Financial Markets This Week

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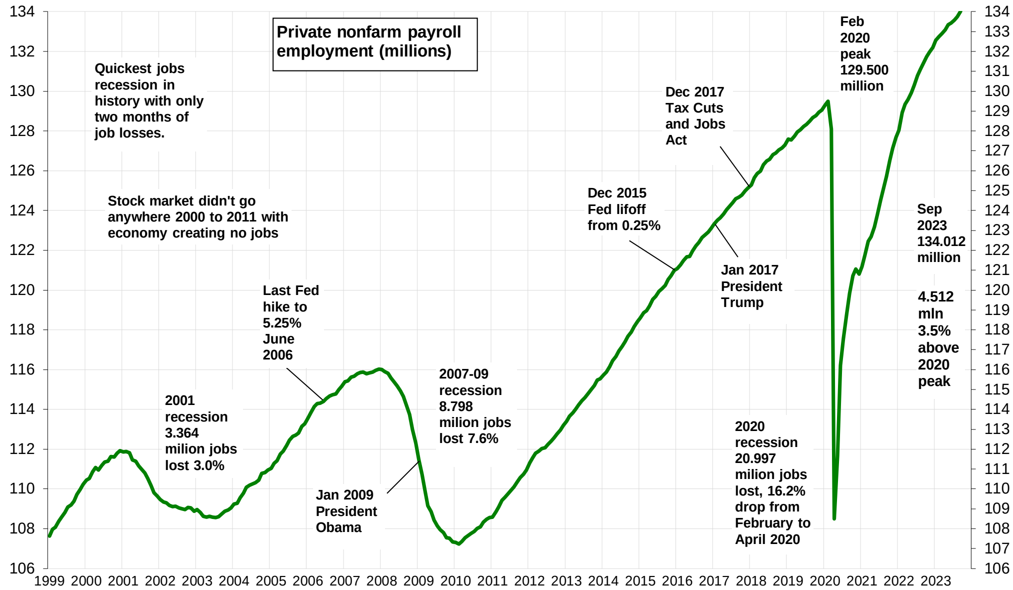
Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

STRANGER THAN FICTION JOBS REPORT



The economy isn't stopping anytime soon with businesses hiring workers at this brisk of a pace. It isn't just companies either with Government hiring thousands: 91K July, 50K August, 73K September. Today's employment report shows robust hiring in Q3 2023 that matches up with those 4% real GDP forecasts. If Fed officials wanted a recession to rebalance inflation, they will have to try harder on rates. First look at Q3 2023 real GDP is Thursday, October 26. The only strange thing about the employment report is why 336K more jobs did not bring the 3.8% unemployment rate down.

We can't believe it and the market can't either after being tricked into thinking a slowdown was in store after the ADP 89K "forecast" released Wednesday at 815am ET, and the consensus forecast coming in today was 170K.

Payroll Employment Changes (thousands

	March 2001 to November 2001 Recession "8 months"						
	Nov 00	Dec 00	Jan 01	Feb 01	Mar 01	Apr 01	May 01
Total	201	165	-20	87	-32	-297	-44
Private	184	121	-51	16	-71	-344	-81
	December 2007 to June 2008 Recession "18 months"						
	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08
Total	118	106	1	-76	-68	-217	-191
Private	81	64	-11	-105	-94	-224	-224
	No Recession in 2023						
	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23
Total	217	217	281	105	236	227	336
Private	157	179	255	86	145	177	263

The details. Unemployment is 3.8% the same as it was last month. But nonfarm payroll jobs jumped 336K in September with an incredible 119K of upward revisions to July and August. Don't ask for whom the bell tolls, the economy isn't dying. There is no recession. Don't worry about the consumer, there are almost half a million more of them with paychecks to provide the fuel the economy needs to keep spending and growth on an upward path. There is no recession. Bet on it. The stock market is. Stocks are tanking as they are afraid interest rates will have to stay higher for longer with Fed officials maybe needing to kick rates up another notch.

Net, net, do not be fooled by the unemployment rate stuck at 3.8% this month, stick with payroll jobs as an indication that the economy is not at death's door and nowhere near the edge of the cliffs of recession. The economy is roaring with the demand for workers literally through the roof showing the labor markets are not rebalancing like Fed officials thought and interest rates are likely to remain higher for longer to ensure the inflation fire is out. The stranger than fiction jobs report is confusing with wages rising at a slower 0.2% pace this month and the steady and elevated jobless rate suggesting the labor markets are rebalancing. But the more robust data from the employment situation report are payroll jobs, and the half a million strong increase including revisions shows the economy is on fire. Core inflation has slowed to a crawl the last three months, but it won't be there for long if the companies continue to hire at a flat-out pace. Rate hikes are coming. Bet on it. There's a reason home prices are at record, all-time highs: there are half a million more workers out there bidding prices up.

Payroll jobs fall from February 2020 peak as recession began

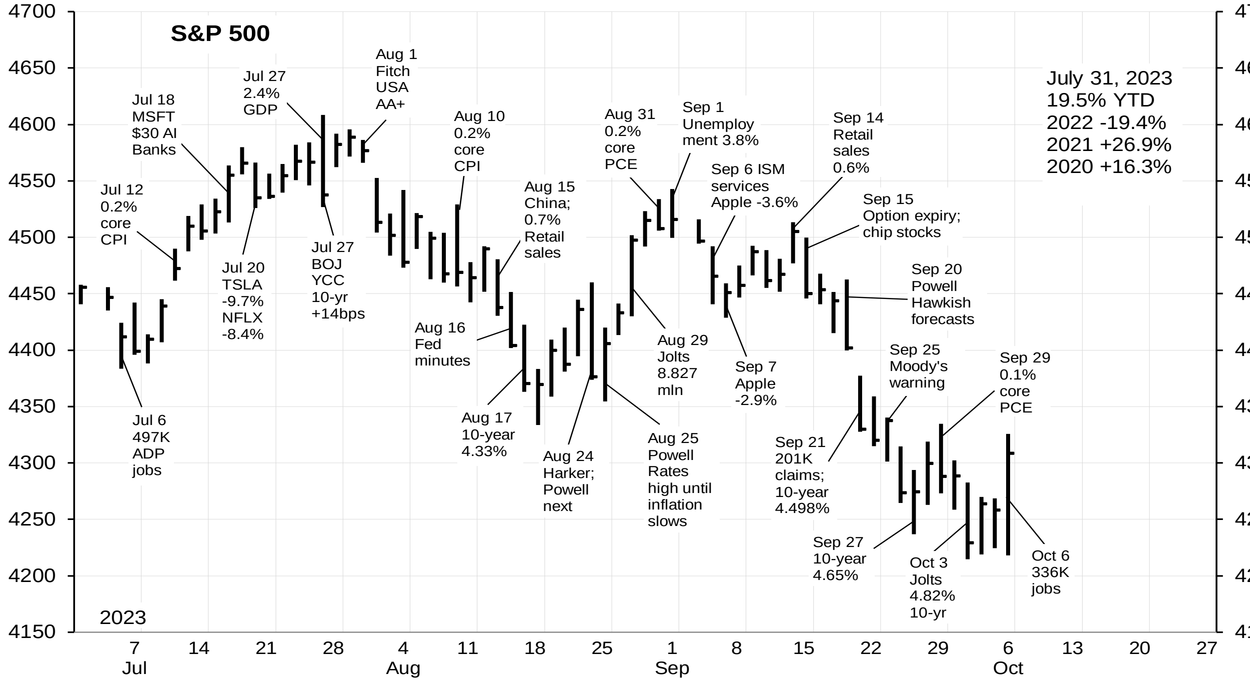
Data in thousands	Sep 23	Aug 23	Jul 23	43 months Feb 20 Sep 23	Sep 23	Feb 2020
Nonfarm Payroll Employment	336	227	236	4,503	156,874	152,371
Total Private (ex-Govt)	263	177	145	4,512	134,012	129,500
Goods-producing	29	47	12	591	21,670	21,079
Mining	0	1	1	-41	597	638
Manufacturing	17	11	-2	226	13,011	12,785
Motor Vehicles & parts	9	-3	3	95	1,080	985
Computer/electronics	-2	-3	2	20	1,101	1,081
Food manufacturing	2	3	-5	65	1,719	1,655
Construction	11	36	12	406	8,014	7,608
Specialty trade contractors	3	22	9	255	5,076	4,821
Private Service-providing	234	130	133	3,921	112,342	108,421
Trade, transportation, utilities	45	-17	20	1,152	28,898	27,746
Retail stores	20	0	13	38	15,558	15,520
General Merchandise	4	-4	-5	116	3,181	3,066
Food & Beverage stores	1	1	7	125	3,249	3,124
Transportation/warehousing	9	-19	-7	917	6,702	5,786
Truck transport	9	-25	-7	65	1,585	1,520
Air transportation	5	3	3	36	552	517
Couriers/messengers	1	1	8	259	1,124	865
Warehousing and storage	-4	-6	-10	567	1,884	1,317
Information	-5	-21	-19	128	3,036	2,908
Computing, data, web hosting	-4	3	3	133	496	363
Financial	3	2	15	288	9,157	8,869
Insurance	4	3	8	105	2,956	2,851
Real Estate	6	3	10	74	2,439	2,365
Commercial Banking	-2	-2	-3	-30	1,369	1,398
Securities/investments	1	3	0	123	1,089	966
Professional/business	21	11	-29	1,582	23,019	21,437
Temp help services	-4	-13	-17	60	2,943	2,884
Management of companies	3	8	0	47	2,530	2,483
Architectural/engineering	1	3	-1	140	1,687	1,548
Computer systems design	-1	4	4	282	2,517	2,234
Legal services	5	-4	-1	19	1,183	1,164
Accounting/bookkeeping	3	3	0	136	1,169	1,033
Education and health	70	97	104	1,011	25,587	24,576
Private Educational services	4	2	1	142	3,940	3,798
Hospitals	8	14	21	123	5,358	5,236
Ambulatory health care	24	37	35	634	8,501	7,867
Leisure and hospitality	96	44	38	-184	16,761	16,945
Hotel/motels	16	12	8	-217	1,896	2,113
Eating & drinking places	61	14	25	30	12,368	12,339
Government	73	50	91	-9	22,862	22,871
Federal ex-Post Office	7	9	13	85	2,345	2,260
State government	29	24	12	-21	5,296	5,317
State Govt Education	29	13	4	-38	2,575	2,613
Local government	38	15	69	-85	14,614	14,699
Local Govt Education	11	11	49	-89	7,967	8,056

Monthly changes (000s)	Sep	Aug	Jul	Jun	May
Payroll employment	336	227	236	105	281
Private jobs	263	177	145	86	255
Leisure/Hospitality jobs	96	44	38	26	28
HH Employment Survey*	86	222	268	273	-310
Unemployment rate %	3.8	3.8	3.5	3.6	3.7
Participation rate %	62.8	62.8	62.6	62.6	62.6
Not in labor force (mln)	99.498	99.374	99.899	99.850	99.800
... and Want A Job (mln)	5.450	5.370	5.247	5.389	5.477
Average hourly earnings	$33.88	$33.81	$33.73	$33.60	$33.45
MTM % Chg	0.2	0.2	0.4	0.4	0.3
YOY % Chg	4.2	4.3	4.3	4.4	4.3

* Household (telephone) Survey of employment behind unemployment rate

P.S. Unemployment did not fall from 3.8% with 336K jobs because the Household Survey found employment rose just 86K, and those not in the labor force did not reverse the steep decline from last month as we thought it would. The 119K July-August upward revisions were all state and local government education jobs that can be volatile when school's out for summer.

INTEREST RATES

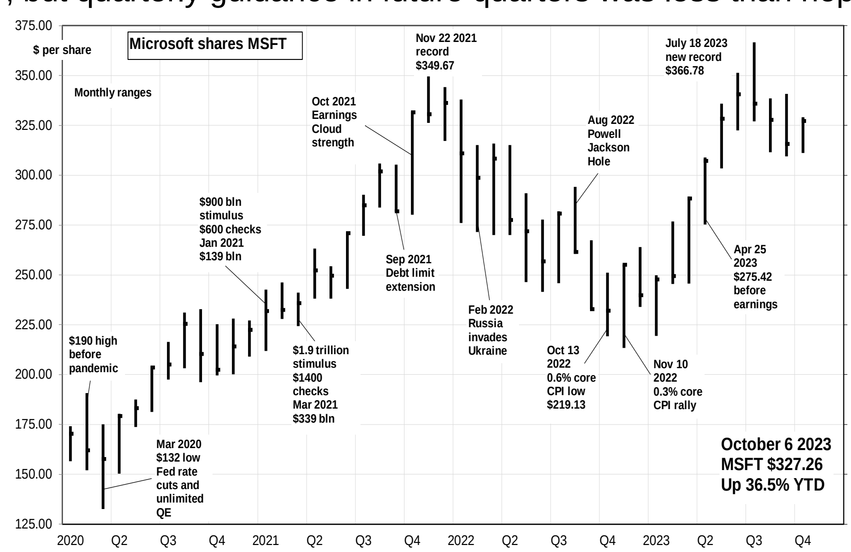


Stocks made a new low on Tuesday for the 8.5% move lower from the July highs, kicked down by the Jolts data which don't exactly scream the sky is falling for the economy (see Tuesday economic data releases in this report). Technical chart patterns rule, and losses generate more selling. Which brings us to Friday where stocks fell 0.9% on the news, could not break the week's low and rallied 2.1% off the low. Forgetting the idea that stocks decided a couple of hours later, the report was mixed with its unchanged unemployment rate and softer 0.2% increase in wages or that strong jobs are good for the economy and profits… What is it about October and market bottoms? The 2022 low down 27.5% from record highs happened on another equally challenging day to explain why. Stocks fell 2.4% after 0.6% core CPI on October 13, 2022, and rallied 5.1% off the low at the close. Ours is not to reason why.

Microsoft (MSFT) up 36.5% YTD

Stock spiked higher and closed at $359.49, above the old November 2021 high, on July 18 on a plan to charge businesses $30 a month per employee for AI assistance through Microsoft 365. The stock was $350.98 before calendar Q2 2023 earnings on July 25, and fell 3.8% to $337.77 the next day. Revenues are up 8.3% from last year, but quarterly guidance in future quarters was less than hoped.

Calendar Year Mln $	Revenue	Productivity Business Processes	Intelligent Cloud	More Personal Computing
Q2 2023	56,189	18,291	23,993	13,905
Q1 2023	52,857	17,516	22,081	13,260
Q4 2022	52,747	17,002	21,508	14,237
Q3 2022	50,122	16,465	20,325	13,332
Q2 2022	51,865	16,600	20,804	14,461
Q1 2022	49,360	15,789	18,987	14,584
Q4 2021	51,728	15,936	18,262	17,530
Q3 2021	45,317	15,039	16,912	13,366
	Income	Processes	Cloud	Computing
Q2 2023	24,254	9,052	10,526	4,676
Q1 2023	22,352	8,639	9,476	4,237
Q4 2022	20,399	8,175	8,904	3,320
Q3 2022	21,518	8,323	8,978	4,217
Q2 2022	20,534	7,236	8,808	4,490
Q1 2022	20,364	7,185	8,391	4,788
Q4 2021	22,247	7,688	8,323	6,236
Q3 2021	20,238	7,581	7,681	4,976

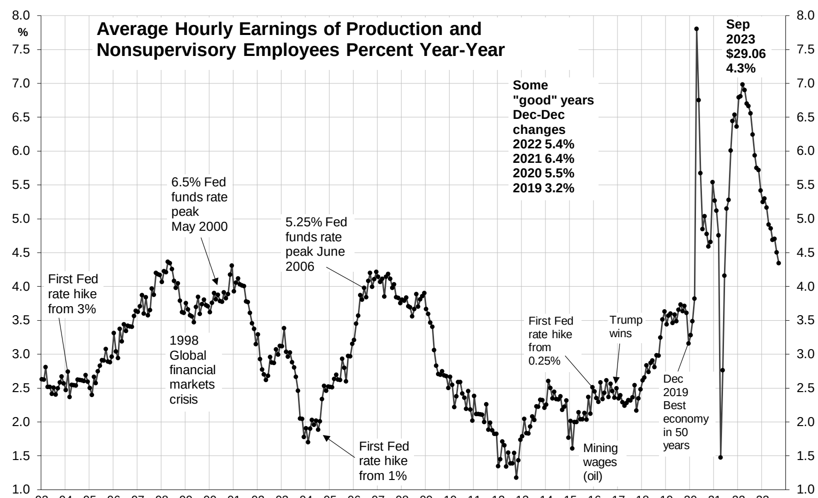


FEDERAL RESERVE POLICY

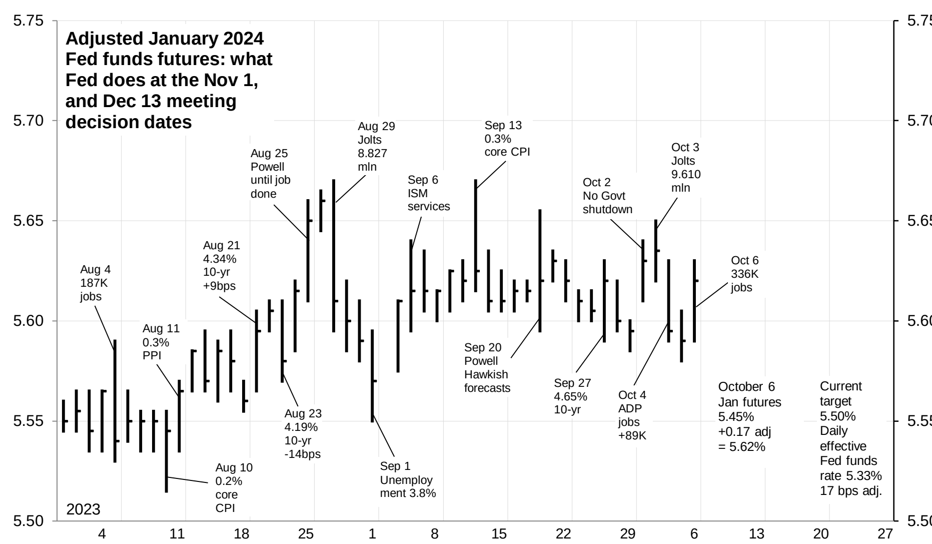
The Fed meets October 31-November 1, 2023 to consider its monetary policy. This will be the last jobs report before the Fed meets. It is pretty hard to explain away the strength of a 336K jobs number despite the 0.2% wage data and unchanged unemployment rate. The bond market's rising yields are doing part of the monetary policy tightening for the Fed, if that is what is required. Fed funds futures are fifty-fifty on the chance of another 25 bps rate hike this year. It only moved 3 bps more in a Fed rate hike direction after the employment report on Friday.

CPI is up next and we will see what is happening with the slowdown trend the last three months: core CPI monthly changes 0.16% June, 0.16% July, and 0.28% August. The Fed's target for core inflation in Q4 2024 is 2.6% year-on-year, and the simple annual rate change the last three months is 2.4%. On target: not sure why some Fed officials say inflation is still too high. It was too high, but no longer. Not lately.

Selected Fed assets and liabilities Fed H.4.1 statistical release billions, Wednesday data	4-Oct	27-Sep	20-Sep	13-Sep	3/11/20*	Change from 3/11/20 to Oct 4
Factors adding reserves						
U.S. Treasury securities	4930.410	4958.138	4960.735	4982.479	2523.031	2407.379
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2479.726	2479.726	2494.460	2498.870	1371.846	1107.880
Repurchase agreements	0.000	0.000	0.000	0.000	242.375	-242.375
Primary credit (Discount Window)	2.773	3.193	3.078	2.698	0.011	2.762
Bank Term Funding Program	107.665	107.715	107.599	107.993		
FDIC Loans to banks via Fed	63.702	81.883	85.005	133.369		
Paycheck Protection Facility	4.868	5.178	5.339	5.477		
Main Street Lending Program	19.397	19.352	19.326	19.579		
Municipal Liquidity Facility	5.632	5.629	5.626	5.623		
Term Asset-Backed Facility (TALF II)	1.220	1.220	1.219	1.218		
Central bank liquidity swaps	0.229	0.238	0.247	0.230	0.058	0.171
Federal Reserve Total Assets	8006.1	8052.5	8074.8	8149.5	4360.0	3646.066
~~3-month Libor %~~ SOFR %	5.32	5.32	5.30	5.30	1.15	4.170
Factors draining reserves						
Currency in circulation	2326.425	2324.023	2325.195	2329.820	1818.957	507.468
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	678.959	672.142	661.717	537.364	372.337	306.622
Treasury credit facilities contribution	13.358	13.358	13.358	13.358		
Reverse repurchases w/others	1242.031	1442.805	1486.984	1546.225	1.325	1240.706
Federal Reserve Liabilities	4765.385	4884.031	4930.373	4838.933	2580.036	2185.349
Reserve Balances (Net Liquidity)	3240.707	3168.502	3144.404	3310.525	1779.990	1460.717
Treasuries within 15 days	53.759	62.350	55.950	42.893	21.427	32.332
Treasuries 16 to 90 days	264.497	245.934	254.315	273.167	221.961	42.536
Treasuries 91 days to 1 year	599.561	613.336	614.151	624.023	378.403	221.158
Treasuries over 1-yr to 5 years	1690.672	1706.178	1706.087	1712.269	915.101	775.571
Treasuries over 5-yrs to 10 years	818.258	826.774	826.726	826.677	327.906	490.352
Treasuries over 10-years	1503.664	1503.565	1503.507	1503.449	658.232	845.432
Note: QT starts June 1, 2022	Change	10/4/2023	6/1/2022			
U.S. Treasury securities	-840.369	4930.410	5770.779			
Mortgage-backed securities (MBS)	-227.720	2479.726	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						



Fed funds futures call Fed hikes		
Current target: October 6 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.570	Nov 2023	Nov 1
5.620	Jan 2024	Nov 1, Dec 13
Last trade, not settlement price		



Fed Policy-key variables	2023	2024	2025	2026	Long Term
Fed funds	5.6	5.1	3.9	2.9	2.5
PCE inflation	3.3	2.5	2.2	2.0	2.0
Core inflation	3.7	2.6	2.3	2.0	
Unemployed	3.8	4.1	4.1	4.0	4.0
GDP	2.1	1.5	1.8	1.8	1.8
September 2023 median Fed forecasts					

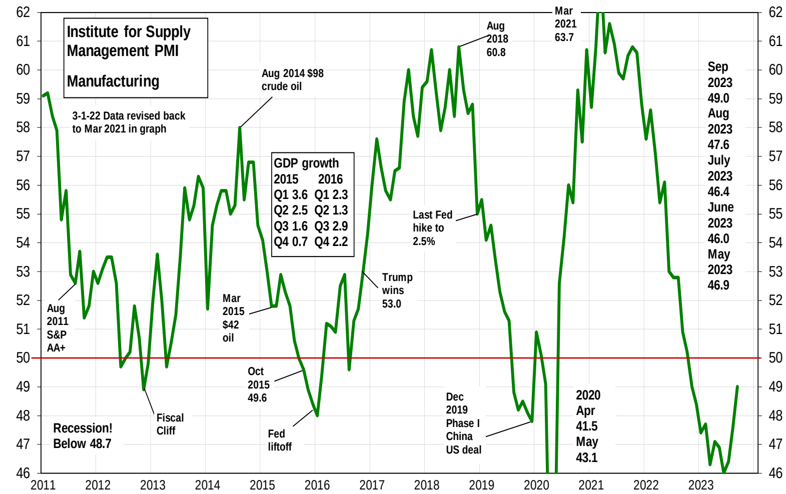
Next up: September CPI inflation report Thursday, October 12

Monthly % Changes	2023 Aug	Jul	Jun	May	Apr	Mar	Feb	2023 Jan	2022 Dec	Nov	Oct	Sep	Aug	Jul	2022 Jun
Core CPI inflation	0.3	0.2	0.2	0.4	0.4	0.4	0.5	0.4	0.4	0.3	0.3	0.6	0.6	0.3	0.6
Core PCE inflation	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.5	0.4	0.3	0.3	0.5	0.5	0.2	0.6
Core PCE YOY	3.9	4.3	4.3	4.7	4.8	4.8	4.8	4.9	4.9	5.1	5.3	5.5	5.2	5.0	5.2
Core CPI YOY	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6	5.7	6.0	6.3	6.6	6.3	5.9	5.9

OTHER ECONOMIC NEWS

Manufacturers are no longer betting on recession (Monday)

Breaking economy news. The ISM manufacturing index jumped to 49.0 in September from 47.6 in August showing the outlook for this key sector of the economy is brightening as the summer turns to fall. Key durable goods orders for capital equipment hit a new high in August as reported last week and this is leading to greater confidence for executives in manufacturing industries. The employment index jumped to 51.2 in September from 48.5 in August signaling factories are hiring again and we will see if this is the case in Friday's payroll jobs report. There is a rebound in growth here, but raw materials prices fell back in September after jumping in August which would count as good news except the reports on price pressures have been volatile recently.



Net, net, we don't know whether to credit Bidenomics or not, but purchasing managers in the manufacturing sector are saying the trend is definitely looking up. The Federal Reserve said the risks of recession have fallen and now the ISM manufacturing index is singing the same tune. The index popped 1.4 percentage points to 49.0 in September which is back above the 48.7 level which means the broader economy is in an expansion phase. For Fed officials trying to hold back economic demand to fight inflation, today's survey data show manufacturing is not slowing down, orders and especially factory production are picking up sharply. We never thought the economy could adjust to interest rates above 5 percent, but today's purchasing managers report is hinting that this may indeed be the case. Time will tell if the recovery in manufacturing is the first piece of economic data that causes the Fed to move closer to another rate hike this year. Stay tuned. Story developing.

ISM manufacturing index

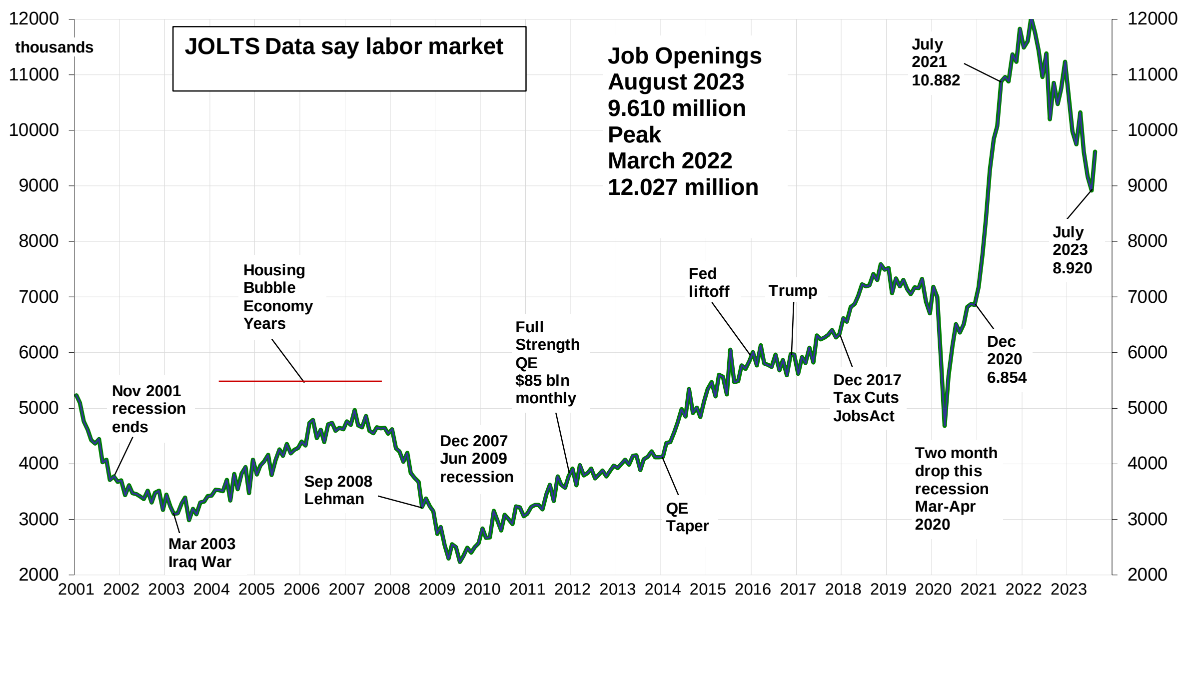
	Sep 23	Aug 23	Jul 23	Jun 23
PMI index	49.0	47.6	46.4	46.0
Prices	43.8	48.4	42.6	41.8
Production	52.5	50.0	48.3	46.7
New orders	49.2	46.8	47.3	45.6
Supplier deliveries	46.4	48.6	46.1	45.7
Employment	51.2	48.5	44.4	48.1
Export orders	47.4	46.5	46.2	47.3

More job shortages (Tuesday)

Breaking economy news. Lights out for stocks after getting jolted by news that the labor market is not slowing and job openings are increasing again which means the Fed might need to take action on rates later this year. The only hope the stock market may have is that higher bond yields are doing the Fed's monetary policy tightening for them, so they might not necessarily need to jump into action.

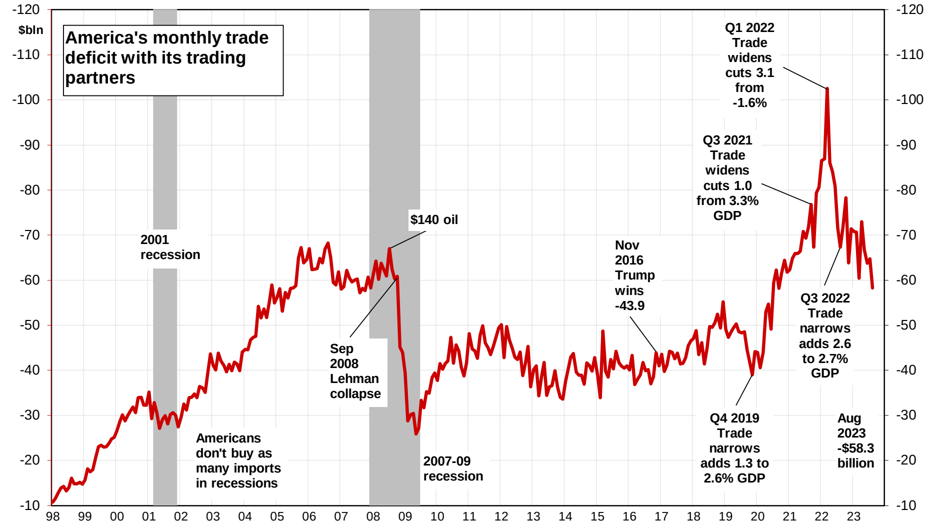
Job openings at the end of August increased 690 thousand to 9.610 million from the month before, and are not that much different from 10.198 million openings a year ago in August 2022. Companies are still short help and this may drive inflation higher in the future.

Net, net, the Fed's massive rate hikes are absolutely crushing it when it comes to core consumer inflation, but the labor market has escaped the wrath of tighter monetary policy with job openings erasing the soft spot for job offerings seen at the start of summer. Job openings were 9.616 million in May and are back to 9.610 million in August. Manufacturing is picking up and economic growth is resilient which means labor shortages are cropping up that may lead to talent bidding wars that lead to higher wages and a resurgence in inflation pressures later this year. Today's yes or no rates decision is yes as the jump in job openings hits the Fed right between the eyes. The labor market is further away from rebalancing than ever as companies say they have even greater demand for workers to man the factory shop floors and shops and malls and health care facilities around the country. Stay tuned. Inflation is turning over but it won't for long if the labor market does not turn over too. Demand for labor is strong and so is the economy which means interest rates will stay higher for longer if not forever and ever. Bet on it.



Less trade deficit red ink, labor market steady (Thursday)

Breaking economy news. The economy may be fragile, and soaring bond yields are equivalent to another Fed rate hike, but so far the labor market is rock steady with little sign of the job layoffs that occur in recessions. First-time jobless claims rose to 207 thousand in the September 30 week from 205 thousand the week before.



The terms of trade are turning in America's favor even without a trade war with the August deficit plummeting to $58.3 billion from $64.7 billion in July. Exports of goods on a Census basis increased $3.7 billion where crude oil and fuel oil imports increased $2.0 billion likely due to the jump in oil prices in August. Why when the Federal government is concerned about higher energy prices, the country is exporting crude oil overseas is beyond us.

Meanwhile consumer goods imports tumbled in August with cell phones and other household goods dropping $1.5 billion. Capital goods imports also fell, and the total decline in imports would have been even greater without the effect of higher oil prices in August making for an increase in crude oil imports.

Imports from China continue to be weak which hurts China's export-driven economy more than it does our economy. Imports were $36.7 billion in August versus $50.4 billion in August 2022.

Net, net, the trade data fits the story of the current state of America's economy hand and glove with manufacturers seeing a rebound and exporting more goods to the world, while imports were down, matching the slowdown in consumer spending in August as student loan payments start back up. The narrowing trade deficit is fully supportive of those 4% forecasts for real GDP in the third quarter which may well yet put another Fed rate hike up on the board of possibilities later this year. Demand in the economy continues to strengthen which can only serve to worry Fed officials even more, and puts the progress in bringing inflation down in jeopardy.

U.S. Exports of Goods to the Rest of the World

Millions of dollars	Aug 2023	Jul 2023	2023 YTD	2022 YTD
Total *	169,023	165,295	1,340,873	1,374,776
Foods, feeds, beverages	12,359	12,360	108,212	123,775
Meat, poultry, etc.	2,025	1,993	16,458	17,936
Corn	926	760	9,098	14,427
Soybeans	1,730	1,778	20,460	24,978
Industrial supplies, materials	60,459	57,728	481,664	557,467
Crude oil	10,250	8,758	74,799	78,531
Petroleum products, other	6,051	6,006	51,127	62,861
Capital Goods ex-autos	50,981	49,892	397,297	376,376
Semiconductors	4,765	4,494	37,619	44,512
Electric apparatus	4,471	4,414	35,302	32,287
Medical equipment	3,860	3,930	31,203	28,312
Engines-civilian aircraft	4,769	4,660	35,145	29,387
Telecom equipment	3,228	3,564	26,285	22,278
Civilian aircraft	2,552	2,588	22,058	20,006
Auto vehicles, parts, engines	15,496	16,892	120,455	104,112
Consumer goods	22,285	21,247	175,444	164,096
Pharma preparations	9,193	8,794	69,375	58,968
Cell phones	2,878	2,738	22,176	21,217
Gem diamonds	1,446	1,405	13,829	13,837
Other goods	7,444	7,177	57,801	48,950
* Total Exports of goods on Census Basis				

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