Financial Markets This Week

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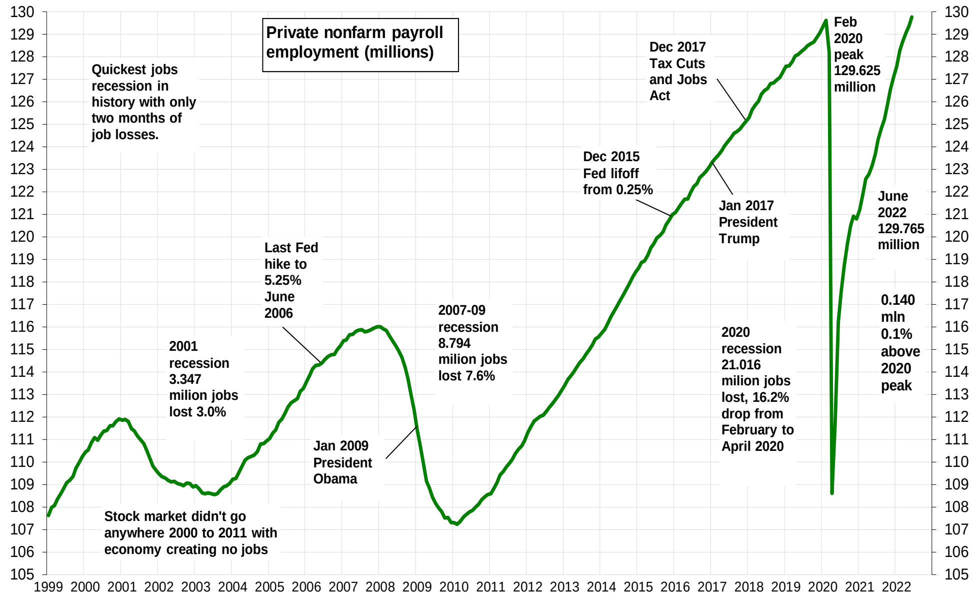
NO RECESSION WITH 372 THOUSAND NEW JOBS IN JUNE



Breaking economy news. The labor market's continued strength is simply astonishing, despite all the headwinds new hiring faces from a battered stock market, sky-high gasoline prices and mortgage rates, and a front-loaded rates policy from the Fed. This isn't what a recession looks like and 372 thousand new employees brought on board to start the summer means that the darkening skies over the economic outlook remain further than ever offshore for now. Employment goes down in recessions not up. Fed officials will have to redouble their efforts to put the brakes on the inflation fire burning across the country, hurting the confidence of businesses and consumers because the labor market simply isn't slowing. The tightening labor market is forcing up worker wages and this too keeps the inflation fires burning out of control.

The economy reached a milestone this month with private nonfarm payroll jobs back to the pre-pandemic high from February 2020. Remember when Fed officials said regaining these lost jobs wasn't a reason to stop its emergency stimulus because many workers had actually dropped out so regaining the lost jobs was a false victory. This was one of many reasons, a misreading of the participation rate basically, the Fed under Powell continued to provide stimulus for too long. This was the quickest recovery in the labor market yet in this century: 16 months to rebound. A similar milestone wasn't reached for four years and five months after the 2001 recession and jobless recovery in part from the stock market bubble bursting and Iraq War in 2003. After the housing bubble burst, kicking off the Great Recession from December 2007 to June 2009, it took 6 years and three months for the level of private payroll employment to return to the peak

Monthly changes (000s)	Jun	May	Apr	Mar	Feb
Payroll employment	372	384	368	398	714
Private jobs	381	336	368	385	704
Leisure/Hospitality jobs	67	68	59	104	124
HH Employment Survey*	-315	321	-353	736	548
Unemployment rate %	3.6	3.6	3.6	3.6	3.8
Not in labor force (mln)	99.812	99.302	99.513	99.035	99.333
... and Want A Job (mln)	5.656	5.681	5.859	5.737	5.355
Average hourly earnings	$32.08	$31.98	$31.86	$31.75	$31.60
MTM % Chg	0.3	0.4	0.3	0.5	0.1
YOY % Chg	5.1	5.3	5.5	5.6	5.2

* Household (telephone) Survey of employment behind unemployment rate

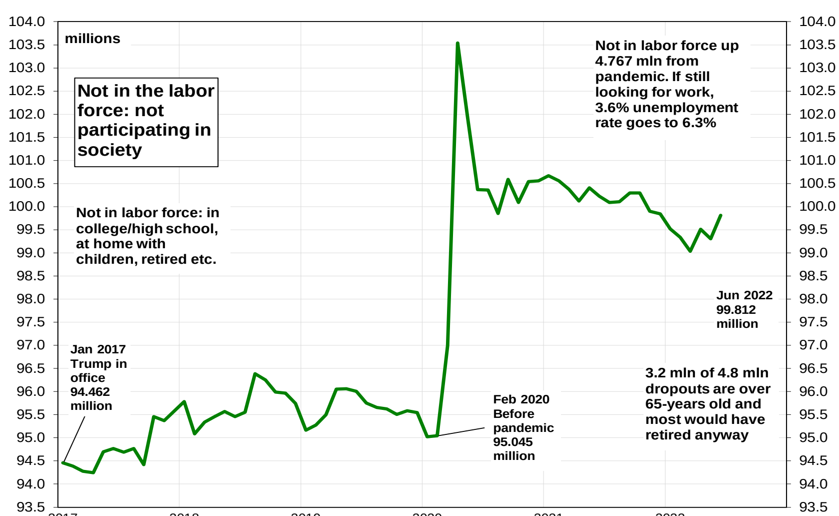
before the downturn. The pandemic recession was the shortest with the fastest recovery this century to be met by the most stimulus from Washington in history. That probably sounds a little harsh, there was plenty of confusion as to whether this was a national health crisis or a standard economic recession.

Net, net, the economy is strong regardless of what the GDP stats are saying with hundreds of thousands of new worker hires showing just how fallacious the arguments made by some that the economy is about to go over the cliff into recession. The economy sure doesn't have the summertime blues because the strength seen in hiring across industries is simply breathtaking. No recession this summer. Bet on it. Maybe bet carefully.

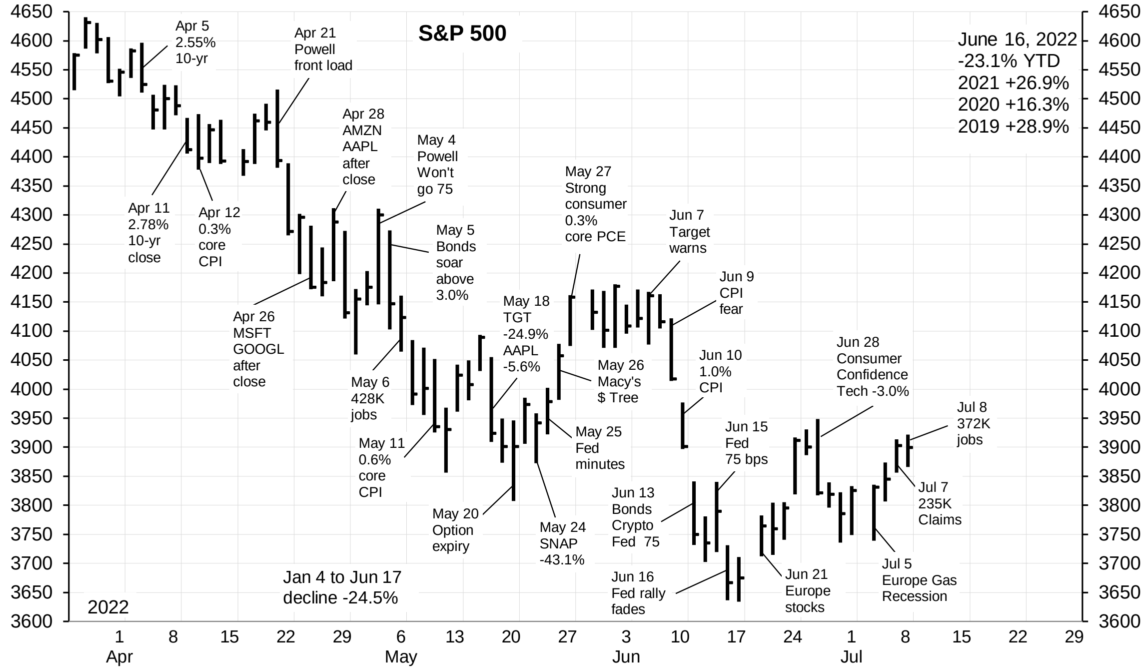
No recession this month. Maybe we'll have better luck next month as the Household Survey measure of employment has been flat the last three months and unemployment claims are rising.

Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Jun 22	May 22	Apr 22	28 months Feb 20 Jun 22	Jun 22	Feb 2020
Nonfarm Payroll Employment	372	384	368	-524	151,980	152,504
Total Private (ex-Govt)	381	336	368	140	129,765	129,625
Goods-producing	48	58	64	-3	21,092	21,095
Mining	5	6	9	-59	580	639
Manufacturing	29	18	61	12	12,797	12,785
Motor Vehicles & parts	2	-5	7	5	994	988
Construction	13	34	-5	46	7,670	7,624
Private Service-providing	333	278	304	143	108,673	108,530
Trade, transportation, utilities	68	31	78	914	28,746	27,832
Retail stores	15	-44	0	180	15,777	15,598
General Merchandise	-7	-34	3	214	3,214	3,000
Food & Beverage stores	6	-8	14	113	3,169	3,056
Transportation/warehousing	36	59	49	759	6,554	5,795
Truck transport	4	16	15	74	1,590	1,515
Air transportation	8	6	4	41	557	516
Couriers/messengers	-1	3	3	241	1,115	875
Warehousing and storage	18	20	18	503	1,822	1,319
Utilities	1	1	1	-6	541	547
Information	25	26	21	105	3,008	2,903
Financial	1	14	31	81	8,951	8,870
Insurance	7	-2	21	-14	2,838	2,853
Real Estate	2	12	5	-3	2,362	2,364
Commercial Banking	-2	-3	-2	-66	1,332	1,399
Securities/investments	3	4	6	62	1,027	965
Professional/business	74	69	40	880	22,273	21,393
Temp help services	5	11	-11	242	3,147	2,906
Management of companies	12	6	-1	-38	2,385	2,423
Architectural/engineering	7	5	6	81	1,628	1,547
Computer systems/services	10	13	10	211	2,438	2,227
Legal services	3	3	4	23	1,186	1,163
Accounting/bookkeeping	5	20	11	84	1,114	1,030
Education and health	96	57	62	-259	24,339	24,598
Hospitals	21	11	10	-57	5,179	5,236
Educational services	18	24	11	5	3,807	3,803
Leisure and hospitality	67	68	59	-1,318	15,665	16,983
Hotel/motels	15	18	14	-381	1,739	2,119
Eating & drinking places	41	33	37	-728	11,632	12,361
Government	-9	48	0	-664	22,215	22,879
Federal ex-Post Office	-13	3	-6	-10	2,251	2,261
State government	-1	36	5	-57	5,253	5,310
State Govt Education	4	32	3	21	2,627	2,606
Local government	5	13	4	-599	14,109	14,708
Local Govt Education	3	9	-2	-326	7,738	8,064



INTEREST RATES



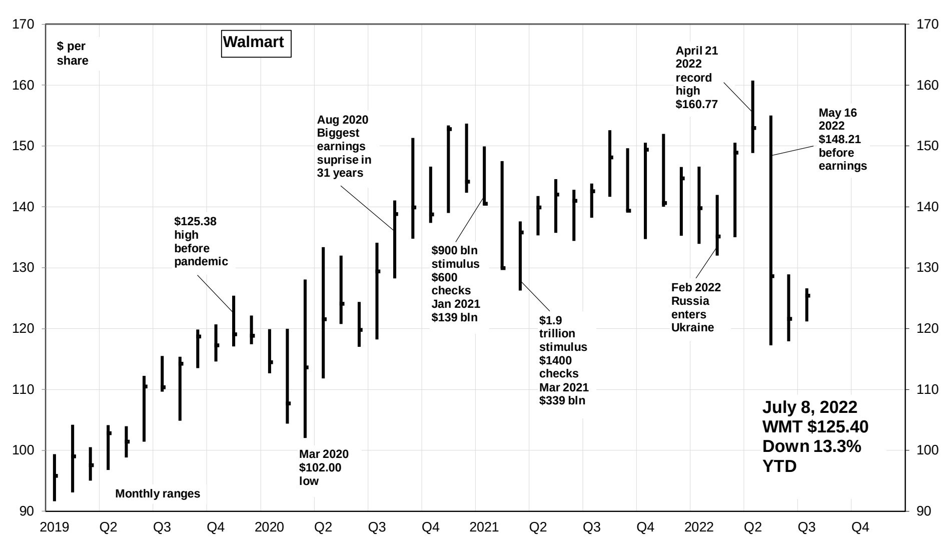
Bond yields fell on Tuesday after the holiday on recession fears reflected in crude oil falling under $100. Two PMIs were not as weak however on Wednesday morning at 9:45am and 10:00am and bond yields headed sharply higher. Bond yields here are very much influenced by European yields this week where the EU recession fears are more worrisome, Euro at new low, with the focus on looming energy shortages from the war. The bottom line: stocks rallied after 235K unemployment claims Thursday (weak economy), then ended close to unchanged Friday after stronger than expected 372K payroll jobs. Bond yields also rose 8 bps Friday to close 3.08% even though the yield curve inverted this week, 2s10s, signaling recession. The million-dollar question is how high the Fed funds rate goes, and the market, except Fed funds futures, is uncertain whether 3.5% reached this year.

Walmart (WMT) down 22.0% from April 21, 2022 record high

Walmart survived the Fed rate hikes, bond market sell-off, and Russia invading Ukraine, making a new record high of $160.77 on April 21 before selling off sharply in May. The stock was $148.21 the night before earnings on the morning of May 17 falling 11.4% on the day. Target collapsed 24.9% the day after on its own earnings, dragging down Walmart another 6.8% to $122.43 on May 18. Retail outlook faces higher shipping and labor costs, inventories.

Bln $	Revenue	Operating Income	Same-store Sales YOY	13-weeks ending *
Q1 2020	134.6	5.2	10.3%	5/1/2020
Q2 2020	137.7	6.1	9.9%	7/31/2020
Q3 2020	134.7	5.8	7.1%	10/30/2020
Q4 2020	152.1	5.5	8.9%	1/29/2021
Q1 2021	138.3	6.9	6.2%	4/30/2021
Q2 2021	141.0	7.4	5.5%	7/30/2021
Q3 2021	140.5	5.8	9.9%	10/29/2021
Q4 2021	152.9	5.9	6.3%	1/29/2022
Q1 2022	141.6	5.3	4.0%	4/29/2022

* US comparable sales, incl. Sam's Club, ex-fuel



FEDERAL RESERVE POLICY

The Fed meets on July 26-27, 2022 to consider its monetary policy. Powell said at the press conference on June 15 they could move 50 or 75 bps. Today is July 8, and the question is how many times does the market need to hear the Fed might raise rates 75 bps on July 27? There can't be that much back and forth, will they won't they.

Selected Fed assets and liabilities					March 11
Fed H.4.1 statistical release					2020**
billions, Wednesday data	6-Jul	29-Jun	22-Jun	15-Jun	pre-Covid
Factors adding reserves					
U.S. Treasury securities	5744.344	5763.933	5763.344	5762.730	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2709.336	2709.328	2728.815	2727.567	1371.846
Repurchase agreements	0.000	0.001	0.000	0.000	242.375
Primary credit (Discount Window)	1.765	3.604	3.147	3.706	0.011
Paycheck Protection Facility	17.628	18.082	18.621	18.949	
Corporate Credit Facility (CCF)	0.000	0.000	0.000	0.000	
Municipal Liquidity Facility	5.543	5.541	5.540	5.538	
Main Street Lending Program	26.401	26.387	26.374	26.363	
Term Asset-Backed Facility (TALF II)	2.179	2.198	2.197	2.196	
Central bank liquidity swaps	0.347	0.184	0.197	0.199	0.058
Federal Reserve Assets	8941.5	8962.2	8984.0	8982.1	4360.0
~~3-month Libor %~~ SOFR %	1.54	1.51	1.45	0.70	1.15
Factors draining reserves					
Currency in circulation	2284.935	2281.158	2278.628	2276.909	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	687.943	759.845	745.052	769.937	372.337
Treasury credit facilities contribution	17.940	17.940	17.940	17.940	
Reverse repurchases w/others	2168.026	2226.976	2259.458	2162.924	1.325
Reserve Balances (Net Liquidity)	3222.930	3118.611	3115.589	3189.605	1779.990
Treasuries within 15 days	82.799	93.370	80.281	79.168	21.427
Treasuries 16 to 90 days	335.728	325.023	338.185	333.462	221.961
Treasuries 91 days to 1 year	813.570	810.874	810.763	816.561	378.403
Treasuries over 1-yr to 5 years	2056.844	2084.018	2074.295	2074.069	915.101
Treasuries over 5-yrs to 10 years	1023.242	1019.834	1029.136	1028.941	327.906
Treasuries over 10-years	1432.162	1430.814	1430.684	1430.529	658.232
Note: QT starts June 1	Change	6-Jul	1-Jun		
U.S. Treasury securities	-26.435	5744.344	5770.779		
Mortgage-backed securities (MBS)	1.890	2709.336	2707.446		
**March 11, 2020 start of coronavirus lockdown of country					

The Fed meeting minutes released 2pm ET on Wednesday should have been old news. Maybe it reinforced the need for policymakers to keep moving rates upward as consumers think inflation is becoming more entrenched. On the other hand, what else was to be expected with the June meeting's 75 bps hike to 1.75% and Fed forecasts the rate would be 175 bps higher still at 3.5% at the end of this year. August Fed funds futures (adjusted) were trading 2.45% at 2pm ET Wednesday and rose as much as 2 bps to 2.47% after the Fed minutes (old) news headlines. The same thing happened Friday after the June employment report that was stronger than expected. August Fed funds futures (adjusted) were 2.465% before the better than expected 372K payroll jobs, and were 2.49% a few minutes later. Not sure how many stories can be written, 2.45, 2.47, 2.465, 2.49 percent, before after Fed minutes, before after the jobs report, the story doesn't change: 75 bps discounted on July 27 so all the Fedspeak is going to sing the same song.

June 14-15, 2022 Meeting Minutes
"Participants concurred that the economic outlook warranted moving to a restrictive stance of policy, and they recognized the possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist."
Even more, meaning how much higher than 3.5% at year-end?

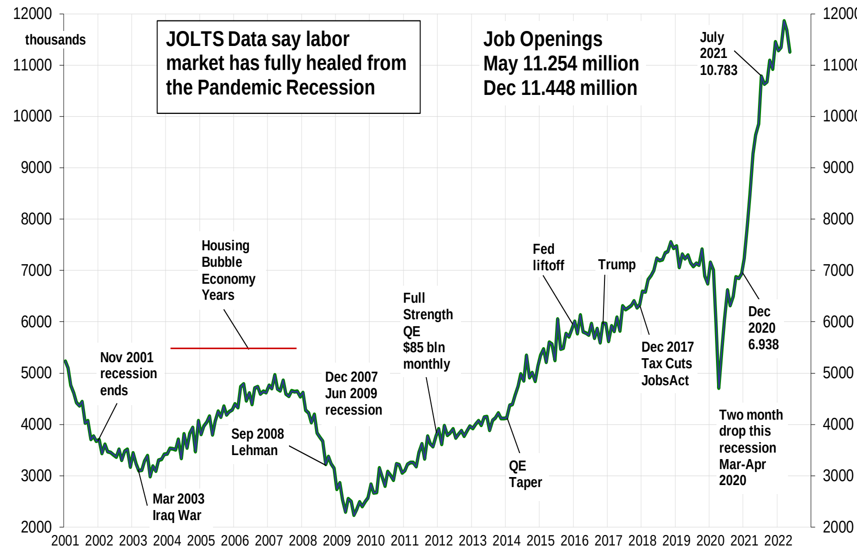
Scrolling through headlines Thursday, St. Louis Fed President Bullard said it was possible that rate cuts could follow once inflation moderates. Wish Fed would stop micromanaging the ups and downs of life and the economy, just re-set the Fed funds rate at 3% and leave it there. The economy will come back on its own in a recession. Anyway, interesting idea, rate cuts, and Bullard added they would keep raising rates in the meantime until inflation gets to 3-3.5 percent. 3.5% inflation isn't that far away, well, a year maybe in year-year percent change calculation, but core PCE inflation has seen a string of 4 consecutive 0.3% monthly changes. PCE versus CPI is an argument for business economists, but the Fed target is PCE inflation, and core CPI monthly changes have been much higher than core PCE monthly changes. Something to keep in mind if CPI inflation is worse than expected in the Wednesday, July 13 report. Something else to keep in mind is gasoline prices are down about 30 cents from the mid-June peak this year of $5.016, and this will pull down headline PCE inflation in next month's July CPI report due out on Wednesday, August 10.

Core Consumer Inflation and stickier services prices ex-energy																
Monthly	2022					2022	2021									2021
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
Core CPI inflation		0.6	0.6	0.3	0.5	0.6	0.6	0.5	0.6	0.3	0.2	0.3	0.8	0.7	0.9	0.3
Services x-energy		0.6	0.7	0.6	0.5	0.4	0.3	0.4	0.4	0.2	0.1	0.3	0.4	0.4	0.5	0.3
Core PCE inflation		0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.2	0.3	0.3	0.5	0.6	0.6	0.4
Services x-energy		0.3	0.4	0.4	0.3	0.3	0.4	0.5	0.3	0.2	0.3	0.4	0.4	0.4	0.4	0.5

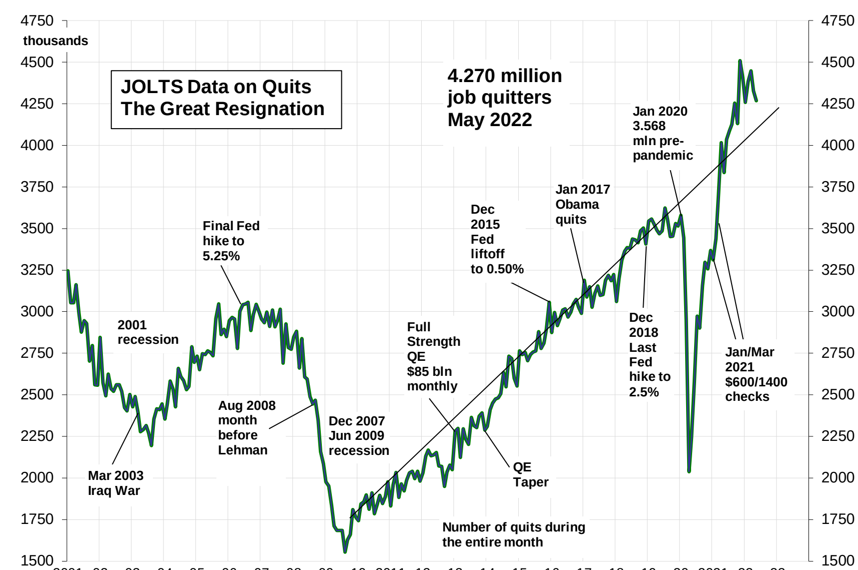
OTHER ECONOMIC NEWS

Job openings still above 11 million (Wednesday)

Breaking economy news. Job openings at the end of May were 11.254 million which isn't much lower from the record 11.855 million postings in March 2022. If the labor market is cooling off, you would need a magnifying glass to see it. Those calling for a recession this year will have to rethink that view based on the latest job openings data. There's talk of a slowdown, but the jobs boards are saying demand for workers is red-hot. The major weakness was in factory job openings that tumbled to 809 thousand in May from 1.017 milion in April, but these data have been volatile.



Also at 10am ET this morning ISM services PMI held up better than expected. Leisure and hospitality job openings rose to 1.57 million in May from 1.498 million in April. Health care and social assistance job openings climbed to 1.978 million from 1.946 million in April. Consumer spending may be slowing in May, but retail shops wanted to hire 1.144 million more workers in May versus 1.04 million in April. Even real estate which is bearing the brunt of the Fed's front-loaded rate hikes needs 155 thousand more to help them sell homes, up from 151 thousand in April. You can't have a recession without job losses and many sectors of the economy are simply not shedding jobs right now, rather they are actively looking for more workers. Many workers continue to quit their jobs, 4.270 million in May, without a worry in the world they won't be able to find new opportunities. Quitters don't see a recession in their future, that's for sure.

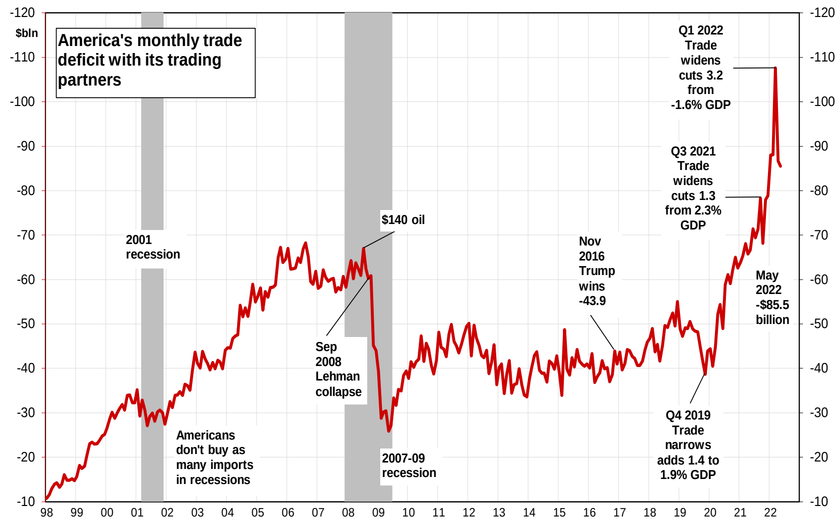


Net, net, the U.S. economy may not be as close to shutting down as the markets and Fed officials had hoped with over 11 million help-wanted signs still plastered in store and factory windows across the country at the end of May. More forward data on payroll jobs for June is just a couple of days away, but the evidence so far is that job openings are still almost double the official 3.6% unemployment rate in May where 5.95 million are seeking work. Fed Chair Powell is hoping to cool the economy down and wouldn't be unhappy to see some of those help-wanted signs come down off of the jobs boards. As long as the labor market remains strong, the Federal Reserve is likely to keep interest rates moving upward to slow activity down. The data today still argue for a 75 bps rate hike later this month rather than 50 bps.

International trade trend robust, job layoffs at turning-point (Thursday)

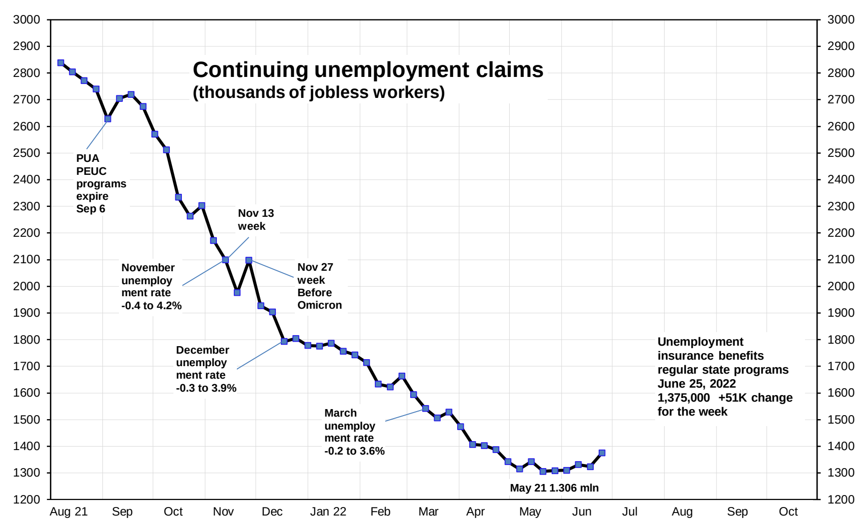
Breaking economy news. Weekly jobless claims and the May trade deficit. Weekly jobless claims were elevated at 235 thousand in the July 2 week before the holiday. Company layoffs have grown since the best level for this recovery from the pandemic of 166 thousand in the March 19 week. The jobless rolls are starting to rise as well with 1.375 million getting benefits in the June 25 week. The skies are growing darker for the labor markets and recession later this year is not out of the question if job losses grow.

International trade flows inward and outbound remain strong and show no sign that the era of globalization is ending anytime soon. Exports of $255.894 billion in May are 21.7% higher than a year ago. Imports of $341.440 billion in May are 23.3% higher than a year ago. Real exports have improved into the second quarter. At the moment, the key drivers of economic growth in the second quarter are consumer spending and net exports.



No change in the terms of trade with America's biggest partner with imports of goods from China at $43.864 billion in May and $223.117 billion year-to-date. In January to May 2021, U.S. goods imports from China were just $188.646 billion, so clearly the U.S. consumer is alive and well for now despite reports of some retailers discounting a glut of household goods out on the store shelves.

Net, net, weekly jobless claims are more clearly indicating the labor market is at a turning point where companies will have less demand for workers in the future as they see their growth and revenues start to slow as the Federal Reserve ramps up its fight against inflation. Fed officials want the economy to slow and the message has not been lost on CEOs who are becoming more cautious by the day. World trade remains a bright spot for now, but for how long with war, rumors of war, and recession fears likely to curtail trade between the U.S. and its trading partners as we move into the second half of the year. Stay tuned. Story developing.



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