golden Cross is when the 50-day moving average of stock prices crosses above the 200-day moving average. Trade it if you can.

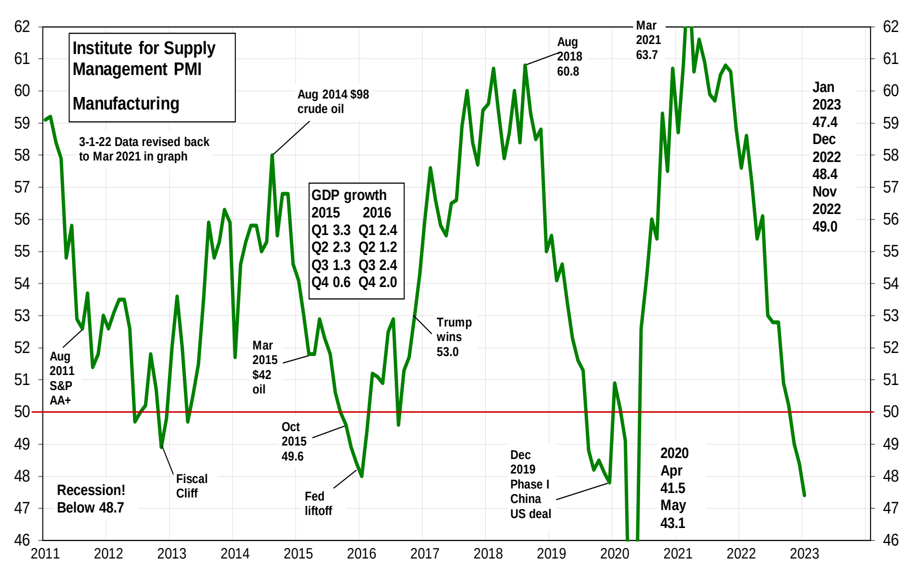


Job openings surge to over 11 million at the end of last year (Wednesday)

Breaking economy news. The Jolts data, job openings showed a surprise increase of 572 thousand to 11.022 million at the end of last year. The number of unemployed behind December's 3.5% unemployment rate was 5.722 million. Maybe companies could try to reach jobless workers by advertising open positions on Twitter. Job openings had a 572 million increase, but 409 thousand or 71.5% of those jobs were in hotels and restaurants. Information tech jobs fell to 109 thousand at the end of December from 216 thousand at the end of November.

Net, net, the labor market continues to defy the recession predictions of experts with over 11 million job openings in December. This could well be the first recession in history without material job losses even with production and consumer spending turning economic growth upside down. The baby boom generation is retiring and leaving the labor force and there aren't enough younger workers to pick up the slack. Either that or they are sitting at home reading about workism instead of mailing off resumes. Stay tuned. Story developing. Story developing in a way that confounds the best thinking of Fed officials. The labor market remains strong at least with the latest reading on the demand for workers by U.S. companies. The unemployment rate is 3.5% and the Fed thinks its aggressive rate hikes will send unemployment to 4.6% at the end of 2023. It's a good thing for the Federal Reserve that inflation pressures are cooling because the labor market isn't cooling at all.

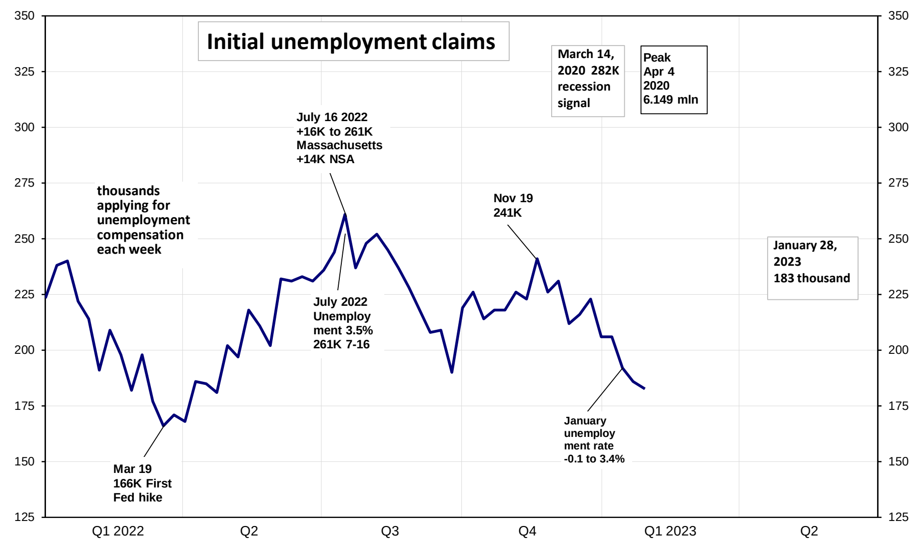




ISM manufacturing index	Jan 23	Dec 22	Nov 22	Oct 22
PMI index	47.4	48.4	49.0	50.0
Prices	44.5	39.4	43.0	46.6
Production	48.0	48.6	50.9	51.9
New orders	42.5	45.1	46.8	48.2
Supplier deliveries	45.6	45.1	47.2	46.8
Employment	50.6	50.8	48.9	49.9
Export orders	49.4	46.2	48.4	46.5

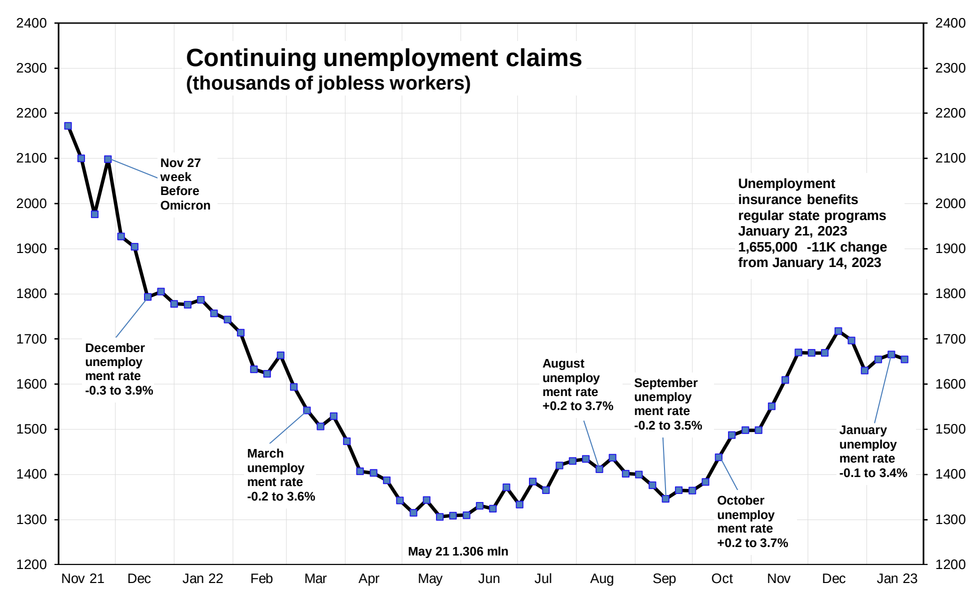
Another day with recession minus job losses (Thursday)

Breaking economy news. Initial unemployment claims fell modestly to 183K in the January 28 week from 186K the week before. Some day soon economists will have to take down those calls for recession in 2023 because the labor market refuses to budge from the lowest unemployment rate in history. The total number of workers receiving benefits fell modestly too, by 11K to 1.655 million, and the numbers can only fall in the weeks ahead because initial claims have come way down since the year-end holidays. First-time jobless claims were 223K in the December 24 week, but now of course are down to 183K. And please don't point to the Challenger Gray job cuts by employers totaling 102,943 in January that are "more than five times a year ago." Their count missed quite a few layoffs as first-time jobless claims were 224,356 (not seasonally adjusted) just in one week for January 28.



Net, net, it remains a conundrum why job losses continue to shrink each week and we can only guess that over 11 million help wanted signs around the country are making companies think twice about letting employees go. Labor is scarce. Initial claims are the lowest since April last year so those recession clouds out on the horizon the market is betting on are not even clouds anymore, the jobless layoffs data tells us the threatening clouds have completely disappeared. Retail sales and industrial production turned down in November and December, but maybe they will pick back up because the weekly jobless claims statistics have shown significant improvement since November.

Note: after Friday's 517K jobs report, initial claims a better indicator of the labor market than continuing claims.



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