

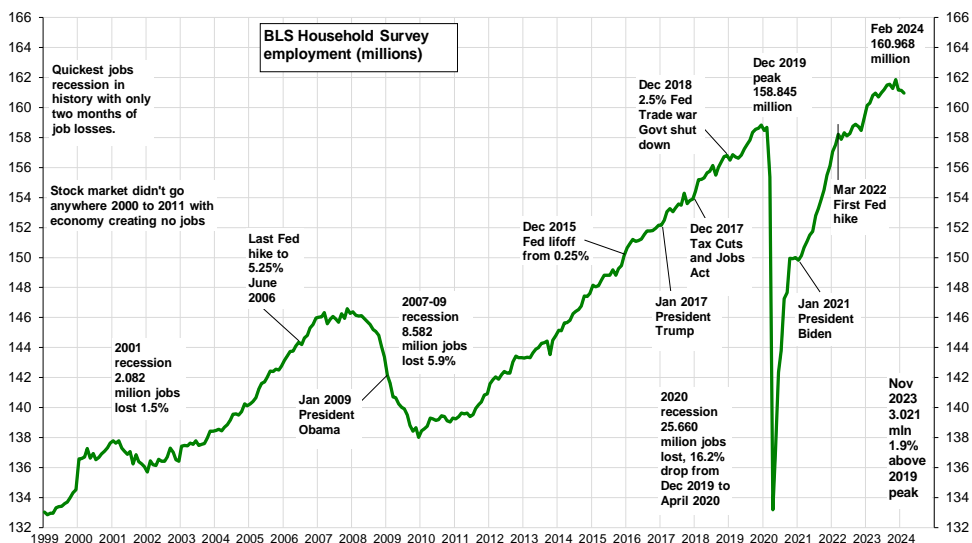
# Financial Markets This Week

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## LESS GOOD JOBS REPORT

275 thousand more nonfarm payroll jobs in February is a solid number, can't argue with that. Just a couple of things gnaw at you. The 300 thousand payroll jobs at the turn of the year are gone: no longer 333K in December and 353K in January, sunk by a big, combined 167K downward revision to the two months. Meanwhile the Household Survey measure



of employment is in a recession, or starting to go that way, after falling 184K in February and 31K in January and the difficulty this labor market indicator has trying to adjust for new population estimates seems to have helped send the unemployment rate to a recession-magnitude high of 3.9% (barely, 3.86%)... recession because it is 0.5 percentage points higher than 3.4% cyclical low point in April 2023. Hard to go down this recession forecast road again, using just the unemployment rate, as the weekly first-time jobless claims data do not show companies firing workers in a recession-like manner, even if the total number of Americans receiving unemployment benefits remains elevated. The only state of the union that has recession-scale job losses is the biggest state of California with 5.1% unemployment and even that state's data don't look completely convincing despite the tech layoffs announced by companies. Anyway, the point is that the Household Survey measure of employment is looking like it is at a turning point, although this series looked at over the long term of a couple decades is jumpy and subject to sudden small reversals as opposed to payroll employment that we normally graph here, which has a much smoother trend until the economy hits the skids and enters a recession where the employment level drops.

We have not mentioned the good inflation data in the report, wages or average hourly earnings rose just 0.1% to \$34.57 and is 4.3% higher than a year ago. Wages follow inflation more or less and 4.3% would not be consistent with 2% inflation, but wages would likely be adjusted downward by

Monthly changes (000s)	Feb	Jan	Dec	Nov	Oct
Payroll employment	275	229	290	182	165
Private jobs	223	177	214	152	98
Leisure/Hospitality jobs	58	8	41	10	57
HH Employment Survey*	-184	-31	-683	586	-270
Unemployment rate %	3.9	3.7	3.7	3.7	3.8
Participation rate %	62.5	62.5	62.5	62.8	62.7
Not in labor force (mln)	100.285	100.265	100.540	99.695	99.919
... and Want A Job (mln)	5.672	5.793	5.671	5.343	5.376
Average hourly earnings	\$34.57	\$34.52	\$34.34	\$34.23	\$34.10
MTM % Chg	0.1	0.5	0.3	0.4	0.3
YOY % Chg	4.3	4.4	4.3	4.3	4.3

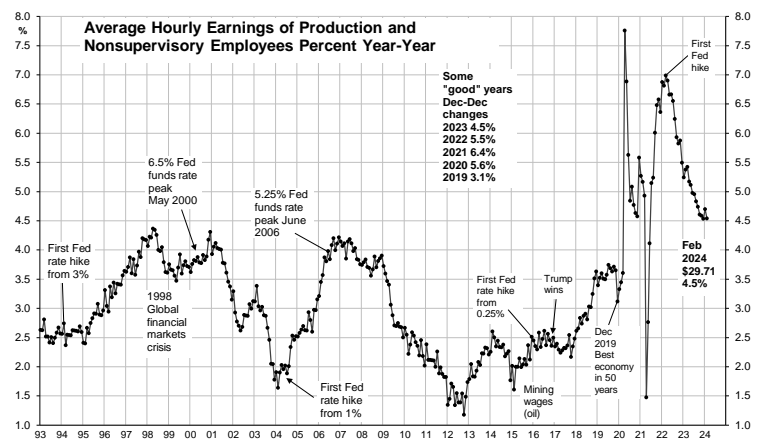
\* Household (telephone) Survey of employment behind unemployment rate

employers if the 2% inflation persisted. Average hourly earnings had moved up before the pandemic, 3.0% for the full year-over-year in 2018 as the Fed was raising rates to 2.5%. Core PCE inflation was just 1.9% in 2018 on the same basis.

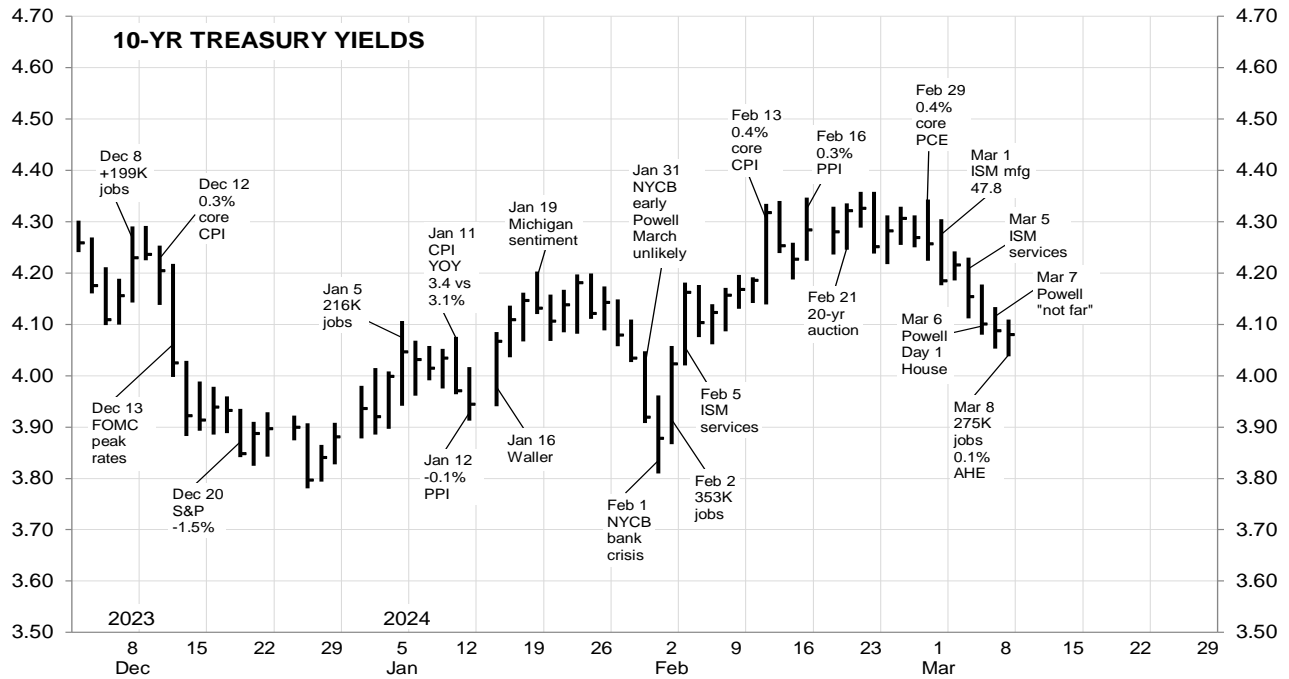
Review & outlook: the payroll jobs report was not as good as it looks with downward revisions to prior months, and a surprising picture of weakness with declining employment and rising unemployment from the Household Survey that is struggling to account for the annual technical changes in the population count at the turn of the year. Adjusting for some anomalies, overall, we can say the economy remains strong, held up by a robust labor market. The two-tenths rise in the unemployment rate to 3.9% could be an outlier as it is accounted for by just adult women and teenagers. Stay tuned. The labor market remains rock solid with the increase in payroll employment running at an impressive rate of 231K per month since September last year. This is not an economy that demands an interest rate cut. 275K more jobs in February should be the positive headline from a mixed employment report today. The Fed's recession-level setting on interest rates has done absolutely nothing to slow the hiring plans of American companies. There cannot be too much wrong with the economic outlook if corporations continue to onboard staff because they see better sales and revenues ahead from their businesses. A Fed rate cut is not that far off as Powell said yesterday. A first rate cut this summer is still on the table assuming the inflation data slow from the jump seen at the start of the year.

**Payroll jobs jump at the turn of the year**

	Feb 24	Jan 24	Dec 23	Benchmark Level Change	After revision Dec 23	Before revision Dec 23
Data in thousands						
<b>Nonfarm Payroll Employment</b>	275	229	290	72	157,304	157,232
<b>Total Private (ex-Govt)</b>	223	177	214	-1	134,228	134,229
<b>Goods-producing</b>	19	24	33	40	21,723	21,683
Mining	0	-2	4	4	600	596
Manufacturing	-4	8	12	-26	12,960	12,986
Motor Vehicles & parts	0	2	5	-13	1,063	1,076
Computer/electronics	-2	0	1	8	1,108	1,100
Food manufacturing	-2	2	0	3	1,729	1,726
Construction	23	19	18	64	8,120	8,056
Specialty trade contractors	6	13	8	58	5,148	5,091
<b>Private Service-providing</b>	204	153	181	-41	112,505	112,546
<b>Trade, transportation, utilities</b>	40	-15	24	21	28,867	28,846
Retail stores	19	15	32	59	15,603	15,543
General Merchandise	17	18	16	55	3,209	3,154
Food & Beverage stores	3	3	0	0	3,247	3,248
Transportation/warehousing	20	29	-18	-122	6,521	6,642
Truck transport	0	0	2	-35	1,552	1,586
Air transportation	4	0	4	8	570	562
Couriers/messengers	17	-28	-27	-19	1,060	1,078
Warehousing and storage	-7	-1	-5	-84	1,767	1,851
<b>Information</b>	2	6	13	-39	3,012	3,051
Computing, data, web hosting	0	0	3	-7	494	500
<b>Financial</b>	1	-1	6	85	9,233	9,148
Insurance	4	3	3	37	2,997	2,960
Real Estate	4	3	5	47	2,496	2,449
Commercial Banking	-4	-4	-2	24	1,378	1,354
Securities/investments	2	-2	1	22	1,115	1,093
<b>Professional/business</b>	9	40	13	-64	22,882	22,946
Temp help services	-15	-1	-21	-66	2,765	2,831
Management of companies	3	-1	2	30	2,558	2,528
Architectural/engineering	6	11	-1	-18	1,673	1,691
Computer systems design	4	5	7	-7	2,525	2,532
Legal services	3	-4	5	3	1,194	1,191
Accounting/bookkeeping	1	5	7	-5	1,158	1,162
<b>Education and health</b>	85	107	84	-47	25,831	25,878
Private Educational services	-6	20	8	-145	3,843	3,987
Hospitals	28	26	20	11	5,440	5,429
Ambulatory health care	28	27	31	42	8,635	8,593
<b>Leisure and hospitality</b>	58	41	10	34	16,816	16,782
Hotel/motels	3	-2	14	26	1,924	1,898
Eating & drinking places	42	-12	6	-78	12,292	12,370
<b>Government</b>	52	52	76	73	23,076	23,003
Federal ex-Post Office	9	8	10	-3	2,360	2,362
State government	5	19	21	78	5,404	5,326
State Govt Education	2	11	12	58	2,637	2,579
Local government	38	21	46	-1	14,711	14,712
Local Govt Education	12	2	21	11	8,039	8,028



INTEREST RATES



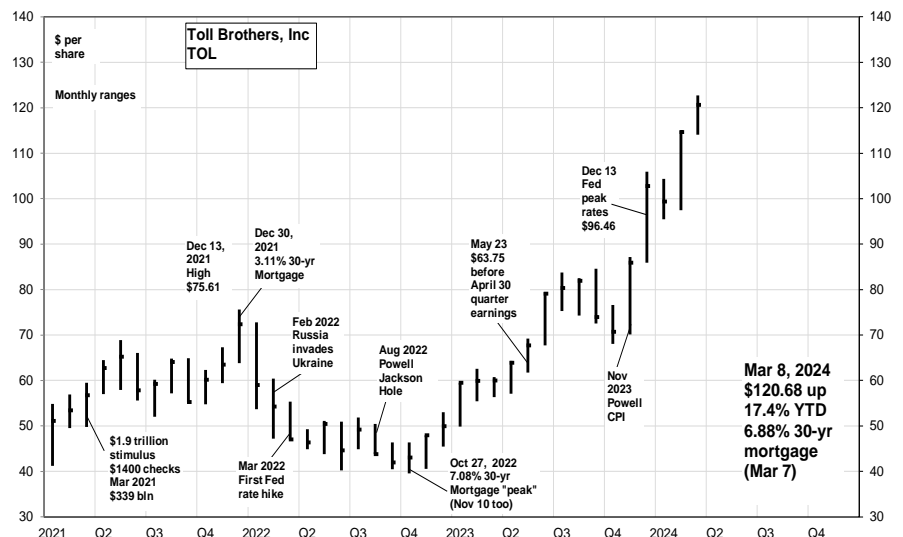
Another week where a tech rally pushed the [S&P 500 to a record](#) high. Only it ended badly on Friday, where a record high was followed by a lower close mirroring “the market leader” Nvidia which increased 5.1% Friday morning to a record \$974.00 before crashing down almost 100 dollars to \$875.28 by the close of the week. We are waiting for it to cross \$1,000 before we buy it. The S&P 500 closed Friday +7.4% YTD. Treasury bond yields closed down about 10 bps this week at 4.08%. The low yield for the week of 4.04% after the jobs report did not stick. The focus is on core CPI on Tuesday, March 12, where the surprise 0.4% core CPI a month ago, pushed yields back above 4.30%. There’s the market reaction to what the consensus forecast was and there is reality. CPI is higher relative to PCE inflation as shelter has a huge 45% weight in the makeup of core CPI.

Toll Brothers, Inc. (TOL) up 17.4% YTD

Wall Street liked the earnings report on Tuesday, February 20 with the stock jumping as much as 7.8% the next day from \$103.55. The 1,927 homes delivered at an average price of about \$1 million brought in revenues of \$1.93 billion in the January 2024 quarter. The CEO said they saw increased demand in mid-January as the spring selling season is already starting. Earnings beat expectations. The stock broke above \$100 the first time after the Fed indicated peak rates at the December meeting.

Quarter end	Home Revenue	Home Sales \$/bn	Home Units	Home Starts	30-yr mortgage	Home Sales
10.31.21	2.950	3,341	1,087,000	3.14	680,000	
1.31.22	1.690	1,929	1,157,000	3.55	810,000	
4.30.22	2.190	2,407	1,176,000	5.10	611,000	
7.31.22	2.260	2,414	898,000	5.30	543,000	
10.31.22	3.580	3,765	858,000	7.08	577,000	
1.31.23	1.750	1,826	823,000	6.13	649,000	
4.30.23	2.490	2,492	847,000	6.43	679,000	
7.31.23	2.670	2,524	988,000	6.81	728,000	
10.31.23	2.950	2,755	974,000	7.79	670,000	
1.31.24	1.930	1,927	1,004,000	6.69	661,000	

Last month of quarter, 1 unit housing starts, new home sales



### FEDERAL RESERVE POLICY

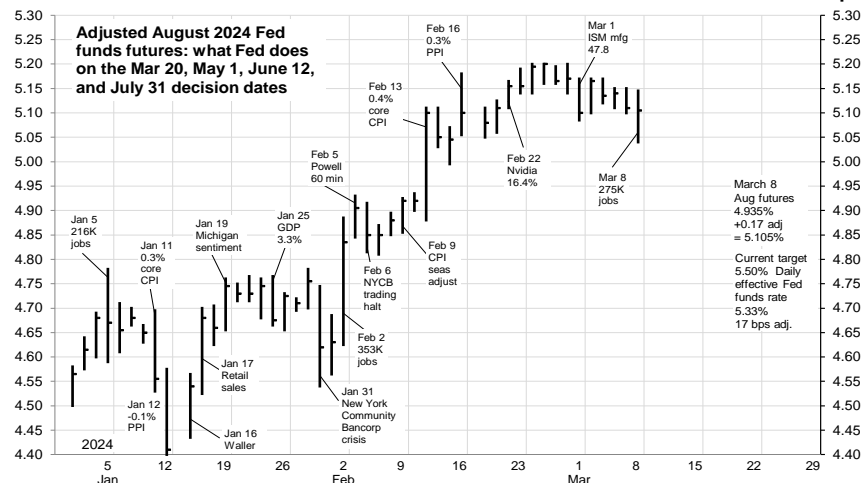
The Fed meets March 19-20, 2024 to consider its monetary policy. It is March 8 and the next Fed meeting decision date with forecasts hits at 2pm ET Wednesday, March 20. But somehow the two days of Powell appearances before Congress left markets with one telling headline. Day 2 before the Senate on Thursday, Powell said the day of rate cuts was still coming, and “we’re not far from it.” Good to know as the optics look terrible for inflation “confidence” for central bankers with core CPI monthly changes of 0.3% in November/December, and 0.4% in January. Also good to know that Powell said politics do not play a role in interest rate decisions. The presidential election was not an issue in November 2020 during the zero rates of the pandemic. In November 2016, Trump was not expected to win, and the Fed was in pause-mode after liftoff in December 2015, they had not made another rate hike in 2016 until after the November 2016 elections. We are wondering about the wisdom of forecasting rate cuts in June, September, December, for at least September anyway which is too close to the election and one side is likely to complain the central bank is trying to get the incumbent reelected.

The jobs report was strong looking at 275K payroll jobs, where some Fed officials might think the two-tenths rise in unemployment to 3.9% (3.86) means the labor market is more than rebalancing, it’s getting ready to tip. It would be nice if payroll jobs had slowed to a 90K in January to make the story consistent. The Fed’s December 2023 forecasts had unemployment higher at 4.1% in Q4 2024.

Selected Fed assets and liabilities						Change from 3/11/20
Fed H.4.1 statistical release billions, Wednesday data	6-Mar	28-Feb	21-Feb	14-Feb	3/11/20*	3/11/20 to Mar 6
<b>Factors adding reserves</b>						
U.S. Treasury securities	4631.706	4661.257	4661.421	4692.495	2523.031	2108.675
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2403.235	2403.235	2414.220	2417.227	1371.846	1031.389
Repurchase agreements	0.005	0.001	0.001	0.000	242.375	-242.370
Primary credit (Discount Window)	1.882	2.105	2.405	2.419	0.011	1.871
Bank Term Funding Program	164.022	163.474	164.231	164.772		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	3.148	3.193	3.230	3.258		
Main Street Lending Program	14.843	14.826	14.809	15.132		
Municipal Liquidity Facility	0.000	0.000	0.001	0.001		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.183	0.217	0.215	0.227	0.058	0.125
<b>Federal Reserve Total Assets</b>	<b>7589.3</b>	<b>7618.1</b>	<b>7632.5</b>	<b>7684.7</b>	<b>4360.0</b>	<b>3229.239</b>
3-month Liber-% SOFR %	5.31	5.31	5.30	5.30	1.15	4.160
<b>Factors draining reserves</b>						
Currency in circulation	2339.026	2333.089	2330.768	2328.158	1818.957	520.069
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	760.550	767.672	788.759	831.880	372.337	388.213
Treasury credit facilities contribution	7.438	7.438	7.438	7.438		
Reverse repurchases w/others	456.847	569.855	574.882	575.332	1.325	455.522
<b>Federal Reserve Liabilities</b>	<b>3958.576</b>	<b>4077.140</b>	<b>4109.371</b>	<b>4147.206</b>	<b>2580.036</b>	<b>1378.540</b>
<b>Reserve Balances (Net Liquidity)</b>	<b>3620.689</b>	<b>3540.982</b>	<b>3523.095</b>	<b>3537.469</b>	<b>1779.990</b>	<b>1840.699</b>
Treasuries within 15 days	16.450	56.650	67.773	118.167	21.427	-4.977
Treasuries 16 to 90 days	310.294	264.929	257.083	194.735	221.961	88.333
Treasuries 91 days to 1 year	543.637	553.197	549.934	552.704	378.403	165.234
Treasuries over 1-yr to 5 years	1543.878	1572.206	1563.703	1580.306	915.101	628.777
Treasuries over 5-yrs to 10 years	709.563	707.656	716.276	741.748	327.906	381.657
Treasuries over 10-years	1507.883	1506.619	1506.651	1504.834	658.232	849.651
Note: QT starts June 1, 2022	Change	3/6/2024	6/1/2022			
U.S. Treasury securities	-1139.073	4631.706	5770.779			
Mortgage-backed securities (MBS)	-304.211	2403.235	2707.446			

\*March 11, 2020 start of coronavirus lockdown of country

Powell before Senate March 7, 2024  
 "We are waiting to become more confident that inflation is moving sustainably down to 2%. When we do get that confidence, and we're not far from it, it will be appropriate to begin to dial back the level of restriction so that we don't drive the economy into recession."



August Fed funds futures in their wisdom decided nothing changed this week after Powell and 275K jobs. Looking for 1-1/2 25 bps rate cuts by the July 31 Fed meeting decision date.

Fed funds futures call Fed policy	
Current target: March 8 -- 5.50%	
Rate+0.17 Contract	Fed decision dates
5.495 Apr 2024	Mar 20
5.105 Aug 2024	May 1, Jun 12, Jul 31
Last trade, not settlement price	

#### Next up: February CPI inflation report Tuesday, March 12

Monthly % Changes	2024							2023							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Core CPI inflation	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4	0.5	0.3	0.5	0.4	0.4	0.3
Core PCE inflation	0.4	0.1	0.1	0.2	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.4	0.3
Core PCE YOY	2.8	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8	4.8	4.8	4.9	4.9	5.1
Core CPI YOY	3.9	3.9	4.0	4.0	4.1	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6	5.7	6.0

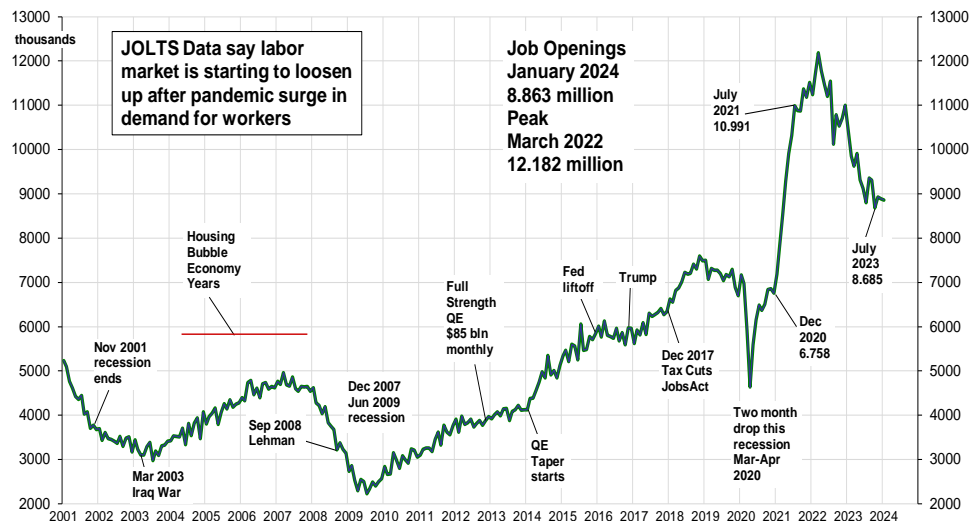
## OTHER ECONOMIC NEWS

## ADP jobs, Powell statement, Jolts (Wednesday)

Breaking economy news. ADP private jobs count at 815am ET, Powell testimony statement released at 830am ET early, ahead of his appearance before the House at 10am ET, so they can grill him, and the Jolts job openings data at 10am ET as well. The height of confusion. The ADP jobs report was less than forecast, although why people are paid to forecast the number that precedes the Friday “real jobs report,” we are not sure. We did some “pro bono work,” if that is the phrase for “unpaid,” for ADP years ago at the beginning, and ~~we did do~~ we will eventually do a graph of the ADP data versus the BLS payroll jobs data. That is to say, the two just do not line up: BLS adds in newly created jobs estimates in the famous birth/death model which maybe ADP data could find some of these new workers in new companies ahead of time. Doubtful, but while ADP payroll data at companies are the real deal and cover thousands of companies, it is another thing to say the ADP data can forecast BLS nonfarm payroll employment. Enough. 140K private payroll jobs is the ADP “estimate” for Friday’s private nonfarm payroll jobs. Caveat emptor, except the ADP data are free. ADP even has wage data if you want to tell your boss. 5.1% year-on-year in January 2024, but for job-changers the increase is 7.6%. Great. Sit at my desk and do nothing or leave for more money.

Meanwhile, in his testimony statement at 830am ET, we think Powell has got it right. While policymakers struggle with the timing of the rate cuts they forecast for this year, interest rates at current levels are balanced between being behind the curve on the downside risks to the economy and growth, and not being high enough to keep inflation in check. The ADP jobs report in February shows companies continue to hire so the outlook for the economy cannot be all that bad and the labor market remains relatively tight even if the job openings data were revised slightly lower.

Net, net, however you want to count it, the hiring of workers at private companies is not slowing down meaningfully enough for the Fed to take its foot off the brakes. Inflation data were strong in January and if the labor market is not rebalancing, then Fed officials are taking a risk that premature rate cuts could engender a worse outcome for

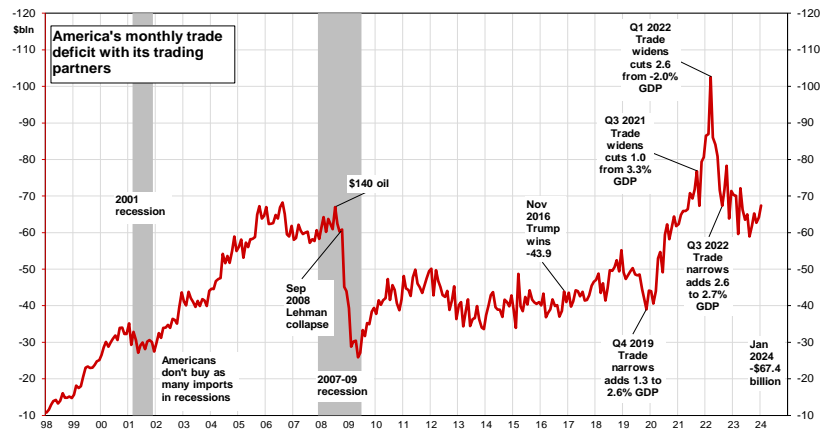


inflation. You have to be a trader to see that the February 140K ADP jobs report is slowing simply because it came in less than the market’s 150K expectation. The question really is why is the ADP count so low. The BLS private employment count is 317K more jobs in January, and 278K in December, where ADP counts the hiring significantly less at 111K in January and 158K in December. Stay tuned. The labor market isn’t slowing down yet, so Fed rate cuts will have to wait for now. Inflation is too high and that means interest rates will have to remain high.



### Trade figures and jobless claims (Thursday)

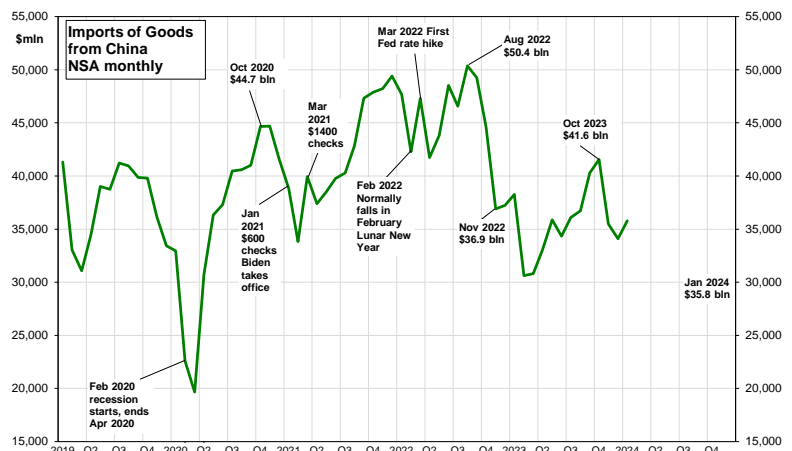
Breaking economy news. Initial jobless claims were unchanged at 217K in the March 2 week, nowhere near high enough to indicate a serious deterioration of the labor markets. Continuing unemployment claims moved up 8K to 1.906 million in the February 24 week, elevated but we were up here earlier in April 2023. No recession, and tired of crying wolf. Also at 830am ET, the January trade deficit red ink increased to \$67.4 billion from \$64.2 billion in December. From 2022 to 2023, US goods imports were down for many of the categories that US stores have reported less interest from consumers after the strong buying during the pandemic: computers and accessories, furniture and household goods, toys, games and sporting goods and even cell phones.



Net, net, more red ink spilled in January from America's trade deficit which is likely to weigh on economic growth in the first quarter. There's talk of more import tariffs and protectionism possibly coming the world's way so companies are bringing in the goods while they can. There are pluses and minuses on the imports side of the US trade ledger, but capital goods, computers and accessories and semiconductors, increased \$3.1 billion out of the total \$3.0 billion increase of imports. Automotive vehicles, parts and engines increased \$2.0 billion. And there were big drops in cell phones and other household goods, \$1.1 billion, and crude oil down \$1.9 billion. Stay tuned. The labor market remains rock solid and even if the total number of Americans on the unemployment rolls remains elevated, new layoffs are relatively modest and signal that no immediate deterioration of labor market conditions is headed our way. Fed officials can take their time when it comes to the three rate cuts their forecasts have penciled in for 2024 because the economy isn't slowing meaningfully and more time is needed to assess the price pressures evident in the January data. The trade winds are not blowing as favorably in the economy's direction at the start of the year, but the consumer is in good shape and their spending is expected to add more to growth later in the first quarter.

Millions of dollars	Jan 2024	Dec 2023	2023	2022
Total *	260,847	257,863	3,084,092	3,242,530
<u>Foods, feeds, beverages</u>	16,984	16,890	200,287	208,315
<u>Industrial supplies, materials</u>	54,948	56,266	677,846	808,679
Crude oil	13,690	15,591	165,084	197,921
Finished metal shapes	2,983	3,007	42,872	47,764
<u>Capital Goods ex-autos</u>	74,998	71,902	857,150	863,670
Computers	7,734	7,127	88,481	102,775
Computer accessories	6,435	5,666	67,135	77,567
Semiconductors	6,521	5,949	72,486	77,696
Electric apparatus	8,197	8,249	94,575	89,121
Telecom equipment	6,743	6,446	77,491	78,693
Medical equipment	4,997	4,906	57,824	56,807
<u>Auto vehicles, parts, engines</u>	40,880	38,917	458,402	398,869
<u>Consumer goods</u>	62,152	63,260	760,909	841,580
Pharma preparations	18,180	18,353	203,434	189,792
Cell phones	8,745	9,805	119,655	132,266
Toys, games, sporting goods	3,626	3,283	47,973	59,926
Furniture, household goods	3,150	3,355	39,527	50,543
Household appliances	3,017	3,284	37,743	41,646
<u>Other goods</u>	10,885	10,627	129,496	121,417

\* Total Imports of goods on Census Basis



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