

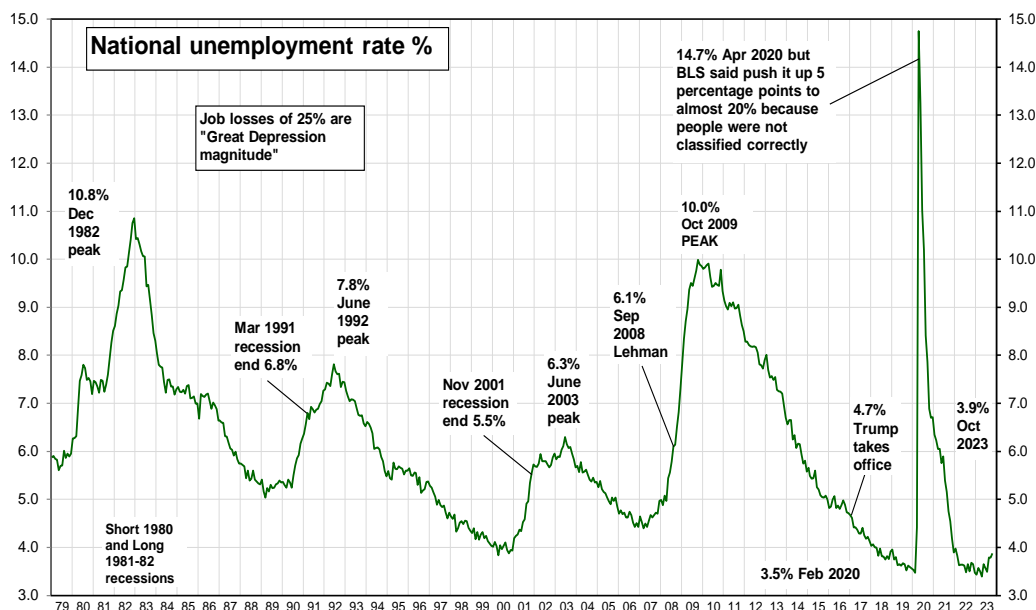
Financial Markets This Week

3 NOVEMBER 2023

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JOB LOSSES SIGNAL RECESSION

Breaking economy news. The monthly employment report. Shout it from the rooftops. There is enough unemployment to signal a recession even if payroll jobs are not decreasing as they always do when the economy turns down. At least the stock market is rallying as a slowing economy takes Fed rate hikes off the table. All we care about is our 401K.



The unemployment rate rose just a tenth to 3.9% in October versus September which the BLS called little changed. But the low for unemployment was 3.4% in April this year, and every recession since the 70s has been called by a 5 tenths rise in the unemployment rate... with only one mistake. The 3.9% unemployment rate signals a recession, although it would be nice for a recession call for payroll employment to actually decline for one month, but we don't have that yet.

Unemployment Rate rises 0.5 percentage points in a recession					
Event #	Rising 0.5 pct pts Unemployment Rate		Economic recession dates	Jobless Peak	Total Jobs Lost
	Low	High			
#7	MAY 07	DEC 07	December 2007 - June 2009	OCT 09	8.586mln
	4.4	5.0		10.0	
#6	APR 00	MAR 01	March 2001 - November 2001	JUN 03	3.785mln
	3.8	4.3		6.3	
#5	MAR 89	JUL 90	July 1990 - March 1991	JUN 92	3.835mln
	5.0	5.5		7.8	
#4	JAN 86	FEB 86	No recession. Unemployment had just dropped 7.0 Dec 85 to 6.7 in Jan 86. Fed did cut rates.	JUN 86	713K
	6.7	7.2		7.2	
#3	APR 81	OCT 81	July 1981 - November 1982	DEC 82	4.182mln
	7.2	7.9		10.8	
#2	MAY 79	JAN 80	January 1980 - July 1980	JUL 80	2.523mln
	5.6	6.3		7.8	
#1	OCT 73	JAN 74	November 1973 - March 1975	MAY 75	4.289mln
	4.6	5.1		9.0	

Recessions: <http://www.nber.org/cycles.html>

Payroll jobs rose 150K this month with big downward revisions of 101K in the prior two months. The 150K number would have been greater without the auto workers strike worth 33K jobs that depressed manufacturing employment. The demand for labor is slowing which is good news for the inflation fight, and wage pressures as well have come off the boil and this will help the Fed bring inflation down

under control. Prices are not going to go into reverse so voters are still likely to say they don't like the economy, but at least in the future, prices will not go up as quickly. Average hourly earnings rose just 0.2% in October to 4.1% year-on-year, the weakest monthly increase since February 2022.

Net, net, the labor market has not stopped growing more jobs, but the recession alarm bells are starting to ring because of rising unemployment and joblessness. There were 849 thousand more unemployed in October than there were in April: 6.506 million in total. Despite the mixed employment report, Fed officials are likely to take the view that labor market conditions are coming into better balance and the news today all but ends the chance of another interest rate hike

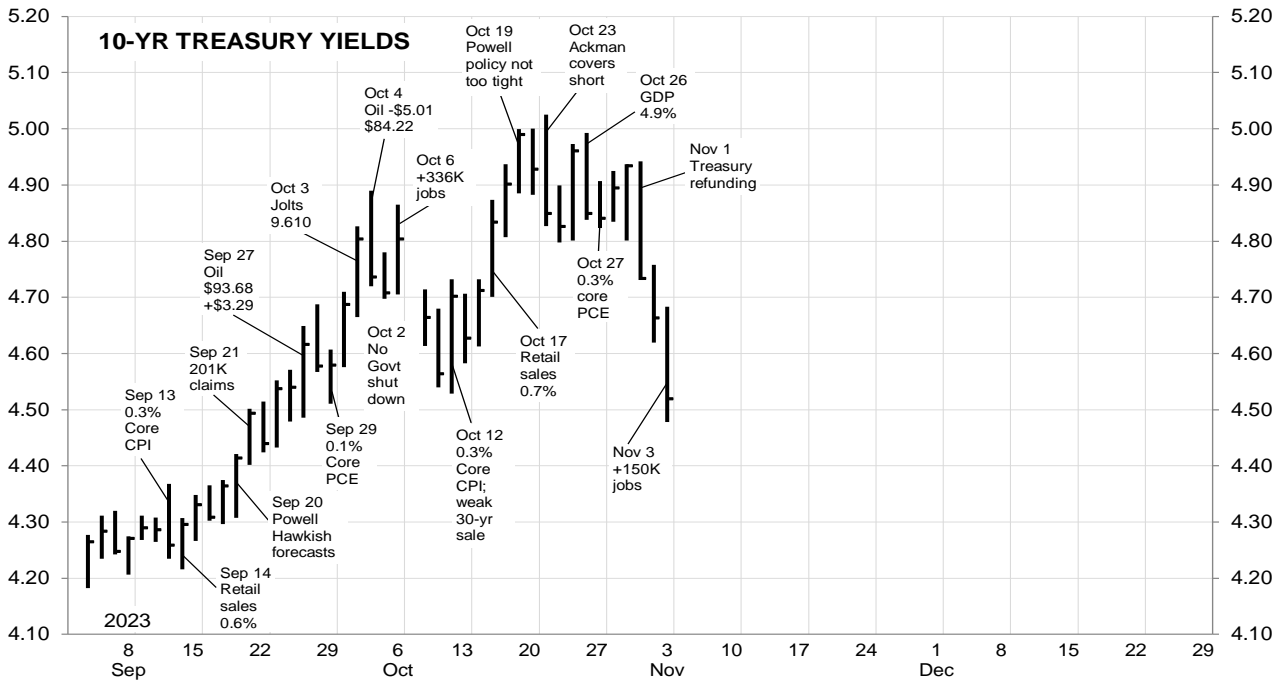
this year. The economy may not be falling off a cliff yet, but it is just inches from the brink as the Fed's massive rate hikes are finally starting to have their desired effect. No one wants a recession, but it is starting to look like one, especially if you are one of the Americans who are unemployed.

Payroll jobs fall from February 2020 peak as recession began						
	44 months					
Data in thousands	Oct 23	Sep 23	Aug 23	Feb 20	Oct 23	Feb 2020
Nonfarm Payroll Employment	150	297	165	4,552	156,923	152,371
Total Private (ex-Govt)	99	246	114	4,531	134,031	129,500
Goods-producing	-11	28	28	560	21,639	21,079
Mining	1	0	1	-40	598	638
Manufacturing	-35	14	-2	175	12,960	12,785
Motor Vehicles & parts	-33	9	-4	60	1,045	985
Computer/electronics	-2	-3	-4	16	1,097	1,081
Food manufacturing	6	3	4	73	1,727	1,655
Construction	23	13	30	425	8,033	7,608
Specialty trade contractors	14	4	17	1,165	5,986	4,821
Private Service-providing	110	218	86	3,971	112,392	108,421
Trade, transportation, utilities	-1	43	-28	1,138	28,884	27,746
Retail stores	1	13	-6	26	15,546	15,520
General Merchandise	1	3	-5	115	3,180	3,066
Food & Beverage stores	3	1	1	129	3,253	3,124
Transportation/warehousing	-12	13	-27	901	6,686	5,786
Truck transport	-5	13	-31	59	1,579	1,520
Air transportation	4	5	3	38	555	517
Couriers/messengers	3	2	2	263	1,128	865
Warehousing and storage	-11	-5	-6	554	1,871	1,317
Information	-9	-4	-22	119	3,027	2,908
Computing, data, web hosting	-1	-4	2	132	495	363
Financial	-2	2	1	284	9,153	8,869
Insurance	1	4	3	106	2,957	2,851
Real Estate	5	6	2	79	2,444	2,365
Commercial Banking	-6	-3	-2	-37	1,361	1,398
Securities/investments	1	0	3	124	1,090	966
Professional/business	15	17	8	1,590	23,027	21,437
Temp help services	7	-9	-10	65	2,949	2,884
Management of companies	-3	1	7	41	2,524	2,483
Architectural/engineering	3	-1	2	140	1,687	1,548
Computer systems design	7	0	5	290	2,525	2,234
Legal services	0	4	-3	18	1,182	1,164
Accounting/bookkeeping	0	0	-5	126	1,159	1,033
Education and health	89	78	105	1,116	25,692	24,576
Private Educational services	12	9	9	165	3,963	3,798
Hospitals	18	14	15	147	5,383	5,236
Ambulatory health care	32	30	40	675	8,542	7,867
Leisure and hospitality	19	74	8	-223	16,722	16,945
Hotel/motels	7	12	6	-221	1,892	2,113
Eating & drinking places	-8	48	-9	-14	12,325	12,339
Government	51	51	51	21	22,892	22,871
Federal ex-Post Office	2	6	6	83	2,343	2,260
State government	10	10	18	-36	5,281	5,317
State Govt Education	3	7	7	-64	2,549	2,613
Local government	38	37	24	-39	14,660	14,699
Local Govt Education	26	11	21	-53	8,003	8,056

Monthly changes (000s)	Oct	Sep	Aug	Jul	Jun
Payroll employment	150	297	165	236	105
Private jobs	99	246	114	145	86
Leisure/Hospitality jobs	19	74	8	38	26
HH Employment Survey*	-348	86	222	268	273
Unemployment rate %	3.9	3.8	3.8	3.5	3.6
Participation rate %	62.7	62.8	62.8	62.6	62.6
Not in labor force (mln)	99.914	99.498	99.374	99.899	99.850
... and Want A Job (mln)	5.373	5.450	5.370	5.247	5.389
Average hourly earnings	\$34.00	\$33.93	\$33.82	\$33.73	\$33.60
MTM % Chg	0.2	0.3	0.3	0.4	0.4
YOY % Chg	4.1	4.3	4.3	4.3	4.4

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES

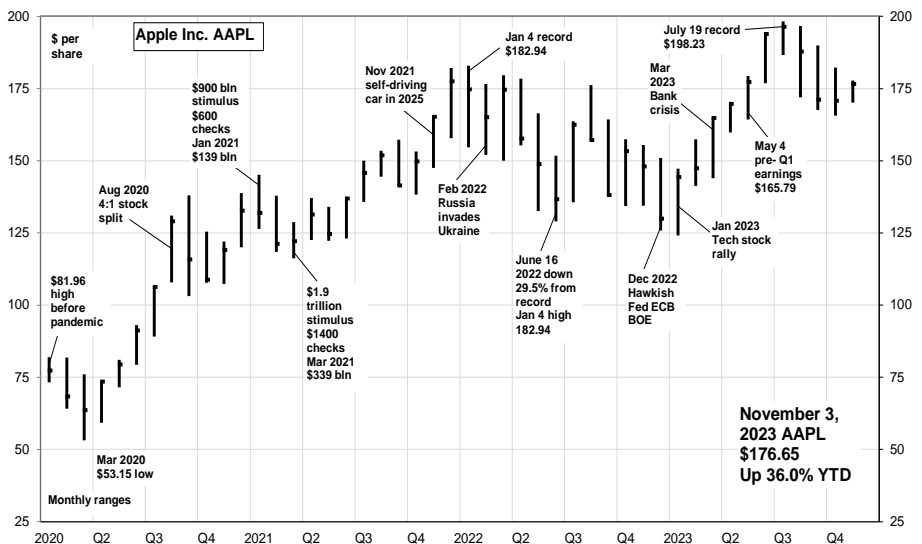


It is a good thing the Fed is counting on rising bond yields to tighten policy so they do not have to do another rate hike. The 10-yr 2023 yield high was 5.02% on Monday, October 23 when Ackman covered his short as we all did, and now almost two weeks later the yield closed Friday night at 4.52% which is 50 bps on our HP 12C calculator. Bond yields fell 20 bps on Wednesday, mostly due to the Treasury’s quarterly refunding announcement at 830am that was somewhat less than expected. They are selling \$112 billion 3-yr, 10-yr, 30-yr coupons next week, where at the August refunding they sold \$103 billion. On Friday, 10-yr yields fell 14 bps from Thursday as the 150K gain in payroll jobs was less than expected; bond prices went up spectacularly and so did the stock market. The [S&P 500](#) rallied 5.9% this week and is up 13.5% YTD. Focus ahead is on the gap at the 4,400 level.

Apple, Inc. AAPL \$176.65 up 36.0% YTD

Apple was \$177.57 on Thursday before earnings after the bell. Differing reports on what the Street did not like. Maybe sales have fallen year-on-year for four straight quarters; fiscal Q4 -0.7% at \$89.5 billion. On September 6, the stock dropped 3.6% from \$189.70 after a report China was restricting iPhone use by government officials. Cook said China sales were strong for this quarter. Overall, the upcoming holiday quarter forecast was less than expected.

Calendar	Operating	Net	Greater
Year	Income	Sales	China
Mln \$			
Q3 2023	26,969	89,498	15,084
Q2 2023	22,998	81,797	15,758
Q1 2023	28,318	94,836	17,812
Q4 2022	36,016	117,154	23,905
Q3 2022	24,894	90,146	15,470
Q2 2022	23,076	82,959	14,604
Q1 2022	29,979	97,278	18,343
Q4 2021	41,488	123,945	25,783
Q3 2021	23,786	83,360	14,563
Q2 2021	24,126	81,434	14,762
Q1 2021	27,503	89,584	17,728



FEDERAL RESERVE POLICY

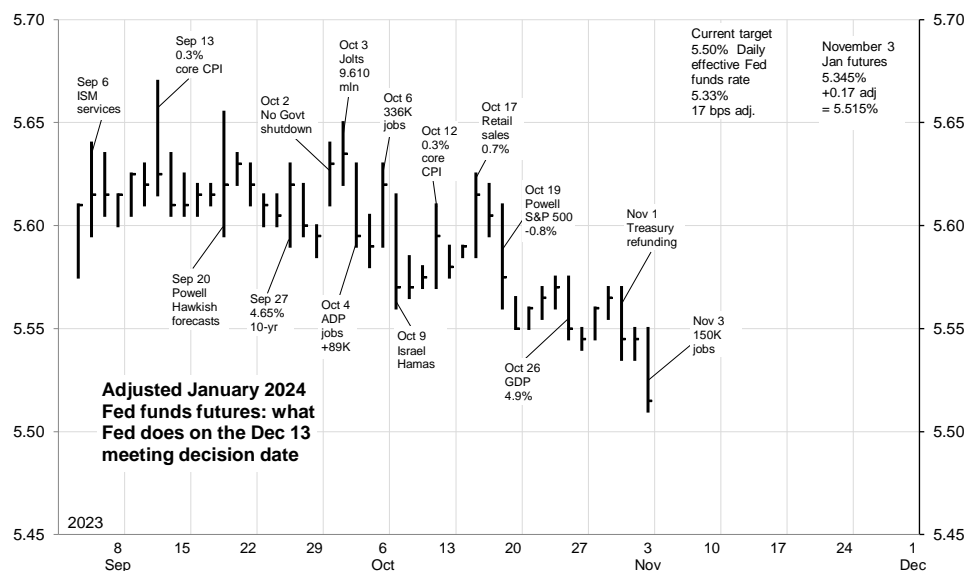
The Fed met October 31-November 1, 2023 to consider its monetary policy. Is policy sufficiently restrictive, that's the focus. Nothing about stopping or rate cuts. The decision to hike again will be made on a meeting by meeting basis. That's what Powell said in Q&A. Reporters tried to get his thoughts on whether the bond market was doing the heavy lifting so the Fed did not need to raise rates. 10-year yields were 4.41% after the Fed's last decision on September 20, and were 52 bps higher at 4.93% at Tuesday's close, before falling a spectacular 20 bps Wednesday to 4.73% after the Fed decision, or rather after the Treasury refunding announcement at 830am ET had less supply than anticipated and yields plummeted to as low as 4.78% before the Fed's 2pm ET press statement.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data						3/11/20
	1-Nov	25-Oct	18-Oct	11-Oct	3/11/20*	3/11/20 to Nov 1
Factors adding reserves						
U.S. Treasury securities	4872.601	4912.200	4913.457	4928.507	2523.031	2349.570
Federal agency debt securities	2.347	2.347	2.347	2.347		0.000
Mortgage-backed securities (MBS)	2462.907	2462.907	2479.652	2479.726	1371.846	1091.061
Repurchase agreements	0.001	0.001	0.000	0.000	242.375	-242.374
Primary credit (Discount Window)	2.951	3.170	2.962	2.580	0.011	2.940
Bank Term Funding Program	109.070	109.068	108.818	108.884		
FDIC Loans to banks via Fed	46.790	48.256	53.156	58.257		
Paycheck Protection Facility	4.343	4.495	4.633	4.777		
Main Street Lending Program	19.144	19.038	19.011	19.409		
Municipal Liquidity Facility	5.643	5.641	5.638	5.635		
Term Asset-Backed Facility (TALF II)	1.019	1.223	1.222	1.221		
Central bank liquidity swaps	0.246	0.252	0.231	0.230	0.058	0.188
Federal Reserve Total Assets	7917.2	7958.6	7983.9	8002.7	4360.0	3557.131
3-month Libor-% SOFR %	5.32	5.30	5.30	5.31	1.15	4.170
Factors draining reserves						
Currency in circulation	2325.298	2323.027	2324.467	2328.017	1818.957	506.341
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	753.008	847.717	841.103	713.000	372.337	380.671
Treasury credit facilities contribution	13.358	13.358	13.358	13.358		
Reverse repurchases w/others	1079.462	1100.617	1150.781	1239.382	1.325	1078.137
Federal Reserve Liabilities	4602.528	4694.586	4733.636	4687.650	2580.036	2022.492
Reserve Balances (Net Liquidity)	3314.630	3263.971	3250.230	3315.650	1779.990	1534.640
Treasuries within 15 days	82.056	84.484	83.503	48.629	21.427	60.629
Treasuries 16 to 90 days	203.839	237.526	240.051	264.135	221.961	-18.122
Treasuries 91 days to 1 year	603.077	584.783	584.932	602.710	378.403	224.674
Treasuries over 1-yr to 5 years	1671.544	1682.776	1682.577	1690.875	915.101	756.443
Treasuries over 5-yrs to 10 years	807.863	818.580	818.473	818.366	327.906	479.957
Treasuries over 10-years	1504.222	1504.050	1503.922	1503.793	658.232	845.990
Note: QT starts June 1, 2022	Change	11/1/2023	6/1/2022			
U.S. Treasury securities	-898.178	4872.601	5770.779			
Mortgage-backed securities (MBS)	-244.539	2462.907	2707.446			

*March 11, 2020 start of coronavirus lockdown of country

The stock market mostly followed bonds during the press conference, but clearly reacted negatively when Powell took the first question and answered they were not confident yet. We guess he goes back and forth on whether policy is restrictive at 5.5% because it was just on October 19 that he sent bond prices and the stock market down when he said policy was not too tight. Stocks rebounded later on Wednesday when Powell said they were close to the end of the hiking cycle, citing the FOMC September 2023 rates forecast where a "small spread of people think one or two additional hikes." Not sure what he meant on spread: 19 votes, 7 said 5.5%, 12 said 5.75% this year. Anyway, bond market reaction around the world the next day was that the Fed was finished. Close to the end is good enough.

Fed funds futures see no rate hike in December, and see two rate cuts (to 5.0%) over the May, June, July meetings next year.



Fed funds futures call Fed hikes		
Current target: November 3 -- 5.50%		
Rate+0.17 Contract	Fed decision dates	
5.515 Jan 2024	Dec 13	
5.460 Apr 2024	Jan 31, Mar 20	
4.985 Aug 2024	May 1, Jun 12, Jul 31	
Last trade, not settlement price		

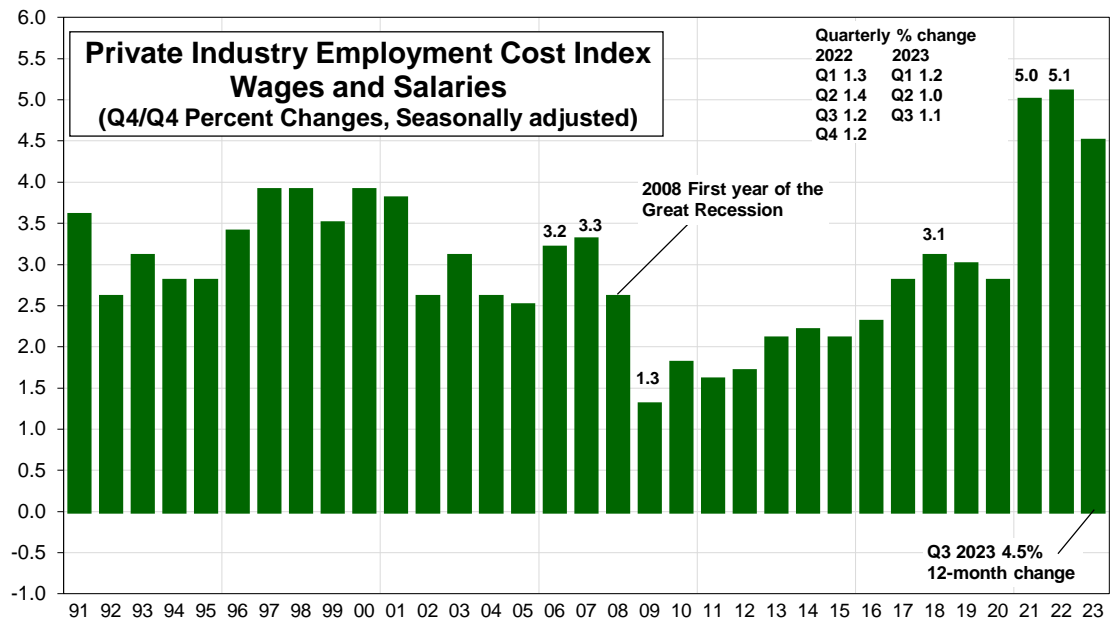
Fed Policy-key variables	2023	2024	2025	2026	Long Term
Fed funds	5.6	5.1	3.9	2.9	2.5
PCE inflation	3.3	2.5	2.2	2.0	2.0
Core inflation	3.7	2.6	2.3	2.0	
Unemployed	3.8	4.1	4.1	4.0	4.0
GDP	2.1	1.5	1.8	1.8	1.8
September 2023 median Fed forecasts					

OTHER ECONOMIC NEWS

Wages aren't cooling (Tuesday)

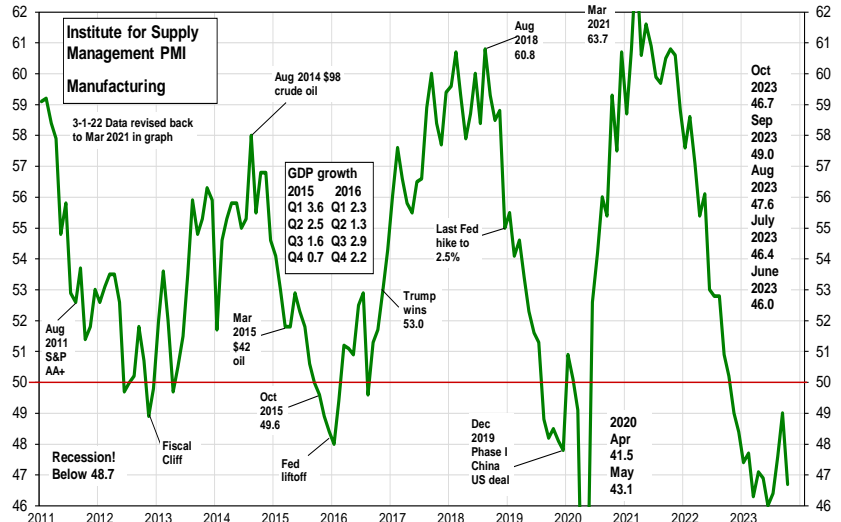
Breaking economy news. The Employment Cost Index for Q3 2023. Wages and salaries in private industry were 1.1% in Q3 after a slightly lower increase of 1.0% in Q2. Year-on-year the index is 4.5% higher in Q3 2023 versus 5 percent in 2021 and 2022. Wages at a 4 percent pace will make it harder for inflation to drop all the way to the Fed's 2.0% target.

Net, net, wages aren't cooling, they are still too hot to the touch if you are a worried central banker hellbent on bringing inflation down and under control. Fed officials threading the needle on setting interest rates at today's meeting are likely to stand pat, but future rate hikes are not out of the question as inflation is still too high and wage pressures will continue to add costs to the price of products that land on the store shelves across the country. There is a labor shortage with unemployment the lowest in decades and this keeps wages up and means inflation is not coming down to the Fed's target anytime soon.



Economy not slowing enough (Wednesday)

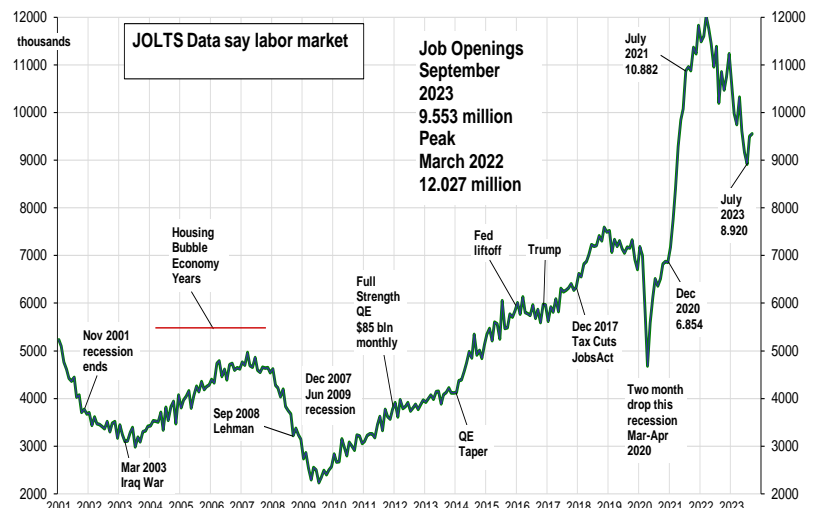
Breaking economy news. Construction, job openings, and ISM manufacturing data. Private construction spending eked out a small 0.1% gain in September as commercial, communication, and power projects offset the decline in manufacturing construction. Manufacturing construction fell 0.4% in September but is still 62.5% higher than last year due to the flurry of activity in the semiconductor space. Meanwhile, the Jolts data, that has moved markets dramatically in recent months, shows private industry demand for workers remains robust, especially for leisure and hospitality. Job openings had been falling into the summer to 8.920 million in July, but rose back to 9.497 million in August and 9.553 million at the end of September. The Federal Reserve’s last rate hike was in July, and since then, the labor market has strengthened as policy officials have taken their eye off the ball.



Purchasing managers in manufacturing said conditions took a turn for the worse in October. At least one piece of the economic puzzle was softer this month for Fed officials trying to add it all up. In fact, the ISM manufacturing index says the broader economy is back in recession although it has said that before. ISM says PMI above 48.7 means the economy is in an expansion phase, and this month the index fell back to 46.7 from 49.0 in September. The weakness in employment was pronounced at 46.8 versus 51.2, so we will see in Friday’s payroll jobs report whether manufacturing jobs disappear.

	Oct 23	Sep 23	Aug 23	Jul 23
PMI index	46.7	49.0	47.6	46.4
Prices	45.1	43.8	48.4	42.6
Production	50.4	52.5	50.0	48.3
New orders	45.5	49.2	46.8	47.3
Supplier deliveries	47.7	46.4	48.6	46.1
Employment	46.8	51.2	48.5	44.4
Export orders	49.4	47.4	46.5	46.2

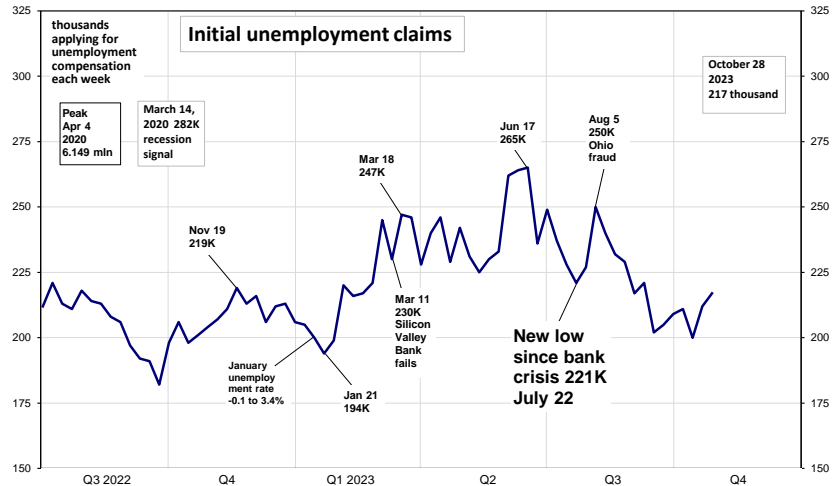
Net, net, the economy continues to move forward at a speed that is likely to make Fed policymakers uncomfortable as they sift through the tea leaves and weigh whether interest rates are high enough to bring inflation under control. Manufacturing activity has slowed somewhat, but construction spending is adding to growth while the labor market remains out of balance with job openings far greater than there are unemployed Americans to fill them. Adding it all up, demand in the overall economy is not slowing down and Fed officials will question whether they have done enough. The market has taken rate hikes down off the table for this year, but for how long if the labor market remains tight. Stay tuned.



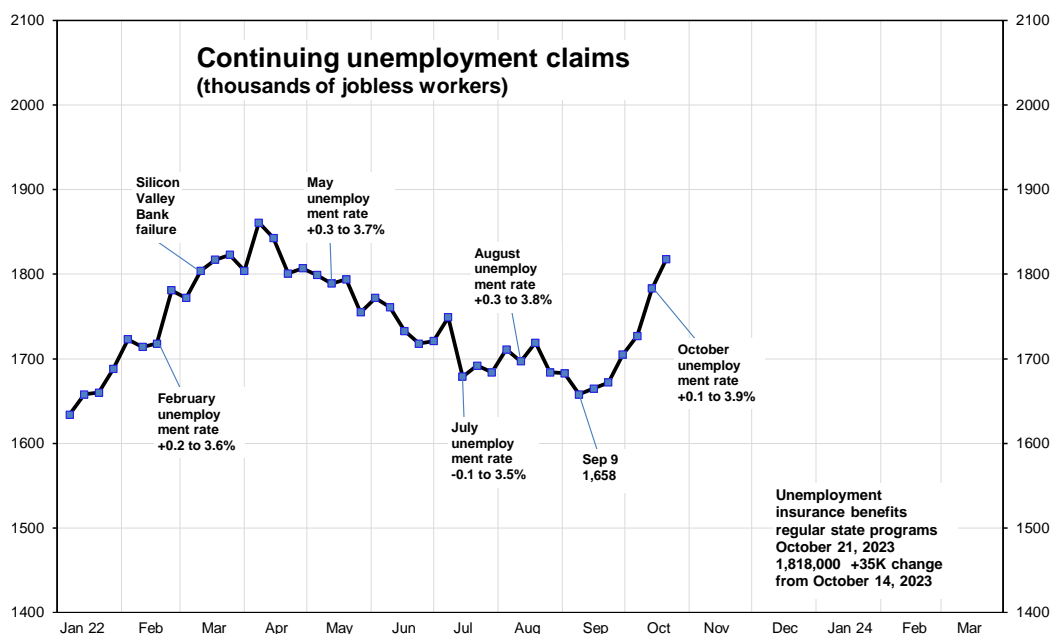
Unemployment rolls are rising (Thursday)

Breaking economy news. The day before the biggest economic report in the world, weekly jobless claims are not looking as good with the total number receiving benefits, continuing unemployment claims, jumping 35K to 1.818 million in the October 21 week. This is beyond the employment report “cutoff date” that includes the 12th of the month, but still it represents a red flag for the outlook.

First-time weekly jobless claims rose 5K to 217K in the October 28 week and are off the 200K lows from mid-October and layoffs are much less than the recent peak of 265K at the start of the summer, but why are Americans sitting on the unemployment rolls collecting benefits. Are there not jobs for them to fill? It is a puzzle with over 9 million job openings reported for the end of September earlier this week.



Net, net, the number of Americans on the nation’s unemployment rolls keeps rising and may indicate job market conditions are not as rosy as thought. Layoffs are up only slightly but the labor market outlook may be darkening if it shows it is hard for the unemployed to get a job. More jobless workers receiving more unemployment benefits is never good for the economy. After the big third quarter jump in economic growth, perhaps the early read in October is that jobs are not as easy to get and growth is slowing in the fourth quarter of the year. If the Fed is not done with rate hikes, perhaps they should be. Continuing unemployment claims are rising and this means Friday’s jobs report may disappoint and that unemployment may be moving higher. Dark clouds are moving back in. Bet on it.



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