

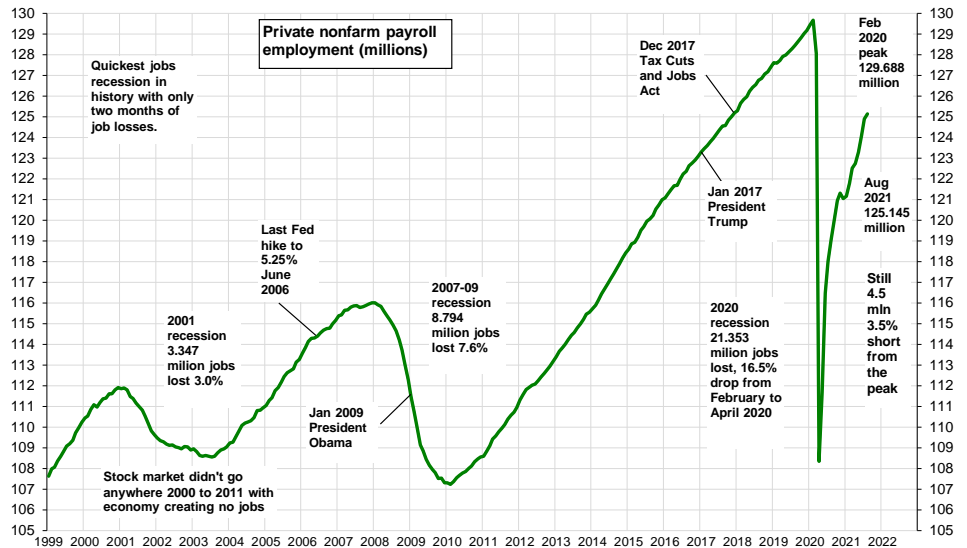
Financial Markets This Week

3 SEPTEMBER 2021

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PROGRESS ON HIRING PANDEMIC JOB LOSERS STALLS

Breaking economy news. Payroll employment in August cooled to 235 thousand which underwhelms market expectations even if revisions show a million jobs month finally this year with July revised from 943 thousand to a gain of 1.053 million. Leisure and hospitality job gains were exactly zero this month after 415 thousand new hires at



bars, restaurants, hotels during July's summer reopening and the halt seems directly tied to the spread of the Delta variant with new mask mandates in August throughout the country. Local teacher hires with suspect seasonal factors fell 5.7 thousand after a big phantom jump in July of 224.9 thousand.

The news wasn't all bad for Fed officials carefully weighing progress on meeting their maximum employment mandate which is misnamed as there is no such thing as maximum employment because the jobs outstanding

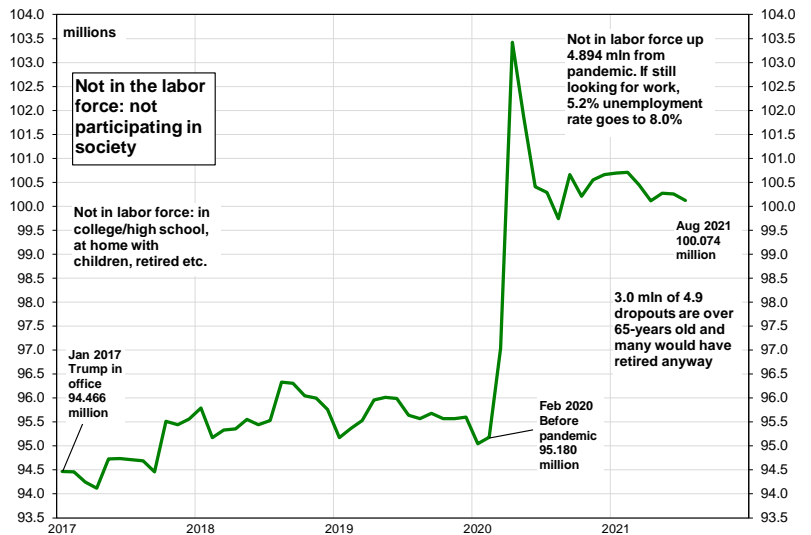
Monthly changes (000s)	Aug	Jul	Jun	May	Apr
Payroll employment	235	1053	962	614	269
Private jobs	243	798	808	555	226
Leisure/Hospitality jobs	0	415	397	319	328
Unemployment rate %	5.2	5.4	5.9	5.8	6.1
Not in labor force (mln)	100.074	100.123	100.253	100.275	100.115
... and Want A Job (mln)	5.682	6.517	6.428	6.600	6.647
Average hourly earnings	\$30.73	\$30.56	\$30.44	\$30.31	\$30.17
MTM % Chg	0.6	0.4	0.4	0.5	0.7
YOY % Chg	4.3	4.1	3.7	1.9	0.3

rise steadily with the growing population trend. The economy is closer to the best economy in fifty years unemployment rate of 3.5% before the pandemic that Fed Chair Powell can't stop saying good things about. Things that make retiring baby boomers cringe when they hear him say no rate hikes before we return to normal before the pandemic. Interest on bank accounts will continue to offer little for those in their golden years. The good news is the unemployment rate dropped further to 5.2% in August from 5.4% in July as the Household Survey found employment rose 509 thousand. The

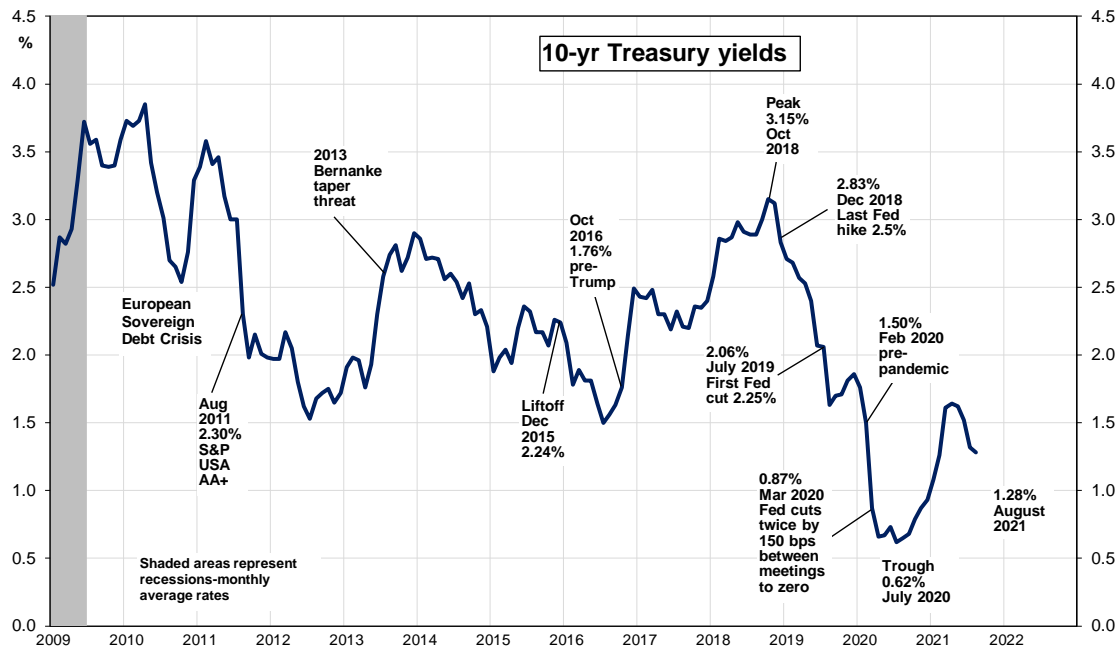
markets can take their pick: 235K payroll jobs or the unemployment rate's 509K jobs. Anyway you cut it, a majority of Fed officials will not be doing handstands and bragging about the economy's progress, so we doubt the September meeting will be the right time to declare victory and announce the start of tapering.

Net, net, the economy is no longer pumping out as many new jobs and has passed the peak rehiring stage of the labor market recovery from the pandemic as most of the easy jobs for employers to fill have been completed and the Delta variant put the kibosh on new hiring at restaurants and hotels. Fed officials are unlikely to see this as a win for their maximum employment goal and this means the odds of a tapering announcement at the September meeting have gone way down and the stock market can breathe easier because the money priming the economy's pumps will continue to flow. Economic growth appears to have slowed to under 3% this quarter and now it looks like progress on putting jobless workers back to work has stalled as well. Stay tuned. Story developing.

Payroll jobs fall from February 2020 peak as recession began							
18 months							
Feb 20							
Data in thousands	Aug 21	Jul 21	Jun 21	Aug 21	Aug 21	Feb 2020	
Nonfarm Payroll Employment	235	1053	962	-5,333	147,190	152,523	
Total Private (ex-Govt)	243	798	808	-4,543	125,145	129,688	
Goods-producing	40	64	42	-656	20,481	21,137	
Mining	6	7	11	-42	599	641	
Manufacturing	37	52	32	-378	12,421	12,799	
Motor Vehicles & parts	24	11	-3	-63	923	986	
Construction	-3	6	-2	-232	7,416	7,648	
Private Service-providing	203	734	766	-3,887	104,664	108,551	
Trade, transportation, utilities	24	61	139	-447	27,429	27,876	
Retail stores	-29	-8	89	-285	15,325	15,610	
General Merchandise	-5	-2	19	73	3,073	2,999	
Food & Beverage stores	-23	-3	0	2	3,077	3,075	
Transportation/warehousing	53	55	24	22	5,845	5,823	
Truck transport	5	5	6	-26	1,499	1,525	
Air transportation	11	4	8	-69	448	517	
Couriers/messengers	20	10	-19	149	1,031	883	
Warehousing and storage	20	15	20	142	1,470	1,328	
Utilities	-1	0	-1	-10	537	547	
Information	17	21	12	-150	2,764	2,914	
Financial	16	24	0	-29	8,846	8,875	
Insurance	-1	-3	-3	2	2,858	2,856	
Real Estate	12	15	5	-63	2,299	2,362	
Commercial Banking	-1	-3	-2	-63	1,337	1,400	
Securities/investments	1	4	1	30	996	966	
Professional/business	74	79	70	-468	21,001	21,469	
Temp help services	-6	10	31	-262	2,683	2,945	
Management of companies	4	-1	1	-93	2,332	2,425	
Architectural/engineering	19	4	3	33	1,580	1,546	
Computer systems/services	10	7	8	30	2,269	2,239	
Legal services	4	3	3	-24	1,141	1,165	
Accounting/bookkeeping	4	9	3	40	1,068	1,028	
Education and health	35	88	72	-905	23,660	24,565	
Hospitals	3	11	-2	-85	5,153	5,238	
Educational services	40	44	57	-159	3,620	3,779	
Leisure and hospitality	0	415	397	-1,699	15,216	16,915	
Hotel/motels	7	73	90	-356	1,749	2,105	
Eating & drinking places	-42	290	242	-966	11,342	12,308	
Government	-8	255	154	-790	22,045	22,835	
Federal ex-Post Office	3	0	-2	21	2,281	2,260	
State government	-25	11	56	-243	5,060	5,303	
State Govt Education	-21	19	65	-186	2,410	2,596	
Local government	14	235	105	-572	14,097	14,669	
Local Govt Education	-6	225	134	-220	7,810	8,030	



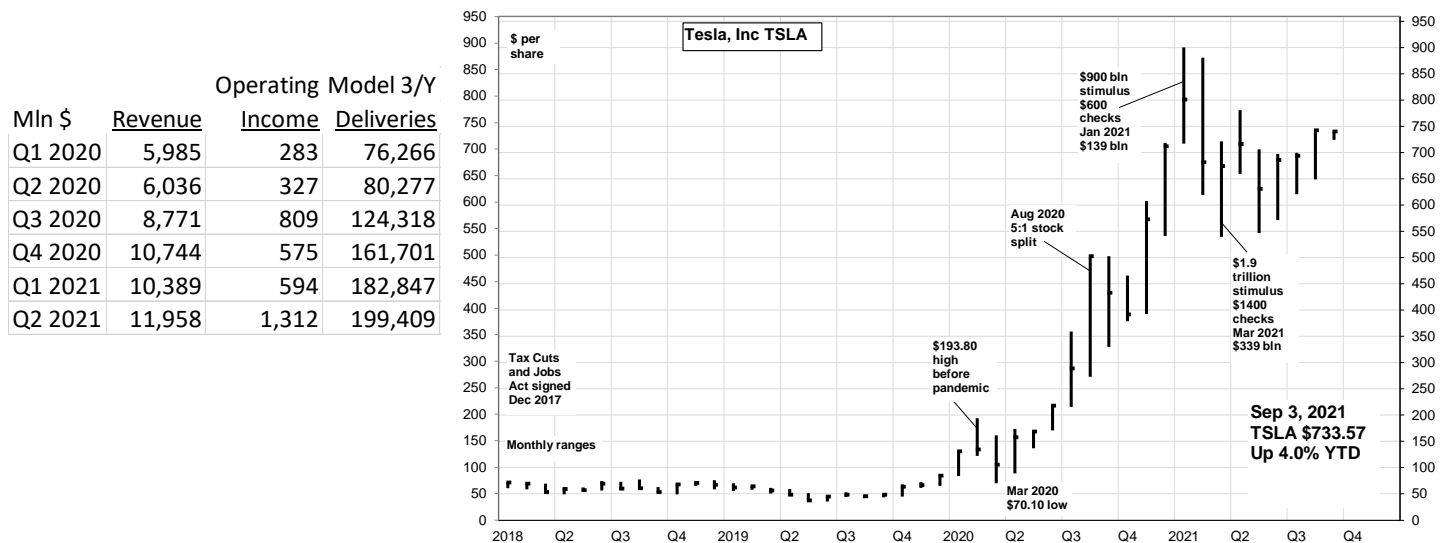
INTEREST RATES



The 1.30% yield level was important for 10-yr Treasuries. We will leave this sentence in from last week’s letter because bond yields won’t move away from it. Quiet. Granted it is the last week before the final summer season holiday weekend with many workers in finance allegedly working from home. 10-year yield closings: last Friday 1.31%, Monday 1.28%, Tuesday 1.31%, Wednesday 1.30%, Thursday 1.29%, and Friday 1.33%. The weaker jobs report (didn’t 235K used to be a big jobs number not that long ago?) sent yields up a few bps to the highs for the day. That’s this week’s market color.

Tesla, Inc. TSLA, up 4.0% YTD

Tesla, Inc. is up 11.5% since its calendar Q2 earnings release after the bell on Monday, July 26. Despite microchip shortages industry-wide, Model 3/Y deliveries rose to 199,409 from 182,847 in the first quarter. Car & light truck sales continue to fall from Q2 2021’s 16.9 million annual rate with sales 14.6 million in July and 13.1 million in August. Tesla said on earnings day it remains on track to produce its first Model Y vehicles this year in Berlin and in Austin, Texas.



OTHER ECONOMIC NEWS

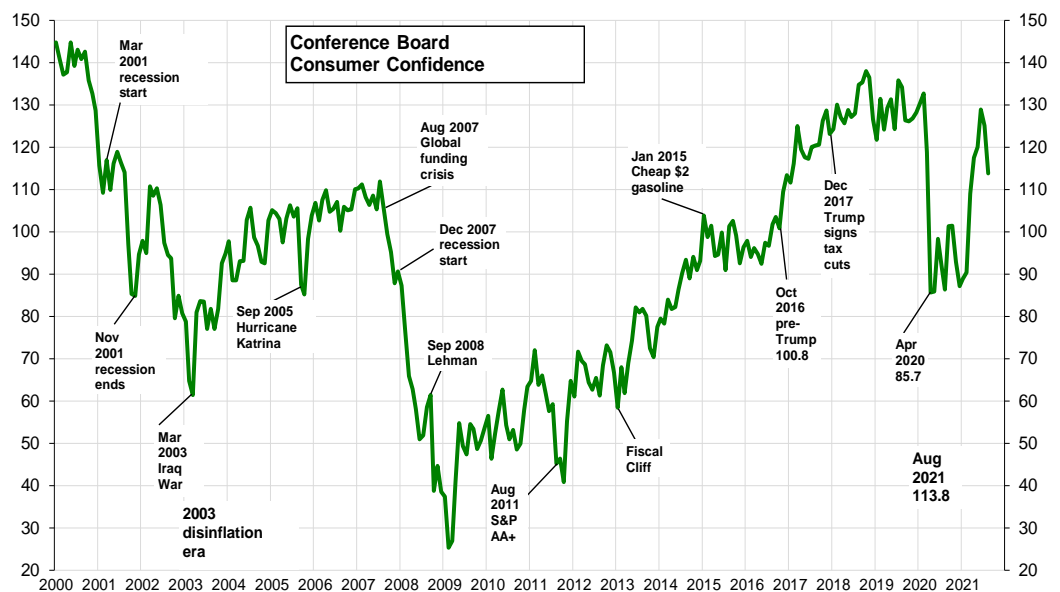
Downbeat consumers put the economic recovery at risk (Tuesday)

Breaking economy news. Consumer confidence, this time from the Conference Board, tumbles in August to 113.8 where we last thought the index was 129.1 in July. Forget that. Consumers were not that optimistic in July with today's downward revision to 125.1. Downbeat consumers clearly put the economic recovery at risk. Fed officials may be counting their chickens before they are hatched as Friday's jobs report may be weaker than expected with consumers saying jobs are less plentiful and harder to get. No big jobs number Friday means no taper announcement at the September Fed meeting.

Net, net, there has been a swift reversal of fortune in the consumer's mind when it comes to weighing the outlook ahead. Consumers' hopes and fears turned to the dark side near the end of the summer as many are growing concerned about the spread of the Delta variant, and the higher prices and shortages of goods on store shelves are making consumers more cautious as well. Real consumption expenditures fell in July and now we have to wonder if spending will retreat further in August based on this latest temperature

reading of the consumer's state of mind. Many downturns in the economy historically have been caused by a sudden spike in the inflation rate and we have to watch carefully because higher prices are clearly weighing on consumer confidence and higher gasoline prices are taking money from consumers' pockets as well, money that could

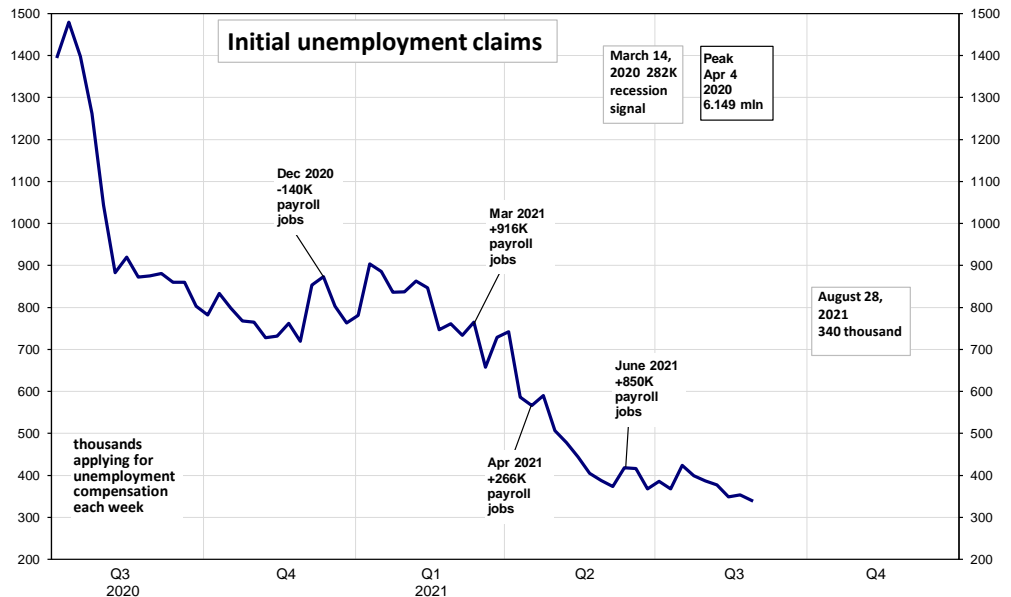
be spent on other things like back to school purchases and last-minute vacations. The economic recovery will be in trouble in the second half of the year if the consumer decides to sit this one out. Bet on it. The stock market isn't, but you should be.



New low for new claims for unemployment since the pandemic (Thursday)

Breaking economy news. New low in the number of new jobless workers this year shows the labor market continues to recover strongly. The million dollar question is whether fewer workers applying for benefits means another monster payroll jobs number tomorrow that is close to a million new jobs like last month's 943K gain. In the August 28 week, new filings for benefits were 340K which is close to the normal levels of job losses prior to the pandemic. After revision, the number of filings in the March 14, 2020 week were 256K. 256K normal, 340K not so normal, but the gap is closing.

The July 2021 8.702 million unemployed count from the BLS is hard to reconcile with the higher count of 12.186 million people receiving unemployment insurance benefits in the August 14, 2021 week. Maybe not for much longer as the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency UC (PEUC) programs expire September 6, 2021. Both programs are paying out benefits to 9.2 million people.



Net, net, there is no sign that the Delta variant is leading to job losses across the country as the number of newly jobless workers applying for unemployment benefits continues to drop. If anything, the labor market continues to firm and the numbers filing for benefits tell a story that the labor market is closer to full employment than Federal Reserve officials believe. The ADP jobs report suggests a softer 500K jobs payroll employment number tomorrow, and the downward track of unemployment benefit filings hints that the jobs report could be stronger even though today's results for the August 28 week are beyond the survey period for the monthly report. Stay tuned. The month of August has been a rocky one for economists forecasting payroll employment changes. Regardless of tomorrow's report, keep in mind that the weekly jobless figures say the labor market screws continue to tighten.

Unemployment Benefits Recipients		Prior Year
<u>14-Aug-21 Program</u>		
2,796,767	Regular State	13,762,778
8,977	Federal Employees	14,108
6,024	Newly Discharged Veterans	13,629
5,413,238	Pandemic Unemployment Assistance	13,964,384
3,800,000	Pandemic Emergency UC	1,538,663
114,357	Extended Benefits	181,528
1,030	State Additional Benefits	2,327
45,765	STC/Workshare	270,232
12,186,158	TOTAL	29,747,649

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