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Global Macro Hedge Strategy EconomicsTrading

Financial Markets This Week

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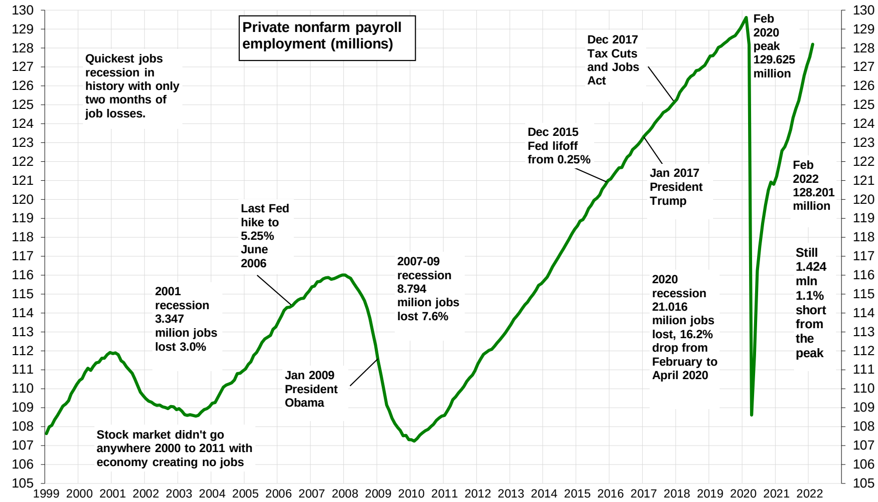
JOBS REPORT SAYS PANDEMIC IS OVER, CAUSING PANIC AT THE FED



Breaking economy news. The pandemic is over and the labor market is celebrating its release from the government policies of restriction and avoidance that kept the jobs market from making a full recovery. It doesn't get any better than this with 678 thousand new payroll jobs in February and a new post-pandemic low for the unemployment rate at 3.8% which is inches away from the best economy in fifty years 3.5% unemployment rate at the start of 2020. Today's jobs report is a welcome relief from the week's frightening news from Russia's invasion which stokes the market's fears of a coming change in the world order for the first time since World War II.

Monthly changes (000s)	Feb	Jan	Dec	Nov	Oct
Payroll employment	678	481	588	647	677
Private jobs	654	448	561	627	694
Leisure/Hospitality jobs	179	167	186	191	141
HH Employment Survey*	548	1199	651	1090	428
Unemployment rate %	3.8	4.0	3.9	4.2	4.6
Not in labor force (mln)	99.333	99.516	99.842	99.902	100.298
... and Want A Job (mln)	5.355	5.704	5.713	5.819	5.935
Average hourly earnings	$31.58	$31.57	$31.38	$31.23	$31.11
MTM % Chg	0.0	0.6	0.5	0.4	0.6
YOY % Chg	5.1	5.5	4.9	5.3	5.4

* Household (telephone) Survey of employment behind unemployment rate

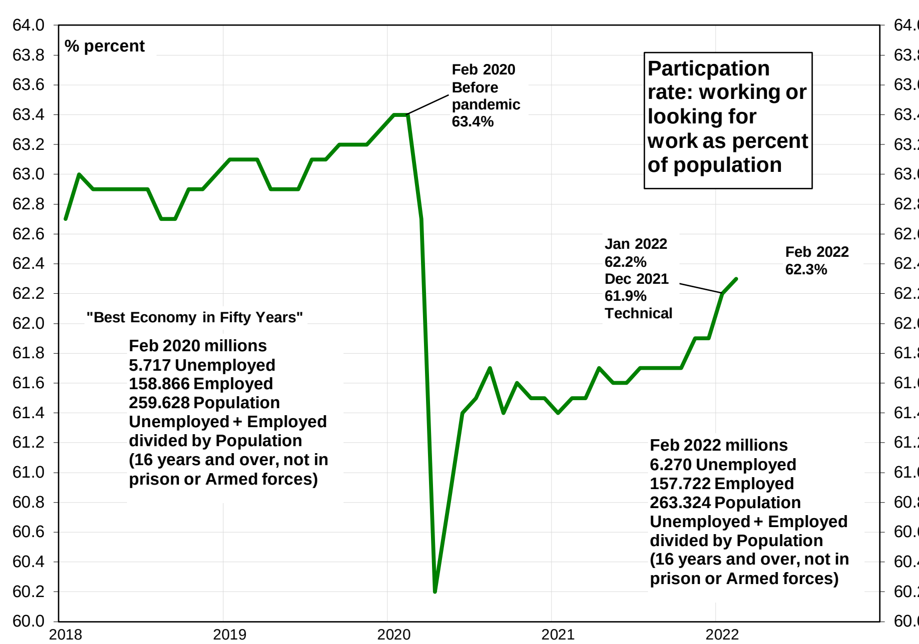
678 thousand more payroll jobs in February with 124 thousand of those at bars and restaurants. We'd like to say the country is emerging from the Omicron outbreak, but the funny thing is we can't see an Omicron effect on the economy if we look at food services and drinking places employment. Bar and restaurant jobs increased: 126K November, 124K December, 125K January and 124K Februrary.

The only miss today in the market's eyes was wages, especially compensation for management. This assumes markets are watching American employment data more than news on Russia/Ukraine which is not the case of course. Average hourly earnings were unchanged in February at $31.58 even if they are still 5.1% higher than a year ago. Manufacturing wages actually fell 0.5% in February for some strange reason, but then one-month changes are not very stable or often believable. Average hourly earnings were $28.56 in February 2020 before the pandemic, 10.6% higher today, which shows how the world has changed the last two years in part because there is more inflation: and wages for many are indexed to inflation. Earnings for production and nonsupervisory employees not their bosses are graphed in the Federal Reserve Policy section on page 4. We are not necessarily favoring working men and women over their bosses, it is just that the data go back decades. Nonsupervisory worker wages rose 0.3% in February, not zero, to $26.94 which is 6.7% higher than a year earlier. 6.7% breaks the bank historically, and wage increases year-to-year will come back down over the rest of 2022, mirroring what is likely to happen with inflation.

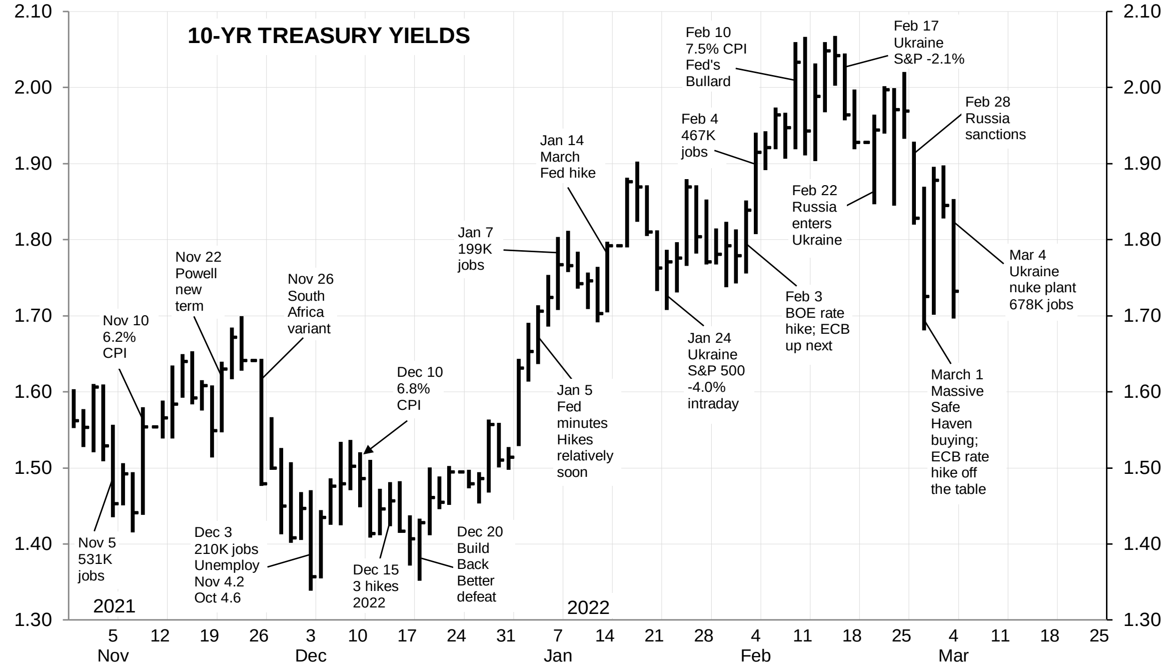
Net, net, the economy is really on a roll now with employment surging and while this counts as fantastic news, Federal Reserve officials are likely to view the report as showing monetary policy is even further behind the curve. Fed Chair Powell said this week they might lift rates by 50 bps at a meeting or meetings later this year if inflation doesn't come back down, but today's report gives those calling for 50 bps in March a shot in the arm. A 50 bps rate hike doesn't take a lot of punch out of the proverbial punchbowl, this economy is strong. We don't know how companies found them, but the shortage of workers appears to be a myth with 678 thousand more jobs created this month that sent joblessness crashing down. Jobs report says the pandemic is over, causing panic at the Fed. Bet on it.

Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Feb 22	Jan 22	Dec 21	24 months Feb 20 Feb 22	Feb 22	Feb 2020
Nonfarm Payroll Employment	678	481	588	-2,105	150,399	152,504
Total Private (ex-Govt)	654	448	561	-1,424	128,201	129,625
Goods-producing	105	24	93	-275	20,820	21,095
Mining	9	2	8	-83	556	639
Manufacturing	36	16	41	-178	12,607	12,785
Motor Vehicles & parts	-18	-4	1	-25	963	988
Construction	60	7	44	-11	7,613	7,624
Private Service-providing	549	424	468	-1,149	107,381	108,530
Trade, transportation, utilities	103	133	79	567	28,399	27,832
Retail stores	37	69	38	104	15,701	15,598
General Merchandise	-1	28	16	185	3,185	3,000
Food & Beverage stores	4	-4	-2	65	3,121	3,056
Transportation/warehousing	48	51	22	584	6,378	5,795
Truck transport	5	5	1	34	1,549	1,515
Air transportation	7	7	7	14	531	516
Couriers/messengers	9	18	-7	240	1,114	875
Warehousing and storage	11	14	11	420	1,738	1,319
Utilities	0	1	-1	-8	539	547
Information	0	10	9	20	2,923	2,903
Financial	35	3	14	31	8,901	8,870
Insurance	6	2	5	-34	2,818	2,853
Real Estate	19	2	8	-29	2,335	2,364
Commercial Banking	-1	0	-2	-56	1,343	1,399
Securities/investments	4	-4	0	46	1,011	965
Professional/business	95	73	91	596	21,989	21,393
Temp help services	36	33	41	240	3,146	2,906
Management of companies	12	5	2	-55	2,367	2,423
Architectural/engineering	4	9	10	56	1,604	1,547
Computer systems/services	5	8	8	154	2,381	2,227
Legal services	0	1	2	11	1,174	1,163
Accounting/bookkeeping	-1	-8	-2	31	1,061	1,030
Education and health	112	33	65	-514	24,084	24,598
Hospitals	3	-1	1	-107	5,128	5,236
Educational services	18	20	26	-56	3,747	3,803
Leisure and hospitality	179	167	186	-1,532	15,451	16,983
Hotel/motels	28	23	26	-444	1,676	2,119
Eating & drinking places	124	125	124	-824	11,537	12,361
Government	24	33	27	-681	22,198	22,879
Federal ex-Post Office	0	-5	-5	3	2,264	2,261
State government	3	2	17	-68	5,242	5,310
State Govt Education	5	11	24	6	2,612	2,606
Local government	21	32	18	-627	14,081	14,708
Local Govt Education	15	31	18	-342	7,723	8,064



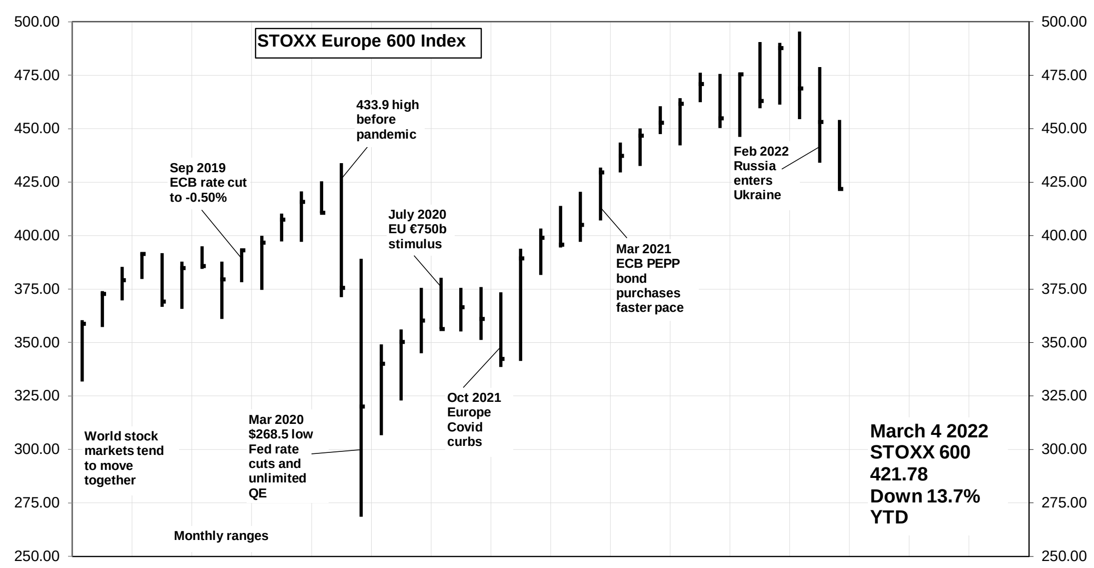
INTEREST RATES



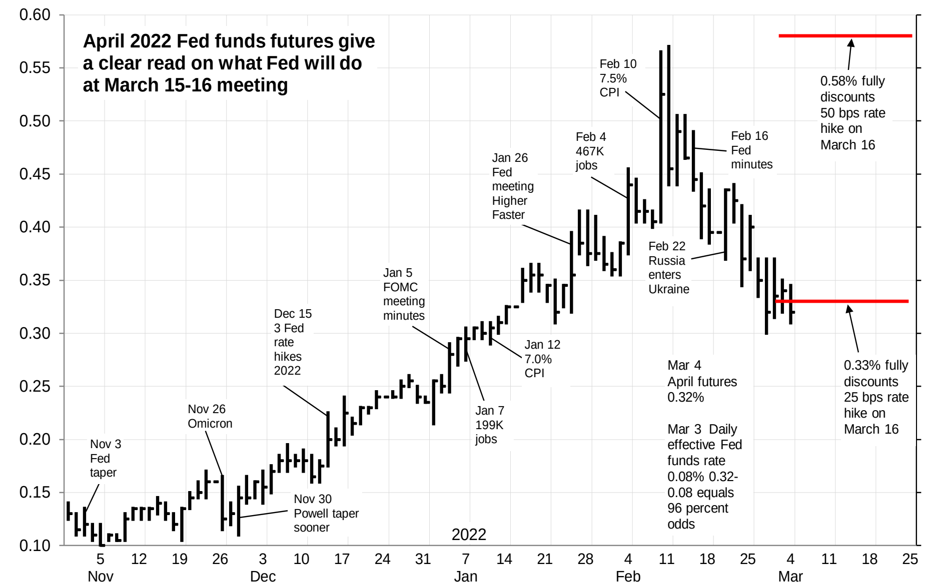
A week without comparison as the Russian invasion of Ukraine intensified further. At 7pm ET Thursday night, as the cash bond market was opening, the blizzard of headlines said Europe's biggest nuclear power plant was on fire after a Russian attack, and bond yields collapsed to 1.70% which pretty much characterized the day. The biggest economic statistic in the world, US nonfarm payroll employment, was better than expected, and yet bond yields dropped. Yield curve flattened, bond yields fell more than 2-year yields, which happens when the market is discounting Fed rate hikes ahead, and certainly 678K more payroll employment jobs means the Fed is further behind the curve.

Europe STOXX 600 down 14.9% from January 4 record high

The Russian invasion of Ukraine has torn up the economic forecasts and early ECB rate hike expectations have been shelved. The ECB won't be joining other central banks getting out in front of price pressures. The January 25 IMF World Economic Outlook forecast Euro Area GDP growth of 3.9% in 2022 and 2.5% in 2023, but those will be marked down. Friday saw European stocks fall 3.6% to new 2022 lows with the Euro breaking down below $1.10 closing at $1.0935.

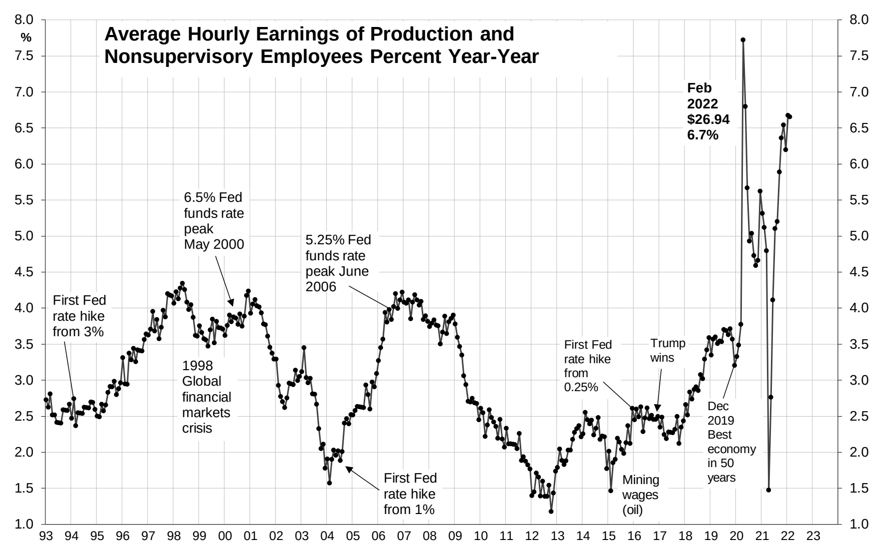


FEDERAL RESERVE POLICY



The Fed meets on March 15-16, 2022 to consider its monetary policy. Powell gave his semiannual Monetary Policy Report testimony on Wednesday before the House and on Thursday before the Senate. They are watching the situation in Ukraine carefully. They don't want to add to the economy's problems with their policy moves if the situation in Europe worsens. On Wednesday, market yields seemed to go up, when despite Powell's recommendation for just a 25 bps rate hike on March 16, he said monetary policy could get more aggressive in his response to a leading [question by Rep. Patrick McHenry (R-NC)](). A half-hour in, around 1030am ET, Powell answered "We have an expectation that inflation will peak and begin to come down this year and to the extent inflation comes in higher or is more persistently high than that, then we would be prepared to move more aggressively by raising the Federal funds rate by more than 25 bps at a meeting or meetings."

The jobs report was stronger than expected on Friday and the 3.8% unemployment rate is three-tenths away from the best economy in fifty years before the pandemic. If the economy is inches away from normal, the Fed funds rate is supposed to be normal, where the Fed's normal longer run interest rate estimate made at the December meeting is 2.5%. The Fed hasn't raised rates once yet, and they are still buying QE securities through March 11. Buy your stocks now before they stop.



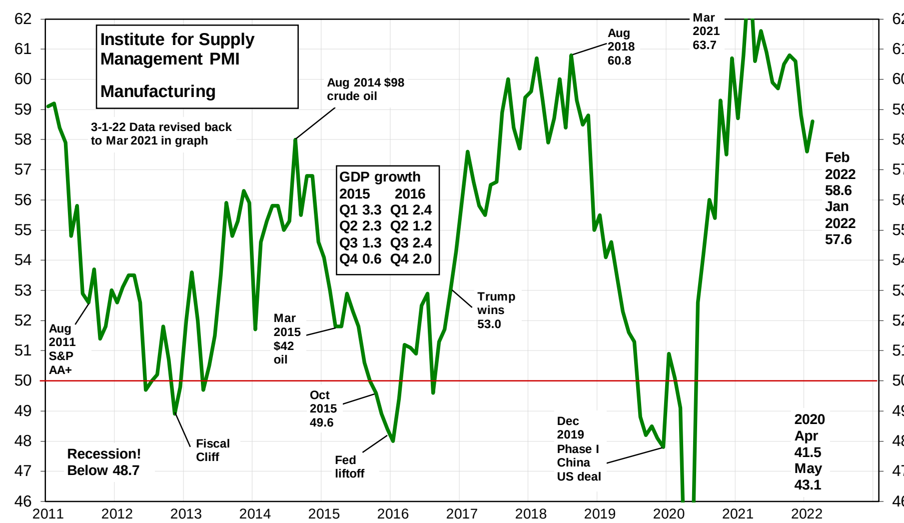
Even long-time dove Chicago Fed President Evans told TV after the jobs data on Friday that they need to be nearer to a neutral interest rates policy by the end of the year in case they need to actually tighten, lift rates above 2.5% neutral, if inflation persists. That sounds like they go 25 bps at each of the remaining 7 meetings this year which would place the 0.25% Fed funds rate at 2.0% at the end of 2022. Not sure the twitter age will allow these Bernanke speed rate hikes if the yield curve inverts signaling recession after just a few 25 bps rate hike moves. The 2-yr/10-yr spread was 24 bps on Friday versus 30 bps on Thursday. Stay tuned.

OTHER ECONOMIC NEWS

Purchasing managers at factories are whistling in the dark (Tuesday)

Breaking economy news. February Manufacturing PMI rose 1 percentage point to 58.6. New orders jumped 3.8 percentage points to 61.7. The ISM purchasing managers survey showing a surge in new orders for February is dead on arrival. The world is in a tailspin after the Russian all-out assault on Ukraine that threatens the stability of Europe. U.S. factories build goods that are exported around the world, and now the demand for goods from Europe is likely to fall sharply. Uncertainty kills demand and right now uncertainty is off the charts for markets and economies all over the globe. Purchasing managers are optimistic in February, but for how long? Purchasing managers at factories are just whistling in the dark this month.

Net, net, manufacturing executives are more positive about the business outlook in February, but it isn't believable with the Russian assault on Ukraine. U.S. manufacturing builds products to ship around the world and with the worst fighting seen in Europe since World War II, U.S. exports to Europe are going to take a hit. The world will not be normal for the foreseeable future and economic growth will slow to the stall speed where companies adjust their expectations for orders and sales steadily downward in the months to come. Uncertainty and fear is in the air and it is difficult to see where the world goes next. The U.S. economy came to a virtual standstill before the U.S. invasion of Iraq in 2003 and the Russian invasion of Ukraine is off the richter scale in comparison, so a gigantic demand shock is coming that will cause the economic recovery to stall if not bring about an actual drop over the cliff into the abyss of recession.

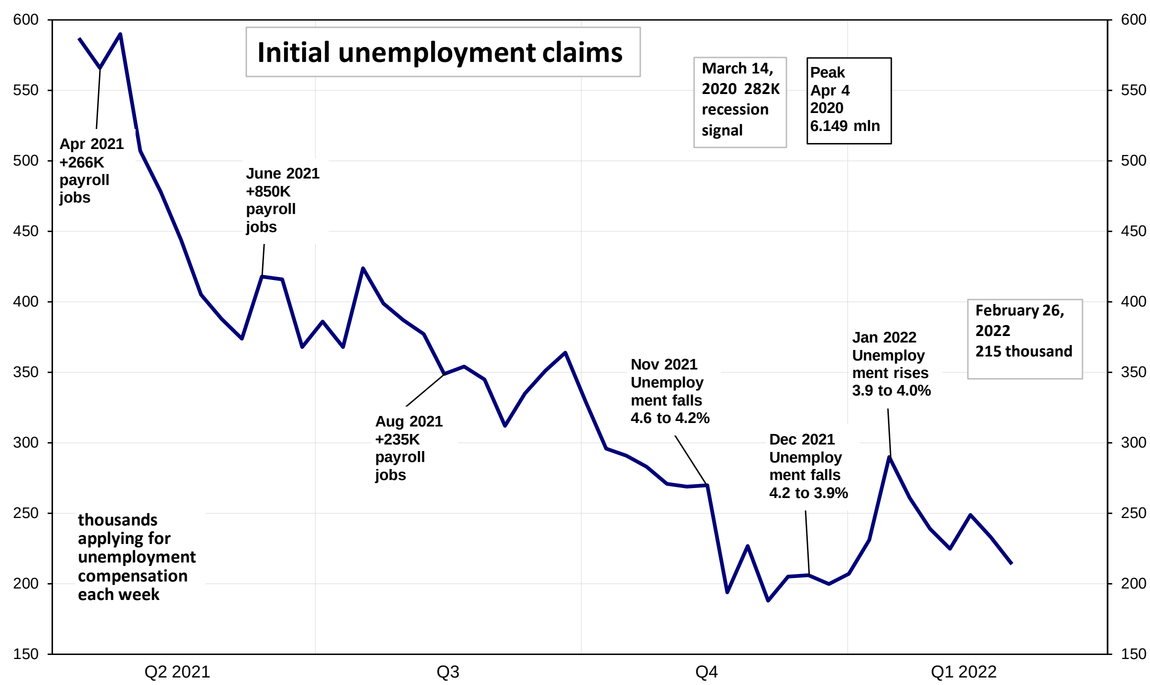


ISM manufacturing index				
	Feb 22	Jan 22	Dec 21	Nov 21
PMI index	58.6	57.6	58.8	60.6
Prices	75.6	76.1	68.2	82.4
Production	58.5	57.8	59.4	60.2
New orders	61.7	57.9	61.0	61.4
Supplier deliveries	66.1	64.6	64.9	72.2
Employment	52.9	54.5	53.9	53.0
Export orders	57.1	53.7	53.6	54.0

Jobless claims signal a strong employment report tomorrow (Thursday)

Breaking economy news. Weekly unemployment claims fell back closer to normal with an 18 thousand decline to 215,000 in the February 26 week. The recent Omicron outbreak high was 290 thousand in the January 15 week. At the moment, the financial market turbulence and coming slowdown in Europe's economy after Russia invaded Ukraine is having no spillover effect in the U.S. Job layoffs are normalizing and likely on their way back to the best economy in fifty years with its 3.5% unemployment rate before the pandemic. Jobless claims at a new low since Omicron are a signal of a stronger employment report tomorrow where the labor market is leaving its pandemic woes behind it.

Net, net, the weekly temperature reading on job losses is the best yet since the brief flare-up in the middle of January when the surge in Omicron cases led to an increase in company layoffs. Elevated layoffs cannot last for long in this economy where demand continues to strengthen and worker shortages and help-wanted signs are the greatest in the nation's history. Our guess is the employment report tomorrow will beat market expectations where the unemployment rate could fall back to a new low since the pandemic began in early 2020. Stay tuned. Story developing.



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