Financial Markets This Week

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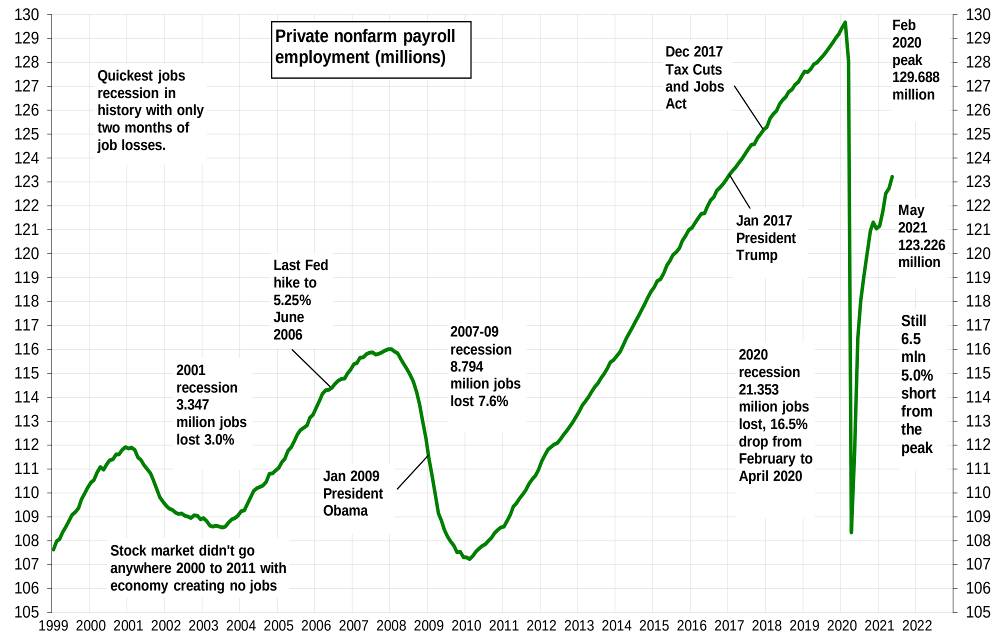
4 JUNE 2021

EMPLOYMENT REPORT MEETS OUR EXPECTATIONS



Breaking economy news. The biggest monthly economic indicator in the world. Payroll jobs. Although if you are waiting for the Federal Reserve's measurable progress on labor market improvement, or healing (Powell's words), you want to be watching how much the unemployment rate falls from 6.7% in December when they set up this measurable "substantial further progress" requirement which will govern whether $120 billion monthly QE is still needed. The stock market and housing price bubbles still think the QE money-printing is needed. Anyway, good news on this front where the unemployment rate fell three-tenths in May to 5.8%. Sounds like progress to us. Keep in mind the unemployment rate doesn't include drop outs from the labor force who simply are no longer counted. Behind the 5.8% unemployment rate stands 9.316 million jobless workers. Incredibly, the labor force dropouts since February 2020 have risen by 5.095 million to 100.275 million people without work in May 2021, keeping in mind, there are good reasons why many of the 100 million don't want to work and are not looking for a job. That's a seasonally adjusted increase of 5.095 million which does indicate economic distress beyond the official unemployment rate, and guess how many baby boomers are responsible? The not seasonally adjusted increase in those older than 65 years who dropped out this recession is 2.717 million or 53% of the total. Over half. Incredible. They most likely are not coming back to the workforce, and government doesn't need to support them with fiscal stimulus.

Forgot about the biggest economic number in the world. Consensus was about 650K and the actual increase in nonfarm payroll jobs was 559K. The Bureau of Labor Statistics (BLS) highlighted the gains made in leisure and hospitality (who says Americans don't want to work), public and private education, and health care workers. Specifically, how much are restaurant and bar jobs coming back with the economy reopening? We may have to wait and see for a couple of months, but in May 2021, food and drinking places employment jumped 186K as part of the larger category of leisure and hospitality that is up 292K. The interesting thing is dining out sales are almost back to normal even if the number of jobs have declined almost 1.5 million to 10.8 million since the pandemic started in February 2020. Maybe some restaurants don't want to have them all come back to cook and wait tables and wash dishes.

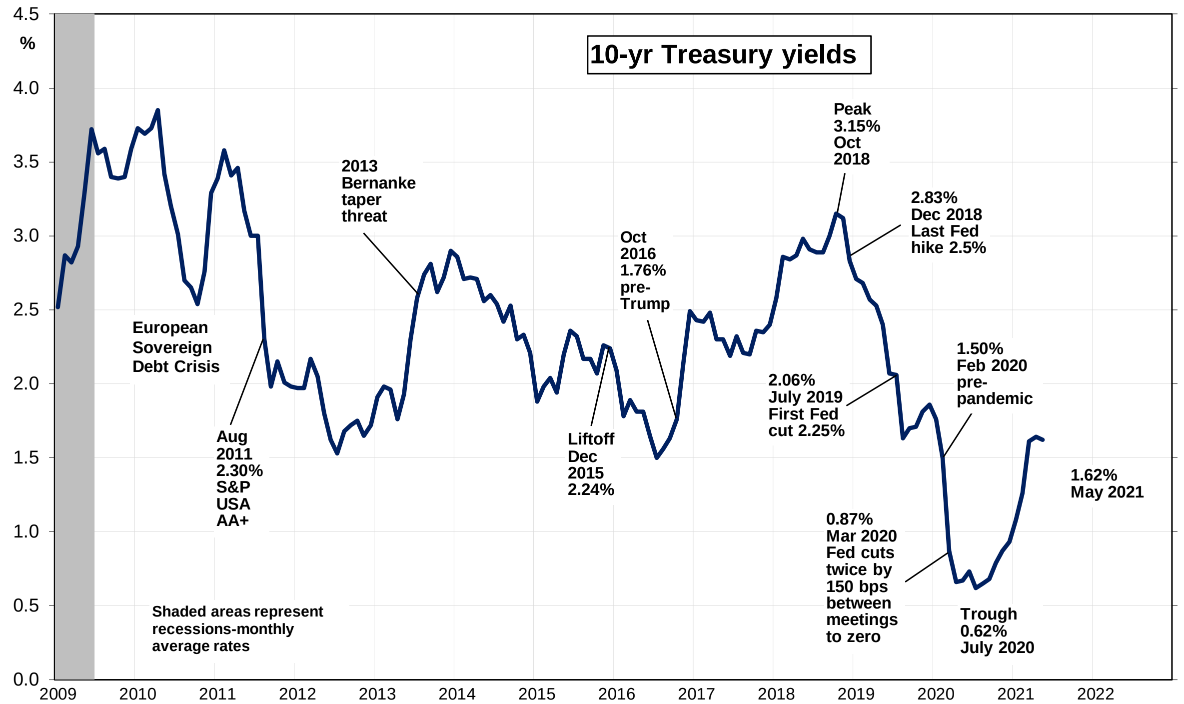
Net, net, the economy is reopening just fine and new jobs creation is proceeding at a pace that looks to be gradual and sustainable. 559K is not too fast, not too slow, but just right. Buy stocks.

Payroll jobs fall from February 2020 peak as recession began

Data in thousands	May 21	Apr 21	Mar 21	15 months Feb 20 May 21	May 2021	Feb 2020
Nonfarm Payroll Employment	559	278	785	-7,629	144,894	152,523
Total Private (ex-Govt)	492	219	724	-6,462	123,226	129,688
Goods-producing	3	-36	159	-810	20,327	21,137
Mining	1	2	16	-70	571	641
Manufacturing	23	-32	51	-509	12,290	12,799
Motor Vehicles & parts	25	-38	0	-95	891	986
Construction	-20	-5	93	-225	7,423	7,648
Private Service-providing	489	255	565	-5,652	102,899	108,551
Trade, transportation, utilities	37	-77	105	-730	27,146	27,876
Retail stores	-6	-30	42	-411	15,199	15,610
General Merchandise	1	-7	-8	66	3,066	2,999
Food & Beverage stores	-26	-47	-2	13	3,088	3,075
Transportation/warehousing	23	-53	43	-100	5,723	5,823
Truck transport	-2	1	3	-45	1,480	1,525
Air transportation	9	6	6	-90	427	517
Couriers/messengers	3	-54	12	150	1,033	883
Warehousing and storage	2	-4	-2	81	1,409	1,328
Utilities	0	1	1	-7	540	547
Information	29	9	5	-193	2,721	2,914
Financial	-1	16	13	-73	8,802	8,875
Insurance	-5	-9	7	9	2,865	2,856
Real Estate	8	14	13	-97	2,265	2,362
Commercial Banking	-11	0	-2	-56	1,344	1,400
Securities/investments	3	6	1	20	986	966
Professional/business	35	-81	74	-708	20,761	21,469
Temp help services	4	-116	-6	-294	2,651	2,945
Management of companies	-9	2	0	-93	2,332	2,425
Architectural/engineering	2	12	8	5	1,552	1,546
Computer systems/services	-1	-1	5	-9	2,230	2,239
Legal services	2	9	-1	-27	1,139	1,165
Accounting/bookkeeping	14	9	14	16	1,044	1,028
Education and health	87	25	104	-1,057	23,508	24,565
Hospitals	3	-1	7	-90	5,147	5,238
Educational services	41	-11	53	-293	3,486	3,779
Leisure and hospitality	292	328	227	-2,538	14,377	16,915
Hotel/motels	35	57	45	-526	1,579	2,105
Eating & drinking places	186	168	119	-1,480	10,828	12,308
Government	67	59	61	-1,167	21,668	22,835
Federal ex-Post Office	5	6	7	27	2,287	2,260
State government	45	11	12	-280	5,023	5,303
State Govt Education	50	11	16	-244	2,352	2,596
Local government	33	38	43	-911	13,758	14,669
Local Govt Education	53	31	29	-556	7,473	8,030

The labor market picture of current conditions is not completely clear, there's still a long road ahead, but it does look to be on the mend. Whether the Federal Reserve needs to continue to support the economy with its guns-blazing, emergency pandemic stimulus remains questionable as their policy can do little to speed up the pace of new jobs hiring. Recessions and economic downturns always make companies realize they had more employees than they needed at the peak, so firms are cautious about bringing everyone back on board once sales and revenues return. The employment report today does little to clarify whether the extra $300 weekly unemployment checks are helping or holding back the economy and both sides are likely to continue to argue their case for and against the benefits which provide over $15,000 at an annual rate keeping in mind the program ends September 6. Stay tuned. Story developing.

INTEREST RATES

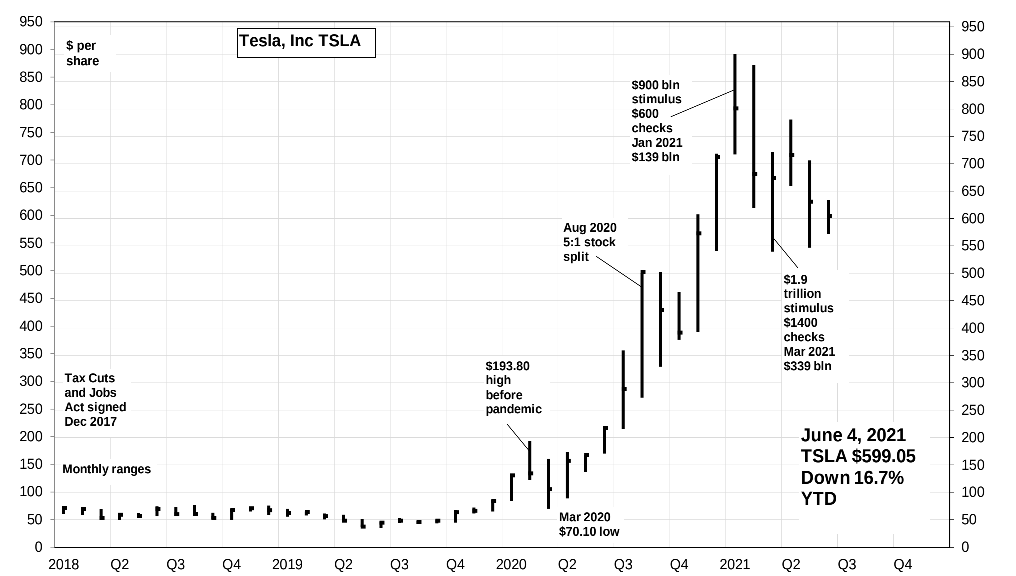


The bond market reaction to the 559K jobs report happened quickly. Not sure the market knew and still doesn't know what to do with a number that was less than 671K expected. If the unemployment rate fell so much shouldn't Fed tapering be in play? Or is it the economy weaker? Bond futures went from 156-05 to 156-26 in the first minute, and back lower to 155-26 after ten minutes before climbing from the low of the day. 10-yr Treasury yields closed Friday at 1.55% from 1.625% Thursday. Of note, stocks rallied Thursday morning as Biden's two stimulus plans are in trouble.

Tesla, Inc. TSLA, down 16.7% YTD

Tesla reported March quarter earnings on April 26. It was just a year ago that the company shocked the world by reporting a first-quarter profit for the first time. In Q1 2021 revenue is up 74% to $10.389 billion from last year, operating income is up 110% to $594 million. Model 3/Y deliveries more than doubled to 182,847. Oh, and its stock price was $104.80 on March 31, 2020. Times change. The company was optimistic in its earnings call; Shanghai is 43% of its Model 3/Y production capacity.

Mln $	Revenue	Operating Income	Model 3/Y Deliveries
Q1 2020	5,985	283	76,266
Q2 2020	6,036	327	80,277
Q3 2020	8,771	809	124,318
Q4 2020	10,744	575	161,701
Q1 2021	10,389	594	182,847



FEDERAL RESERVE POLICY

The Fed meets June 15-16, 2021 to consider its monetary policy. They will issue new forecasts of the economy and interest rates. In the March forecast, four out of eighteen Fed meeting participants looked for a rate hike in 2022, that's by the end of 2022, no indication of when within the year.

December 2020 FOMC meeting statement

"The Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses." Two things here that are important for the Fed's QE purchases, one is the further progress is looking closer to the finish line where QE will no longer be needed as the unemployment rate is 5.8% today versus 6.7% when the Fed met in December. The second is that Fed Governor Brainard this week said the QE purchases were keeping downward pressure on interest rates which if so they have not kept 10-yr yields from rising back above 1.0% starting in January on the news the Democrats had won two Georgia Senate seats. The only Fed QE tapering risk we see is that there could be a slowdown in the interest rate sensitive sectors of the economy if mortgage rates rise even if some feel maybe the housing market could use some cooling down with home price increases of 20 percent in just a year. 30-year mortgage rates were 2.71% when the Fed met in December 2020 and are 2.99% in this week's report.

Selected Fed assets and liabilities					March 11
Fed H.4.1 statistical release					2020**
billions, Wednesday data	2-Jun	26-May	19-May	12-May	pre-Covid
Factors adding reserves					
U.S. Treasury securities	5119.023	5087.157	5071.821	5054.395	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2244.270	2244.265	2277.561	2191.325	1371.846
Repurchase agreements	0.000	0.000	0.000	0.001	242.375
Primary credit (Discount Window)	0.578	0.633	0.661	0.581	0.011
MMLF	0.000	0.000	0.000	0.000	
PDCF	0.000	0.000	0.000	0.000	
Commerical Paper Funding Facility	8.554	8.554	8.554	8.556	
Paycheck Protection Facility	84.389	84.258	82.635	79.922	
Corporate Credit Facility (CCF)	25.963	26.037	25.966	25.901	
Municipal Liquidity Facility	10.882	10.879	11.127	11.125	
Main Street Lending Program	30.567	30.559	30.550	30.668	
Term Asset-Backed Facility (TALF II)	4.761	4.923	4.922	4.922	
Central bank liquidity swaps	0.513	0.678	0.652	0.587	0.058
Federal Reserve Assets	7984.3	7952.7	7972.1	7879.8	4360.0
3-month Libor %	0.13	0.14	0.15	0.15	0.77
Factors draining reserves					
Currency in circulation	2179.122	2172.925	2169.173	2169.384	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	812.087	778.912	860.833	864.253	372.337
Treasury credit facilities contribution	50.278	50.278	50.278	50.278	
Reverse repurchases w/others	438.778	450.283	293.998	209.257	1.325
Reserve Balances (Net Liquidity)	3848.262	3851.623	3823.979	3955.864	1779.990
Treasuries within 15 days	62.321	88.013	95.705	118.774	21.427
Treasuries 16 to 90 days	316.521	303.665	300.258	283.706	221.961
Treasuries 91 days to 1 year	643.631	647.962	643.626	630.986	378.403
Treasuries over 1-yr to 5 years	1976.806	1937.380	1933.283	1948.027	915.101
Treasuries over 5-yrs to 10 years	928.755	926.562	918.938	910.943	327.906
Treasuries over 10-years	1190.991	1183.576	1180.011	1161.958	658.232

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

MMLF: Money Market Mutual Fund Liquidity Facility: loans secured by assets bought by banks from money market funds

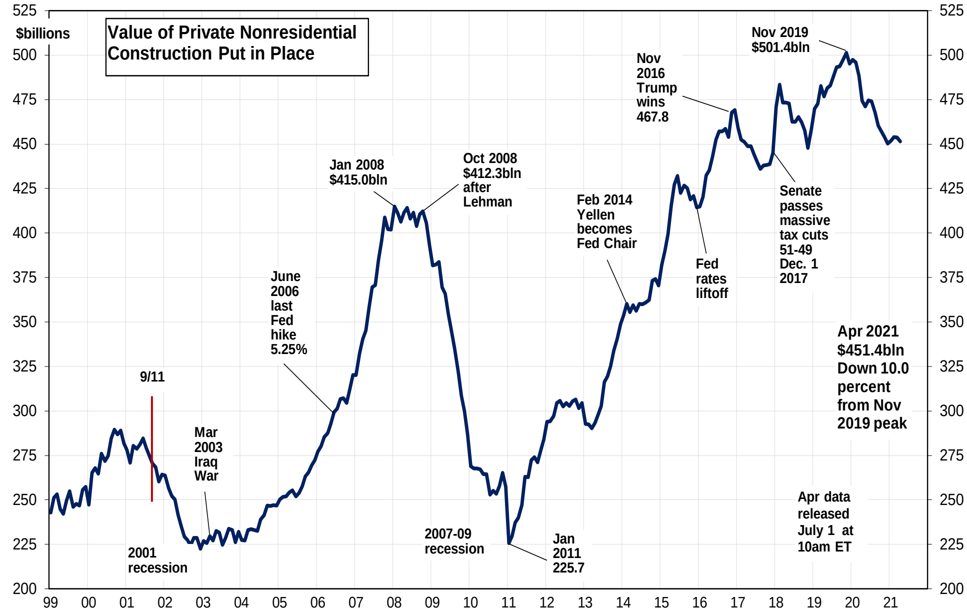
PDCF: Primary Dealer Credit Facility: o/n and term funding with maturities to 90 days

CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)

Other news is the Fed on Wednesday "announced plans to begin winding down the portfolio of the Secondary Market Corporate Credit Facility (SMCCF)." The stimulus is no longer needed and we aren't sure how vital it was. The money was better than a poke in the eye with a sharp stick but it was probably the announcement effect that helped the stock market hit bottom in March last year even if realistically we are not sure how much stocks would have, could have fallen further with the S&P 500 index loss of 35.4% from record highs this recession. This is one of two "corporate bond" support programs that total $25.963 billion on Wednesday this week in the table above. The secondary market facility purchased "corporate bonds" in the secondary market during the pandemic financial crisis and the market value of the corporate bond ETFs was $8.6 billion on April 30, 2021.

OTHER ECONOMIC NEWS

April Construction spending down 10% from November 2019 peak (Tuesday)



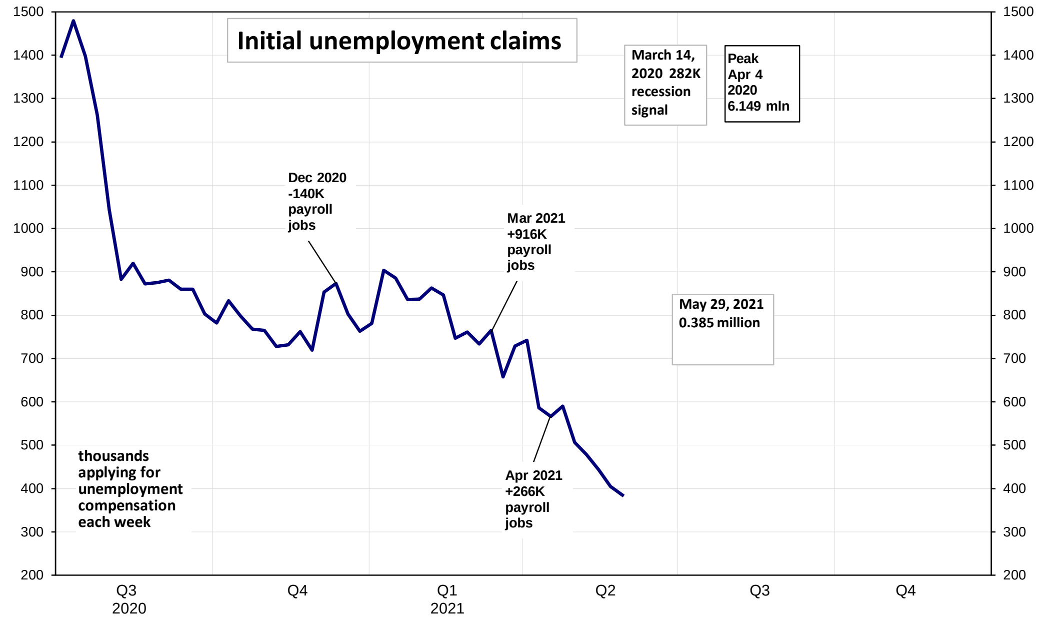
Breaking economy news. April construction data. We want to focus on private nonresidential construction spending that goes into GDP: it fell $2.215 billion to $451.441 billion or 0.5% in April. Next month the Census Bureau will do their annual revisions back to 2014 this year. Hope it goes better than the huge revision they did today. Somehow the level of activity in February was revised up $6.139 billion to $453.951 billion - a huge jump of 1.4%. At times, the largest segment of Power construction that is 24% of total construction can bounce around. This month though it was the second biggest segment which is Commercial construction which accounts for 17% of the total. Commercial construction accounted for two-thirds of the upward revision in February. Commercial has a lot of retail in it. The overall category isn't down too far from the record set before the pandemic. But some segments are off considerably over the last few years: shopping centers put-in-place were running $17 billion at an annual rate during much of 2017, but now in April 2021, shopping centers construction was $5.4 billion at an annual rate. The standout in Commercial is Warehouse construction for obvious AMZN reasons during the pandemic which is at a record high of $43.135 billion in April versus $33.669 billion at the end of 2019.

Nonresidential Construction $bln	Apr 2021	% Chg	Mar 2021	Feb 2021	Peak level	Date	From Peak % Chg
Total private	451.441	-0.5	453.656	453.951	501.449	Nov 2019	-10.0
Lodging	22.118	0.0	22.129	22.103	33.124	Jun 2019	-33.2
Office	69.140	0.2	68.997	69.104	76.732	Aug 2019	-9.9
Commercial	78.651	0.4	78.315	78.350	81.441	Feb 2020	-3.4
Health Care	36.869	0.7	36.595	36.452	39.304	Feb 2020	-6.2
Educational	14.974	-0.9	15.111	15.112	22.872	Feb 2018	-34.5
Religious	2.936	-2.2	3.001	3.082	8.801	Oct 2003	-66.6
Amusement	10.373	-2.7	10.660	10.799	16.435	Jul 2018	-36.9
Transportation	14.442	-5.4	15.269	15.755	20.166	Jan 2019	-28.4
Communication	21.768	-0.9	21.976	21.961	26.852	Mar 2018	-18.9
Power	106.575	-1.8	108.560	108.354	121.685	Dec 2019	-12.4
Manufacturing	72.045	0.4	71.730	71.435	85.703	Feb 2020	-15.9

Net, net, construction spending wasn't down as much as we thought from the peak before the pandemic thanks to a huge upward revision in February. Total construction spending is down 10.0% from the peak in November 2019. Construction of long-lived building projects takes a while to decline and even longer to recover during and after recessions. The second revision to Q1 2021's 6.4% real GDP showed nonresidential construction was a 0.2 percentage point drag on growth. Nonresidential construction has subtracted from economic growth every quarter since Q4 2019. If you are waiting for the Biden administration to bring factories back to the USA like the last administration we are not seeing it. You wonder if we ever will see new factories given how much the annual benchmark revision last week to industrial production brought the level of factory activity down sharply. The trend of industrial production wasn't as good as we thought back in 2017 and 2018.

The labor market isn't normal yet (Thursday)

Breaking economy news. Weekly jobless claims decreased 20K to 385K in the May 29 week. This counts as good news as the original signal of recession was 281K one week in March last year so the country is getting back closer to a normal level of job layoffs. 15 minutes before the unemployment claims release, the ADP private jobs count for May was 978K which if true would be significantly above the consensus for the monthly nonfarm payroll employment report due 830am ET Friday. Not sure what it means for stocks when payroll employment gets back to the old pre-pandemic level. Presumably, the Federal Reserve will be tapering its $120 billion monthly QE purchases well before that.



You've got to work for it. For a living. No more living it up with those add-on $300 weekly unemployment insurance checks. $300 a week is $15,600 a year which would be nice, but nothing good ever lasts. The three-hundred-dollar program was expiring September 6 anyway so the 15-grand extra in your pocket was a mirage. Many states (about half -- mostly in the middle of the country including Texas and Florida, the latest is Maryland) have rescinded the $300 extra payments early ahead of the September deadline believing that companies are not able to hire workers when this free money is available for doing nothing. This is hard to measure and at least at restaurants it looks like sales are near pre-pandemic levels while jobs at food services and drinking places totaled 10.642 million in April 1.666 million or 13.5% short of the 12.308 million record in February 2020.

Unemployment Benefits Recipients		
5/15/2021	Program	Prior Year
3,453,290	Regular State	18,968,003
12,227	Federal Employees	14,874
6,998	Newly Discharged Veterans	11,380
6,368,301	Pandemic Unemployment Assistance	11,299,323
5,293,842	Pandemic Emergency UC	276,225
213,113	Extended Benefits	1,385
1,547	State Additional Benefits	4,600
86,664	STC/Workshare	194,825
15,435,982	TOTAL	30,770,615

Net, net, weekly jobless claims show the economy is still not completely back to normal even if the country has opened back up and is ready for business. Not everyone can find work or maybe they don't want to return to work according to the politicians who are cutting the extra $300 weekly unemployment checks. We don't know if cutting this lifeline for some jobless workers is going to lead to greater payroll employment gains ahead where the May data are due out Friday at 830am ET and the consensus guesstimate is 600-700 thousand new jobs. Less money paid out as unemployment benefits will slow growth economic growth if it does not lead to new paychecks quickly. It's a big number in the billions. In May 2021, unemployment compensation paid totaled $35.1 billion which is higher than $3.0 billion paid out in February 2020 before the pandemic. Stay tuned. Story developing.

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