

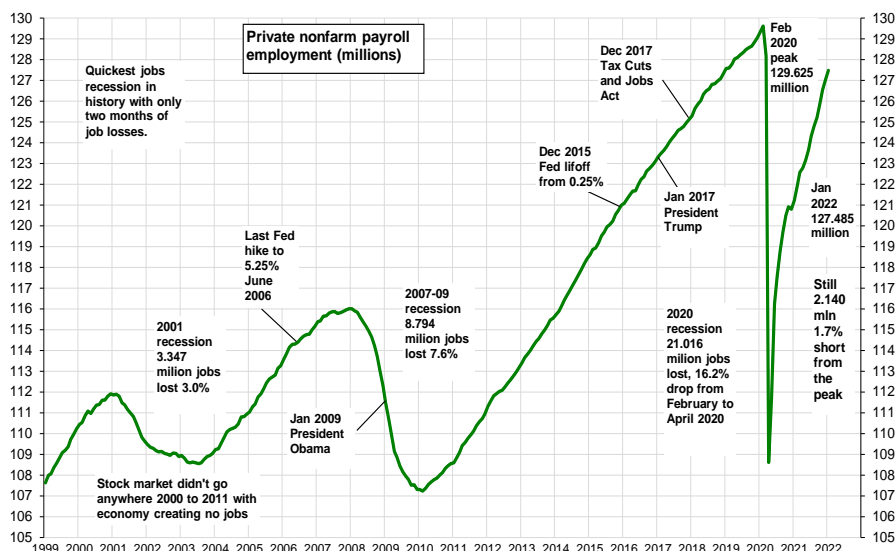
Financial Markets This Week

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SOLID JOBS REPORT PUTS MORE RATE HIKES ON THE TABLE

This seems to happen a lot. Market expects payroll jobs to fall 250K and surprisingly it goes up 467K instead. Bond yields soar to new highs this year closing at 1.91% on Friday, 7 bps higher than Thursday. The Fed will have to move more quickly as they are further behind the curve. But is it too good to be true? How solid is the Bureau of Labor Statistics (BLS) monthly employment situation report for January



released Friday morning at 830am ET? Real GDP might actually decline in the first quarter of 2022 you know. An almost perfect report, 467K payroll jobs, worker wages 6.9% year-to-year, participation rate up three-tenths, and only unemployment going the wrong way, rising one-tenth to 4.0%. There's always more to the story and Friday's jobs report is no exception. Taking each of the parts in turn, 467K jump in payroll jobs in January was good, but it was the big upward revisions to November/December that caught the markets eye. Unfortunately it wasn't just the normal two prior months of revisions, today's report is the annual benchmark revisions which go back to 2017 with major changes to the last 12 months. November/December was revised up 709K and June/July was revised down 807K. Nothing more to the wages story, there is a real wage-price spiral which means inflation is more sustainable. Hourly earnings of production and nonsupervisory workers (not their bosses) are \$26.92 in January, up 0.6% for the month and a cool 6.9% the last year. Workers in the 80s went on strike to get employers to match their wages to the rate of inflation, but not anymore. The wages story in today's report is real, the participation rate story is not. We never liked the participation rate as an indicator anyway ever since politicians grabbed onto it as being meaningful. The participation rate is in a long term decline because of the retiring baby boomers who are 58

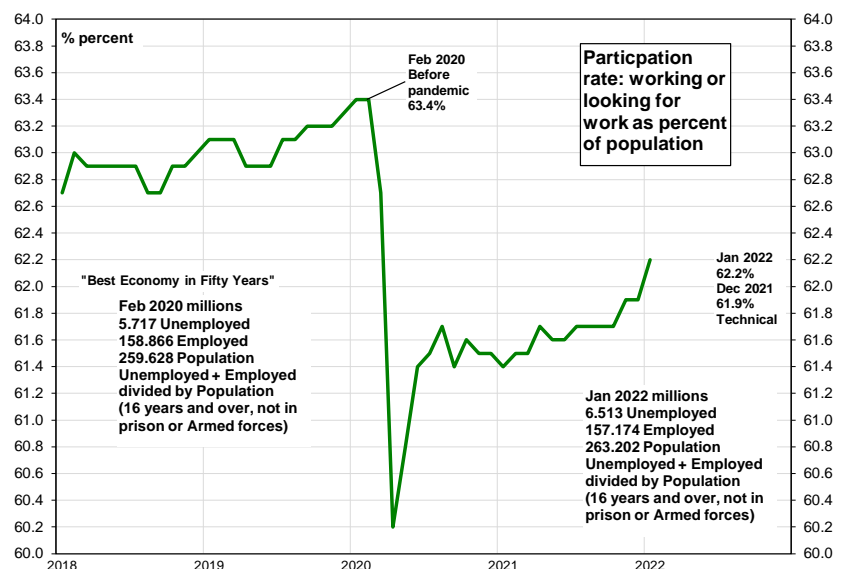
Monthly changes (000s)	Jan	Dec	Nov	Oct	Sep
Payroll employment	467	510	647	677	424
Private jobs	444	503	627	694	409
Leisure/Hospitality jobs	151	163	191	141	134
HH Employment Survey*	1199	651	1090	428	639
Unemployment rate %	4.0	3.9	4.2	4.6	4.7
Not in labor force (mln)	99.516	99.842	99.902	100.298	100.294
... and Want A Job (mln)	5.704	5.713	5.819	5.935	5.918
Average hourly earnings	\$31.63	\$31.40	\$31.23	\$31.11	\$30.92
MTM % Chg	0.7	0.5	0.4	0.6	0.5
YOY % Chg	5.7	4.9	5.3	5.4	4.8

* Household (telephone) Survey of employment behind unemployment rate

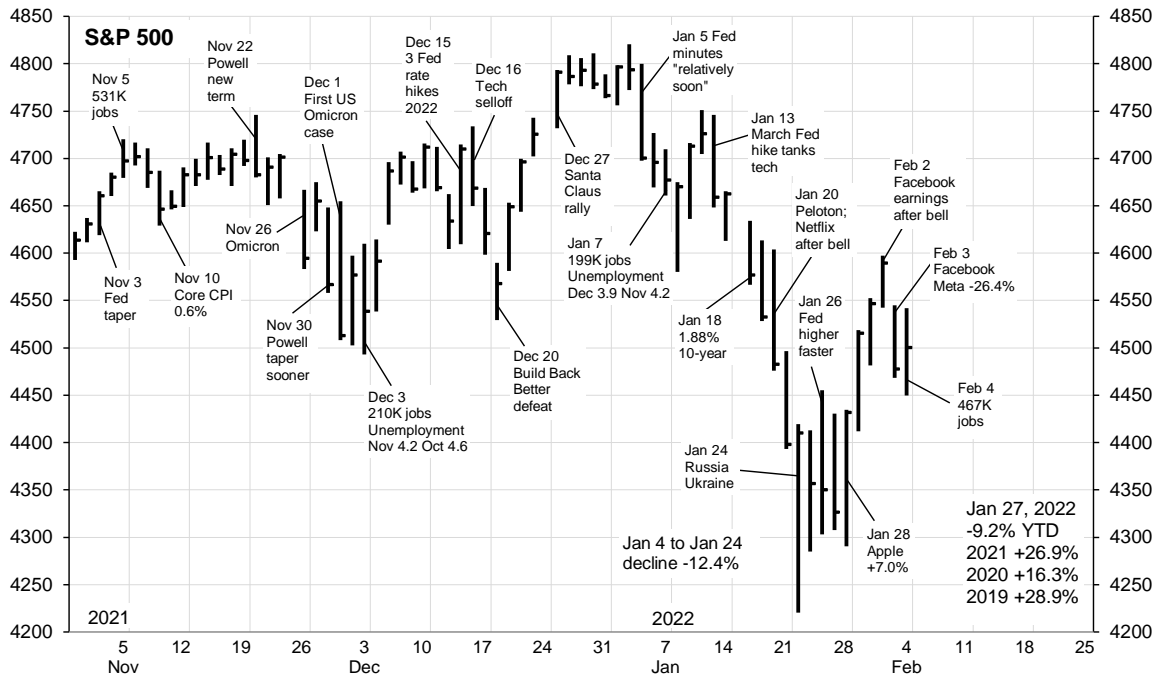
to 76 years old today. Anyway, the 0.3 increase in the participation rate to 62.2 in January from 61.9 in December was all due to the population control effects. The real change in January was 0.0. Zero. More Americans are not participating. The country isn't winning. The January data reflect updated population estimates and strictly speaking there is a series break between December and January data because the BLS does not revise the prior months of data. Finally, the unemployment rate went up a tenth to 4.0% and this is reasonable since weekly jobless claims were higher early in the month which were likely to be Omicron related... and temporary. Stay tuned. The economy isn't out of the woods yet even with a solid employment report this month. Retail sales for January will be interesting released February 16. Consumers bought a lot of cars in January despite Omicron: 20% more than December.

Payroll jobs fall from February 2020 peak as recession began						
	23 months					
	Jan 22	Dec 21	Nov 21	Jan 20	Jan 22	Feb 2020
Data in thousands						
Nonfarm Payroll Employment	467	510	647	-2,875	149,629	152,504
Total Private (ex-Govt)	444	503	627	-2,140	127,485	129,625
Goods-producing	4	62	99	-431	20,664	21,095
Mining	-4	4	3	-101	537	639
Manufacturing	13	32	48	-226	12,559	12,785
Motor Vehicles & parts	-5	1	-15	-9	979	988
Construction	-5	26	47	-101	7,523	7,624
Private Service-providing	440	441	528	-1,709	106,821	108,530
Trade, transportation, utilities	132	85	71	469	28,301	27,832
Retail stores	61	40	20	61	15,658	15,598
General Merchandise	29	23	5	194	3,195	3,000
Food & Beverage stores	-8	-7	4	52	3,108	3,056
Transportation/warehousing	54	25	37	542	6,337	5,795
Truck transport	8	4	9	34	1,549	1,515
Air transportation	7	7	5	8	524	516
Couriers/messengers	21	-5	17	236	1,111	875
Warehousing and storage	13	12	-3	410	1,728	1,319
Utilities	0	-1	-1	-9	538	547
Information	18	12	18	31	2,934	2,903
Financial	9	17	32	5	8,875	8,870
Insurance	5	5	5	-39	2,814	2,853
Real Estate	5	8	17	-44	2,320	2,364
Commercial Banking	0	-1	-1	-53	1,346	1,399
Securities/investments	-7	0	10	40	1,005	965
Professional/business	86	88	111	511	21,904	21,393
Temp help services	26	29	11	185	3,091	2,906
Management of companies	9	3	6	-61	2,361	2,423
Architectural/engineering	8	10	9	52	1,599	1,547
Computer systems/services	15	13	20	160	2,387	2,227
Legal services	2	3	3	14	1,177	1,163
Accounting/bookkeeping	-7	3	-4	38	1,069	1,030
Education and health	29	50	69	-645	23,953	24,598
Hospitals	3	2	3	-105	5,131	5,236
Educational services	13	19	32	-87	3,716	3,803
Leisure and hospitality	151	163	191	-1,750	15,233	16,983
Hotel/motels	23	25	33	-473	1,646	2,119
Eating & drinking places	108	104	83	-985	11,376	12,361
Government	23	7	20	-735	22,144	22,879
Federal ex-Post Office	-5	-6	-5	3	2,265	2,261
State government	-9	-2	-4	-101	5,209	5,310
State Govt Education	-1	5	4	-31	2,575	2,606
Local government	33	18	20	-647	14,061	14,708
Local Govt Education	29	18	26	-359	7,706	8,064

2021 Monthly Payroll Job Changes			
Before and After Benchmark Revision			
Thousands	After	Before	Difference
Jan-21	520	233	287
Feb-21	710	536	174
Mar-21	704	785	-81
Apr-21	263	269	-6
May-21	447	614	-167
Jun-21	557	962	-405
Jul-21	689	1,091	-402
Aug-21	517	483	34
Sep-21	424	379	45
Oct-21	677	648	29
Nov-21	647	249	398
Dec-21	510	199	311



INTEREST RATES



Stocks continued their volatile recovery from last week's 12.4% loss for the S&P 500 from the January 4 record high. More big tech earnings this week after the bell each day: Tuesday Google numbers were good, Amazon on Thursday the market thought was good (operating income all AWS though, not from our Amazon Prime purchases), and Facebook of course was a disaster. Bonds were volatile for their own reasons starting with the FT article on Monday where the Atlanta Fed President said 50 bps was possible. The Friday strong jobs report that sent bond yields soaring depressed the S&P 500 as much as 0.6% during the regular trading session, but stocks ended higher: -5.6% YTD.

Facebook now Meta down 38.3% from September 2021 record

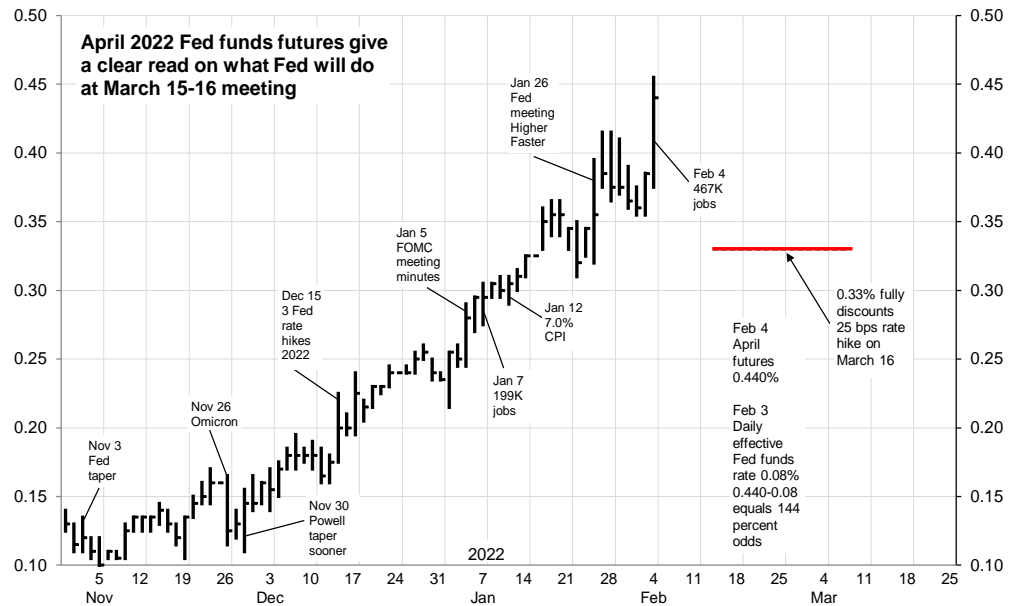
In the October call the company changed its name to Meta and laid out its vision for the metaverse, and in this week's earnings call the stock tanked. Earnings guidance wasn't what the Street expected. Q1 2022 sales forecast by the company at \$27-29 billion is less than the \$30 billion expected. Daily active users declined this quarter for the first time: 1.929 billion Q4 vs. 1.930 billion Q3. The metaverse Reality Labs losses again this quarter brought year-year operating earnings and EPS down.

S&P 500 Weights	
Top 6: 24% of S&P	
7.11	AAPL
5.97	MSFT
3.19	AMZN
1.91	TSLA
1.58	NVDA
2.27	GOOGL
2.10	GOOG
24.13	Top 6



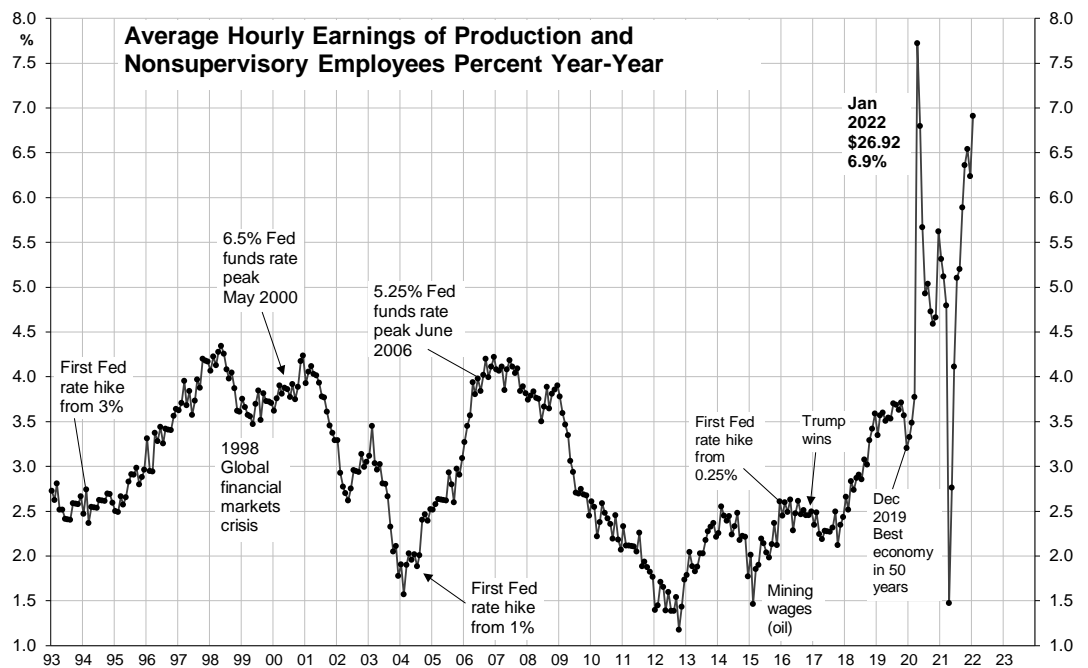
FEDERAL RESERVE POLICY

The Fed meets on March 15-16, 2022 to consider its monetary policy. You wonder if they are looking over their shoulders. The Bank of England raised rates a second time this cycle, 25 bps to 0.50% at 7am ET Thursday morning (4 of 9 voted for 50 bps, including American economist Catherine Mann... there's always one); at 745am ET the ECB statement changed



its guidance, no longer saying the next policy move could be in “either direction.” So, U.S. bond yields were already rising sharply, and then moved higher still in the opening minutes of ECB President Lagarde’s press conference starting at 830am ET. The global markets appeared struck when she said, “inflation has risen sharply in recent months and it has further surprised to the upside in January.”

The Bank of England and ECB news was Thursday before the strong payroll jobs report. The 10-year yield was 1.82% before the 830am ET release and rose as high as 1.94%. Surprise is part of the reason as in pleasantly surprised that Omicron did not depress the jobs figures. Omicron was over anyway, at least for the labor market,



with weekly jobless claims coming back down. Wages are still rising in today’s report which supports the higher inflation. It remains an open question where God would put the Fed funds rate right now if that was an option. On Thursday, before the report, Richmond Fed President Barkin said the Fed funds rate should go back to 1.75% where it was before the pandemic... no time line offered on how to get it there. Don’t get carried away, the Bank of England told the markets after hiking rates Thursday, maybe good advice for America as well. The decision will still be an emotional one that will be influenced by upcoming inflation reports however. Almost one and a half 25 bps rate hikes are discounted in March.

OTHER ECONOMIC NEWS

4.3 million quitters versus 3.6 million before the pandemic. Great Resignation indeed. (Tuesday)

Breaking economy news. Lots of news this morning, and we hope bond yields are not rising on another Fed official saying they could hike rates 50 bps in March. Once these central bankers get inflation religion there's no changing their minds. December construction spending and December JOLTS data on job openings and quitters. ISM manufacturing too.

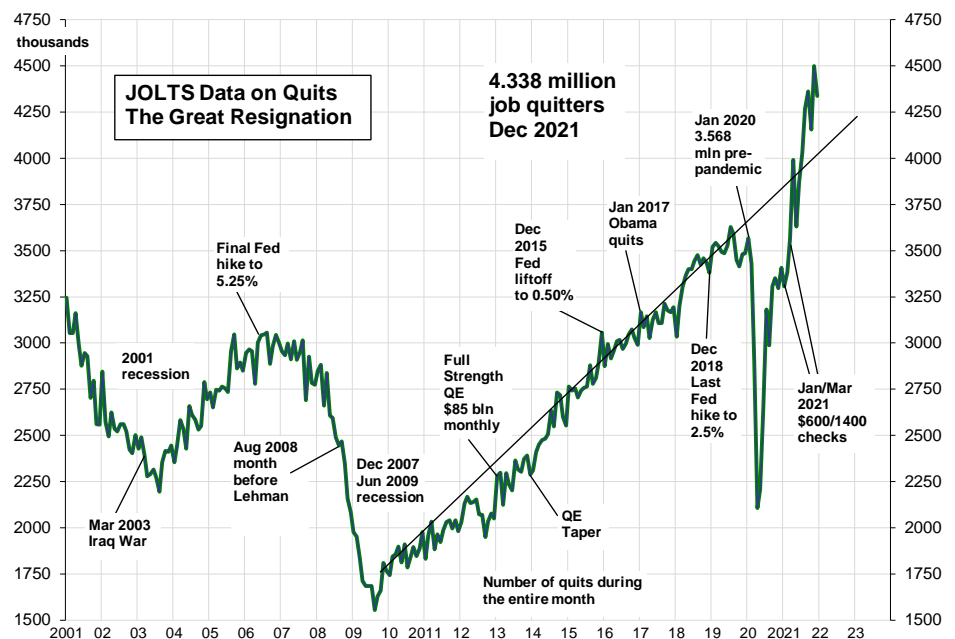
The Jolts data where there are plenty of job openings at the end of December at 10.925 million. The official number of unemployed workers behind December's 3.9% unemployment rate was 6.319 million so clearly more help is needed. More people quitting their jobs at 4.3 million isn't good for the economy, although there were 3.6 million quitting in January 2020 before the pandemic hit. Maybe quitting is the way America works with the quits rate at 6.7% just in the month of December for hotel and restaurant workers. No wonder we can't get extra towels, and forget about sending that too-rare steak back to the kitchen.

The ISM manufacturing survey slipped to 57.6 in January from 58.8 in December. The overall sector is expanding. Respondents said inflation was back. Out of 15 industries only Paper Products decreased and that explains the lack of paper towels on store shelves.

Construction spending for December was released. Private nonresidential construction was flat even if it is 9.1% higher than last year.

Manufacturing is the winner with construction 30.4% higher than last year followed by Commercial construction up 18.4%. The biggest loser is Lodging down 23.3% from December 2020. Construction in Q4 2021 subtracted 0.3 percentage points from the quarter's 6.9% real GDP growth.

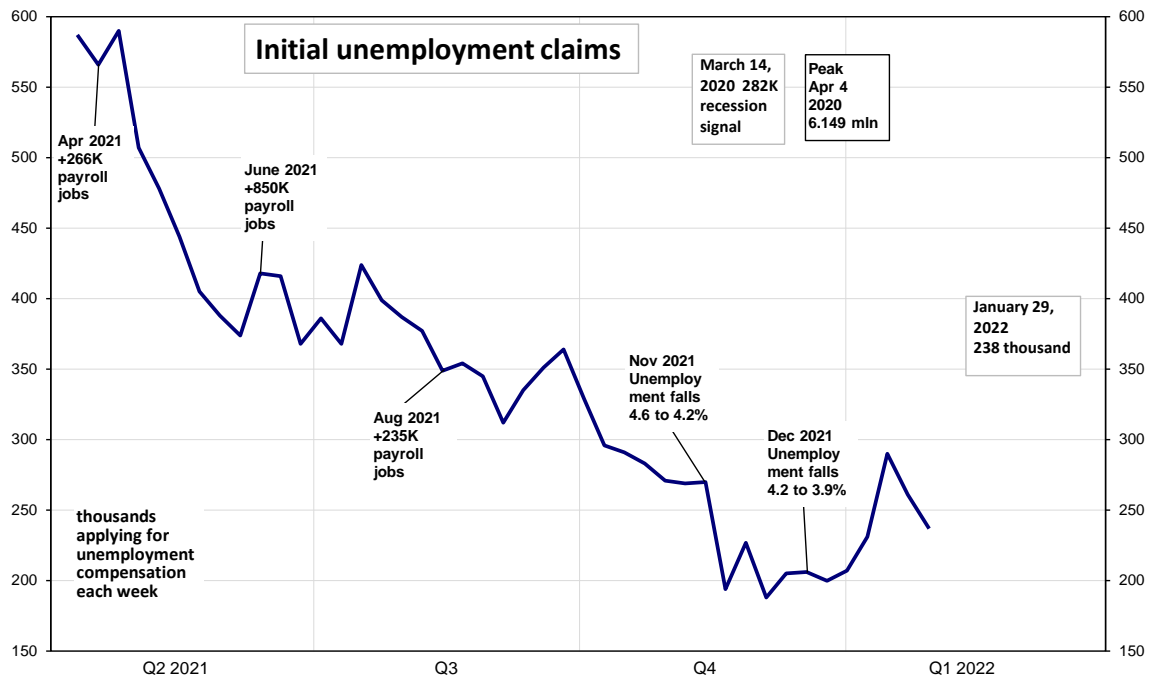
Net, net, the economy is not as strong as we thought as the labor shortage appears to be holding the country back from making a full recovery from the pandemic recession. American workers are on a tightrope right now as they consider do I stay or do I go. The take this job and shove it mentality hurts the economy as workers opt out of their employment at the offices and shops and malls around the country. The economy is slowing down, and inflation in goods and services is rising in part because there are not enough workers, so it isn't helpful that some are deciding to hang it up and quit their jobs. Stay tuned. Story developing. The Federal Reserve is anxious to start their rate hikes and slow economic demand, but it looks today as if the economy has down-shifted already.



Timeliest of labor market indicators is turning (Thursday)

Breaking economy news. Weekly jobless claims fell 23K to 238K in the January 29 week so it looks like fewer Americans are calling in sick from the Omicron virus than they were at the start of the year. The job losses look temporary and any resultant economic weakness will not last long enough to slow economic demand and stop the relentless, upward spiral in price increases, so the Federal Reserve still has work to do. Week by week there is steady improvement: 290K the peak for January 15, then 261K January 22, and 238K for January 29. Americans have taken their medicine and as they get better so will the labor market.

Net, net, better days lie ahead for the American economy with more job opportunities as the virus is no longer the threat it was in the early weeks of the year. The hiccup in the labor market and lost jobs is temporary, it is the inflation danger that is paramount in the minds of Fed officials. We don't care how weak the monthly employment report is tomorrow for January, no central banker worth his or her salt will believe the economy is faltering. A March rate hike is a sure bet. Rates are up in the United Kingdom today and even the ECB has changed its guidance, so it is unlikely that the Federal Reserve will be the odd man out and do nothing to quell the inflation outbreak that threatens to bring down the entire economy. It is the economic slowdown in the U.S. that will be of short duration, while the inflation surge will be more lasting and permanent if Fed officials don't get out in front of it.



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