

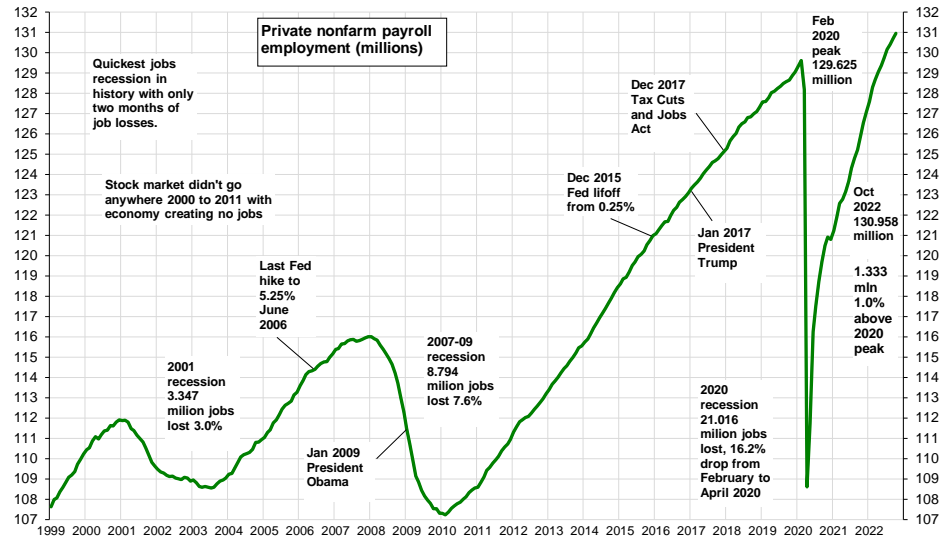
Financial Markets This Week

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RISING UNEMPLOYMENT HINTS AT LABOR MARKET SOFTNESS

Breaking economy news. The monthly employment report was stronger than expected with 261 thousand more payroll jobs created in October and net upward revisions of 29 thousand to August and September. The household survey measure of the labor market was softer however with the unemployment rate bouncing back to 3.7% from the 3.5% record low a month ago.



The foundation of the labor market strength story fades a little when you pull back the tarp and look more closely at the details. The report to us looks like payroll jobs growth will falter in coming months as companies batten down the hatches as the Federal Reserve continues to take away the economy's punch.

Leisure and hospitality jobs slowed this month and services had been a source of strength for the economy in recent months. Professional and business jobs growth slowed as well. In October, 7% mortgage rates led to a loss of 1.5 thousand residential specialty trade contractors and real estate and rental and leasing jobs fell by 8.7 thousand, so the Fed's rate hikes are hitting the housing sector with a lag, but hitting nonetheless.

Monthly changes (000s)	Oct	Sep	Aug	Jul	Jun
Payroll employment	261	315	292	537	293
Private jobs	233	319	233	448	346
Leisure/Hospitality jobs	35	107	13	89	43
HH Employment Survey*	-328	204	442	179	-315
Unemployment rate %	3.7	3.5	3.7	3.5	3.6
Participation rate %	62.2	62.3	62.4	62.1	62.2
Not in labor force (mln)	99.868	99.667	99.438	100.051	99.812
... and Want A Job (mln)	5.717	5.834	5.549	5.910	5.656
Average hourly earnings	\$32.58	\$32.46	\$32.36	\$32.27	\$32.11
MTM % Chg	0.4	0.3	0.3	0.5	0.4
YOY % Chg	4.7	5.0	5.2	5.2	5.2

* Household (telephone) Survey of employment behind unemployment rate

Tech firms have announced hiring freezes and layoffs. Technology is an occupation with its employees hired by many industries so it is hard to track in the payroll jobs statistics with precision.

Announced layoffs by tech companies were certainly less than 10,000 in October, but this is hard to see in the payroll jobs data. Maybe next month with the Twitter layoffs said to be half of the company's 7,500 employees. Tech workers are everywhere including semiconductor manufacturing, the pharmaceutical industry, and aerospace. In the table here, Computer systems design and related services jobs increased 8.8K to 2.447 million in October, a 4.6% increase from last year. Within Information in the table here, Data processing, hosting and related services increased 1K in October to 432.4 thousand, a 7.7% increase from last year. One area of significant weakness is Warehousing and storage with 20K jobs lost in October after overhiring with a 32% increase the last year.

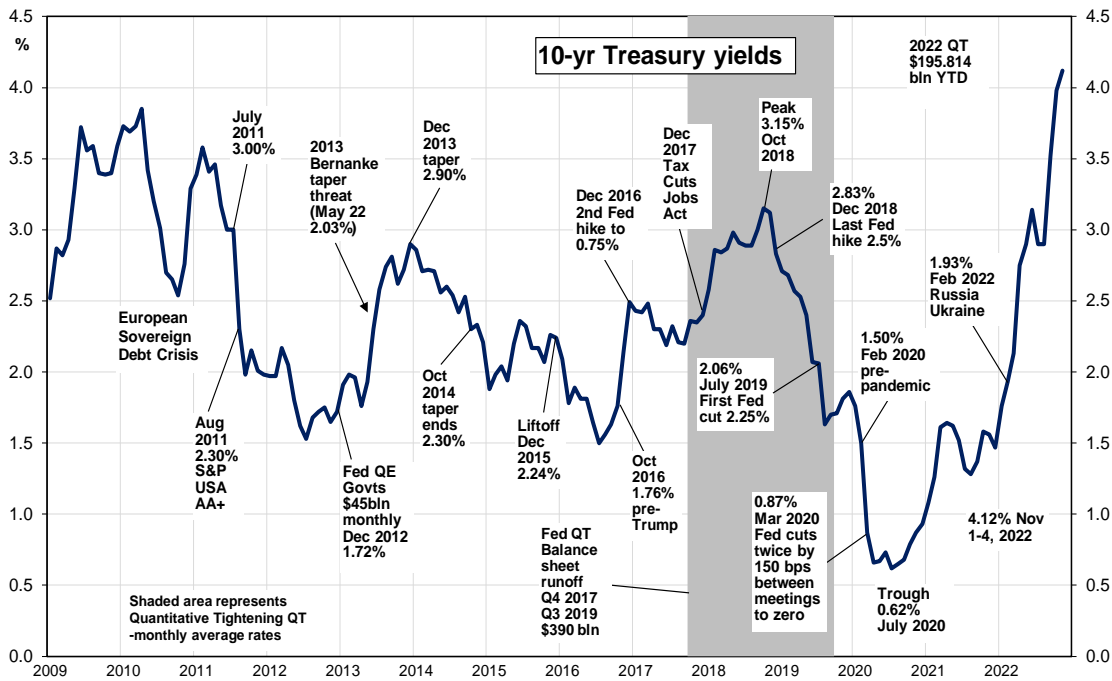
In conclusion, the employment report needs to be considered in its totality, and despite the stronger than expected payroll jobs increase and net revisions upward, it wasn't a clean report and the labor market cannot be given a clean bill of health. For one thing the household survey measure of employment is telling a different story with employment falling 328

Payroll jobs fall from February 2020 peak as recession began						
	32 months					
	Feb 20					Feb 2020
Data in thousands	Oct 22	Sep 22	Aug 22	Oct 22	Oct 22	Feb 2020
Nonfarm Payroll Employment	261	315	292	804	153,308	152,504
Total Private (ex-Govt)	233	319	233	1,333	130,958	129,625
Goods-producing	33	48	43	182	21,277	21,095
Mining	1	2	-2	-50	589	639
Manufacturing	32	23	36	137	12,922	12,785
Motor Vehicles & parts	5	7	12	35	1,023	988
Construction	1	22	9	97	7,721	7,624
Private Service-providing	200	271	190	1,151	109,681	108,530
Trade, transportation, utilities	31	-7	45	991	28,823	27,832
Retail stores	7	-8	29	232	15,829	15,598
General Merchandise	-2	-6	0	217	3,217	3,000
Food & Beverage stores	-3	1	12	143	3,199	3,056
Transportation/warehousing	8	-11	-2	732	6,526	5,795
Truck transport	13	-10	5	86	1,601	1,515
Air transportation	4	3	2	55	571	516
Couriers/messengers	7	0	6	247	1,121	875
Warehousing and storage	-20	-7	-19	424	1,742	1,319
Utilities	1	1	2	-3	544	547
Information	4	7	7	140	3,043	2,903
Financial	3	1	9	101	8,971	8,870
Insurance	9	-9	5	-9	2,843	2,853
Real Estate	-9	6	6	-5	2,359	2,364
Commercial Banking	3	2	2	-51	1,348	1,399
Securities/investments	5	5	2	86	1,051	965
Professional/business	39	52	29	1,100	22,493	21,393
Temp help services	12	13	-1	274	3,179	2,906
Management of companies	4	2	-4	-26	2,397	2,423
Architectural/engineering	7	5	9	116	1,663	1,547
Computer systems/services	9	4	5	220	2,447	2,227
Legal services	3	-2	-7	19	1,182	1,163
Accounting/bookkeeping	5	6	0	93	1,124	1,030
Education and health	79	91	82	134	24,732	24,598
Hospitals	11	25	16	12	5,248	5,236
Educational services	8	10	10	57	3,859	3,803
Leisure and hospitality	35	107	13	-1,097	15,886	16,983
Hotel/motels	20	18	4	-363	1,757	2,119
Eating & drinking places	6	69	6	-565	11,796	12,361
Government	28	-4	59	-529	22,350	22,879
Federal ex-Post Office	4	4	3	11	2,272	2,261
State government	-7	0	15	-56	5,254	5,310
State Govt Education	-2	4	12	15	2,621	2,606
Local government	29	-7	44	-485	14,223	14,708
Local Govt Education	14	-21	20	-296	7,769	8,064

thousand and jobless workers rose 306 thousand to a rate of 3.7%. With the Federal Reserve pushing rates up another 75 bps to 4.0% this week and signaling even higher rates over the next few meetings, eventually the tighter monetary policy will bring the labor market to its knees just as it has in every other cycle. The Fed can't rest here that's for sure with wages, average hourly earnings, up 4.7% the last year; it looks impossible for inflation to fall back to the Fed's 2% target when the cost of labor will add to the costs that manufacturers and shop owners must pay to do business.

Next up: October CPI report Thursday, November 10, no moderation yet																		
Monthly % Changes	2022				2022								2021					
	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Core CPI inflation	0.6	0.6	0.3	0.7	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
Services x-energy	0.8	0.6	0.4	0.7	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
Core PCE inflation	0.5	0.5	0.0	0.6	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.4	0.2	0.3	0.4	0.5	0.5	0.6
Services x-energy	0.5	0.5	0.0	0.6	0.4	0.4	0.5	0.3	0.3	0.5	0.6	0.3	0.2	0.3	0.4	0.4	0.4	0.4

INTEREST RATES

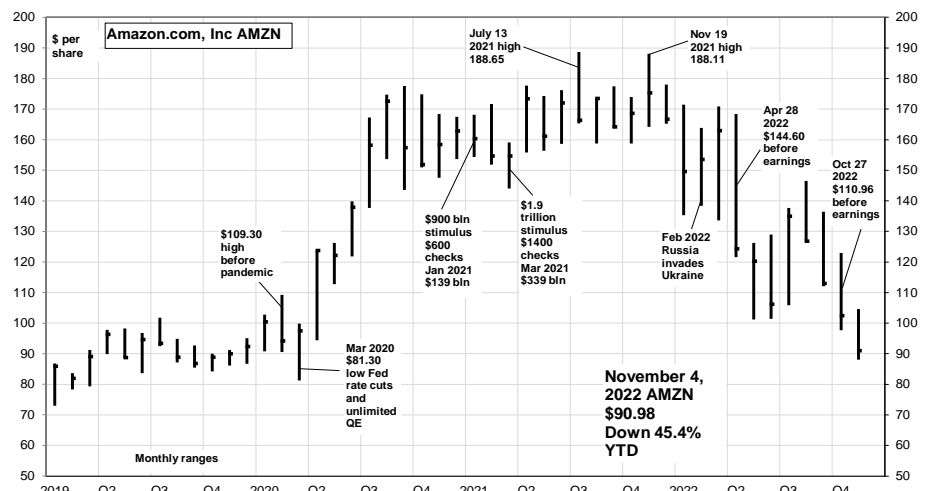


We thought we would work one of our favorite graphs back in here this week before bond yields shoot higher with Powell's new 5%-plus Fed funds rate and we have to revise the upper range of the scale. No dysfunction in the Treasury market yet, although you wonder how much more debt the government can sell to the public until they balk and say no more. No more unless 10-year yields go higher to 7 or 8 percent. Okay, back to reality, this isn't the late 70s yet, although it could be if inflation doesn't stop rising let alone come back down. Powell in the press conference Q&A sought to reassure Americans "that if we were to over-tighten, we could then use our tools strongly to support the economy..." Does he mean the QE that scholars now believe set the match to the inflation fire? Powell bought \$1.9 trillion U.S. government securities in the first half of 2020 before settling down to a \$80 billion monthly pace. Washington's \$600/\$1400 checks totaled "\$500 billion" in Q1 2021. Get ready.

Amazon AMZN collapses down below \$109.30 pre-pandemic high

Amazon closed \$110.96 on Thursday, October 27 before earnings and fell about 20% in after hours trading. Traders didn't like the holiday quarter guidance of \$140-148 billion versus \$137.4 billion in Q4 2021. Earnings have not been positive without AWS income since Q2 2021, and AWS is slowing. The company sees Q4 2022 earnings of \$0 to 4.0 billion versus \$3.5 billion in last year's holiday quarter.

S&P 500 Weights	
Top 6: 20% of S&P	
6.71	AAPL
5.11	MSFT
2.53	AMZN
1.83	TSLA
1.64	Berkshire
1.60	GOOGL
1.43	GOOG
20.85	Top 6



FEDERAL RESERVE POLICY

The Fed met November 1-2, 2022 to consider its monetary policy. We think the press statement is signaling a slowdown in the pace of those 75 bps rate hikes since June. New language appeared in the statement where future rate hikes from 4% will take account of how far they have already come and the lags that occur between the time they raise rates and the time when they actually can see the rate hike effects on the economy. It sounds like they are telegraphing a slowdown where 75 bps at the December meeting has been thrown out the window. They will be more data dependent, meaning there would have to be a shocking new development in the inflation outlook for them to keep on tightening the monetary policy screws so quickly at a 75 bps pace.

This is what we thought reading the statement published at 2pm ET, but then Powell just 10 minutes into the press conference starting at 230pm ET said the most important bit that was left out of the statement: he thinks based on data since the September meeting that the Fed funds rate will have to go higher than the terminal Fed funds rate of 4.75%. It is pretty irrelevant if you don't go 75 bps in December, only 50 bps, if you think the Fed funds rate needs to go to 5.5% next year. We can't wait for the new forecasts at the December 13-14 meeting. Looks like Powell is telling the Committee they better raise their interest rate forecasts.

After the jobs report Friday, strong or weak tea, however you like it, the market is discounting a 50 bps rate hike to 4.5% in December, and at 5.16% for the April 2023 Fed funds futures, almost another 75 bps in rate hikes over the first two Fed meetings next year.

Fed funds futures call Fed hikes		
Current target: Nov 2 -- 4.0%		
Rate+0.17 Contract	Fed decision dates	
4.57 Jan 2023	Dec 14	
4.96 Feb 2023	Dec 14, Feb 1	
5.16 Apr 2023	Dec 14, Feb 1, Mar 22	

Selected Fed assets and liabilities						Change from 3/11/20
Fed H.4.1 statistical release billions, Wednesday data	2-Nov	26-Oct	19-Oct	12-Oct	3/11/20*	3/11/20 to Nov 2
Factors adding reserves						
U.S. Treasury securities	5574.965	5608.738	5611.953	5629.841	2523.031	3051.934
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2678.523	2678.519	2698.651	2698.158	1371.846	1306.677
Repurchase agreements	0.001	0.001	0.010	0.000	242.375	-242.374
Primary credit (Discount Window)	4.407	5.585	5.139	7.669	0.011	4.396
Paycheck Protection Facility	13.028	13.408	13.546	12.356		
Main Street Lending Program	15.637	25.225	25.203	25.742		
Municipal Liquidity Facility	5.574	5.572	5.570	5.567		
Term Asset-Backed Facility (TALF II)	2.103	2.140	2.138	2.137		
Central bank liquidity swaps	0.203	11.302	6.482	3.307	0.058	0.145
Federal Reserve Total Assets	8726.8	8772.6	8793.8	8808.8	4360.0	4366.753
3-month Libor % SOFR %	3.05	3.03	3.04	3.04	1.15	1.900
Factors draining reserves						
Currency in circulation	2286.678	2284.547	2284.270	2287.827	1818.957	467.721
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	552.089	636.327	640.613	583.513	372.337	179.752
Treasury credit facilities contribution	17.940	17.940	17.940	17.940		
Reverse repurchases w/others	2229.861	2186.856	2241.835	2247.206	1.325	2228.536
Federal Reserve Liabilities	5679.803	5664.483	5753.066	5718.491	2580.036	3099.767
Reserve Balances (Net Liquidity)	3046.975	3108.146	3040.777	3090.307	1779.990	1266.985
Treasuries within 15 days	130.653	87.888	91.037	66.698	21.427	109.226
Treasuries 16 to 90 days	287.151	323.110	323.378	346.045	221.961	65.190
Treasuries 91 days to 1 year	782.805	784.922	784.695	790.328	378.403	404.402
Treasuries over 1-yr to 5 years	1939.130	1966.052	1966.054	1979.960	915.101	1024.029
Treasuries over 5-yr to 10 years	980.346	991.947	991.959	991.971	327.906	652.440
Treasuries over 10-years	1454.880	1454.819	1454.830	1454.839	658.232	796.648
Note: QT starts June 1	Change		2-Nov	1-Jun		
U.S. Treasury securities	-195.814	5574.965	5770.779			
Mortgage-backed securities (MBS)	-28.923	2678.523	2707.446			

*March 11, 2020 start of coronavirus lockdown of country

Press statement: **New sentence**
 The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. **In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.** In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt...

Memo: Projected appropriate policy path									
Fed Meeting	2018	2019	2020	2021	2022	2023	2024	2025	Longer run
Sep 22					4.4	4.6	3.9	2.9	2.5
Jun 22					3.4	3.8	3.4		2.5
Mar 22					1.9	2.8	2.8		2.4
Dec 21				0.1	0.9	1.6	2.1		2.5
Sep 21				0.1	0.3	1.0	1.8		2.5
Jun 21				0.1	0.1	0.6			2.5
Mar 21				0.1	0.1	0.1			2.5
Dec 20			0.1	0.1	0.1	0.1			2.5
Sep 20			0.1	0.1	0.1	0.1			2.5
Jun 20			0.1	0.1	0.1				2.5
Mar 20	No meeting: 150 bps rate cuts between Jan and Mar (scheduled)								
Dec 19	1.6	1.6	1.9	2.1					2.5
Sep 19	1.9	1.9	2.1	2.4					2.5
Jun 19	2.4	2.1	2.4						2.5
Mar 19	2.4	2.6	2.6						2.8
Dec 18	2.4	2.9	3.1	3.1					2.8
Sep 18	2.4	3.1	3.4	3.4					3.0
Jun 18	2.4	3.1	3.4						2.9
Mar 18	2.1	2.9	3.4						2.9

OTHER ECONOMIC NEWS

Good news: more job openings for everyone (Tuesday)

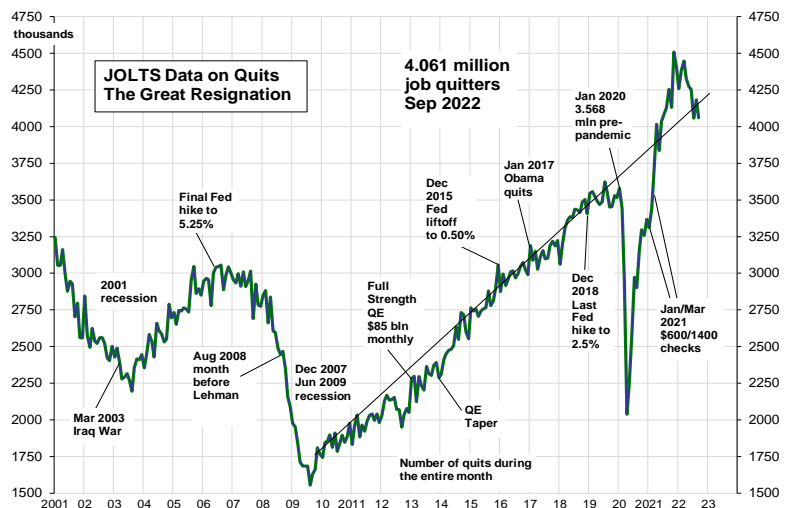
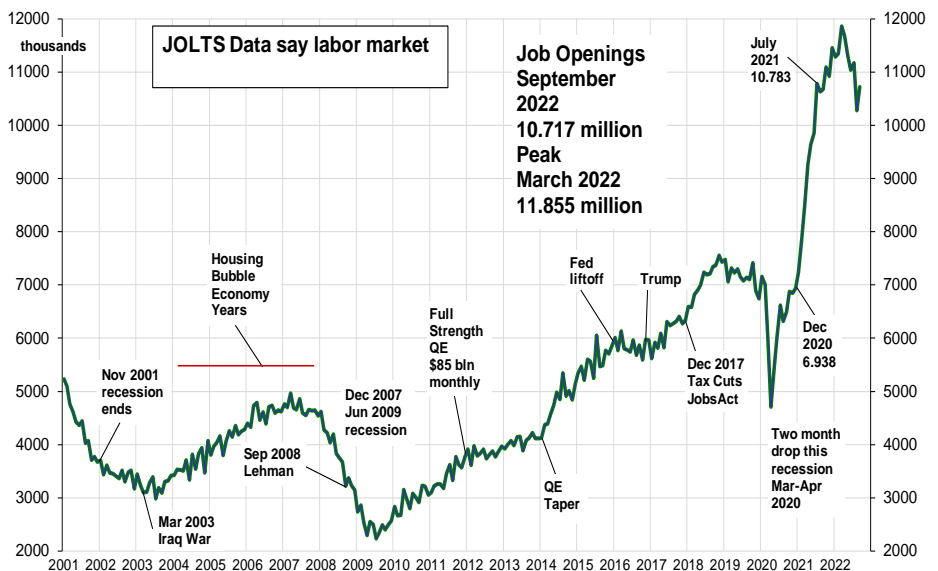
Breaking economy news. Last month it looked like the labor market was slowing down with the Jolts job openings data falling 1.1 million to 10.053 million at the end of August. Today's report saw September job openings jump back 437 thousand to 10.717 million, and August is now 227 thousand higher at 10.280 million. Mortgage rates are 7% up from 3% at the start of the year and home sales and housing starts are crashing, but the need for construction workers jumped to 422 thousand in September from 386 thousand the month before.

Everyone everywhere needs help. Hotels and restaurants need 1.419 million workers, and health care and social assistance needs 2.096 million. Business executives haven't yet communicated with the HR Department that they are considering putting their hiring plans on hold, let alone telling them to lay off underperformers and slackers to keep costs under control and boost the bottom line.

We don't know if the current staff is chock full of quiet quitters or there is a problem with productivity and morale, but companies sure posted a lot of job openings in September which is inconsistent with recession forecasts.

Net, net, the labor market remains strong with no sign that businesses are considering job layoffs at the end of the third quarter. Help wanted postings are still out there on the jobs boards and headhunters are still sending out tons of unsolicited emails listing the latest openings. Fed officials meeting today will continue with the plan to raise interest rates to 4.75% next year because demand for labor is not slowing as they thought. The Fed often tightens policy in cycles until it is too late to stop a downturn, but right now there is no downturn in the immediate future. Economic demand is slowing, but demand for labor is not. Stay tuned. Story developing.

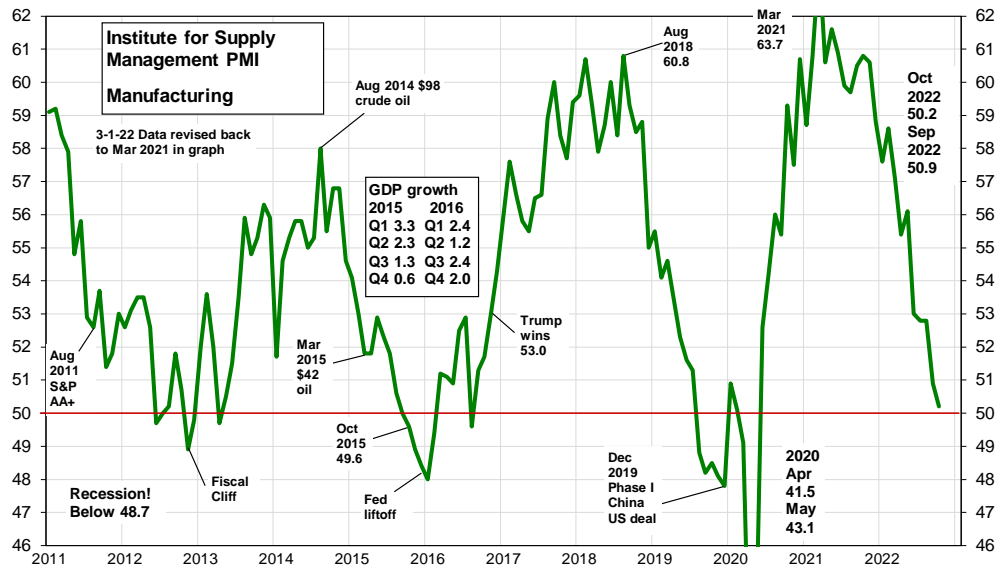
Fed officials better hope for a weaker payroll jobs report on Friday for the month of October because looking back in the rearview mirror, job openings increased strongly at the end of September. The good news of more job openings for everyone will be bad news for everyone if Fed officials become convinced they need to push interest rates even higher and faster than before. It is a head scratcher where you have to wonder whether 10 million job openings can stop a recession from coming.



Purchasing managers were busy with surveys this month (Tuesday)

Breaking economy news. Battle of the purchasing manager surveys for manufacturing in October. The stock market fell on the first survey released at 945am ET, the manufacturing PMI from S&P Global fell from 52.0 in September to 50.4 in October, but 50.4 was better than the flash estimate released earlier in the month which was 49.9 which is below the 50 line that divides an expanding manufacturing sector from one that is contracting.

ISM manufacturing declined as well, reported 15 minutes later. No real reaction, even with the positive news on “inflation” because the Jolts data showed more job openings, a significant number, released the same time at 10am ET. Lots of news this morning, including the Toronto stock exchange shutting down due to a technical issue, reported around 1038am ET which hopefully didn’t cause the S&P 500 to drop as well.

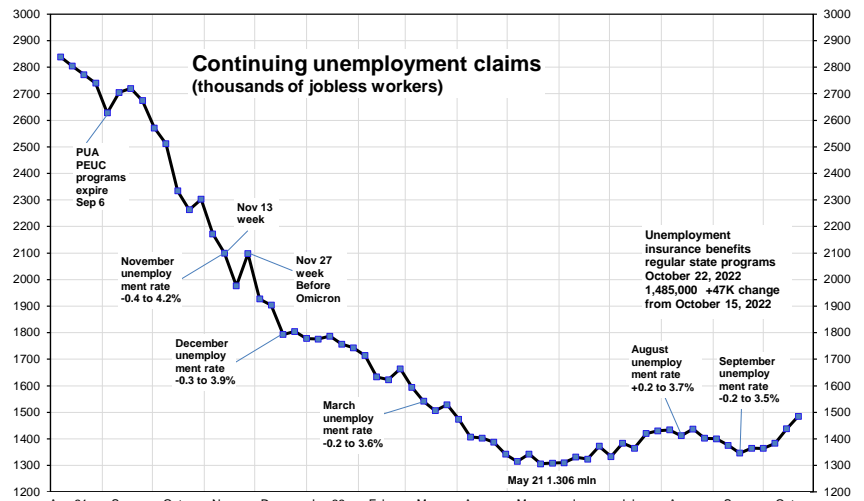


ISM manufacturing fell from 50.9 in September to 50.2 in October, close to contraction, but no cigar. Orders remain below 50 for a second month. Prices fell sharply by 5.1 percentage points to 46.6 which means prices are decreasing as in deflation. Lots of prices were down, the report said, including Aluminum, Brass, Copper, Steel products, Plastics, Lumber, Natural gas, and Ocean Freight among many other categories. Maybe this will show up in the PPI inflation report for October due out on Tuesday, November 15.

ISM manufacturing index				
	Oct 22	Sep 22	Aug 22	Jul 22
PMI index	50.2	50.9	52.8	52.8
Prices	46.6	51.7	52.5	60.0
Production	52.3	50.6	50.4	53.5
New orders	49.2	47.1	51.3	48.0
Supplier deliveries	46.8	52.4	55.1	55.2
Employment	50.0	48.7	54.2	49.9
Export orders	46.5	47.8	49.4	52.6

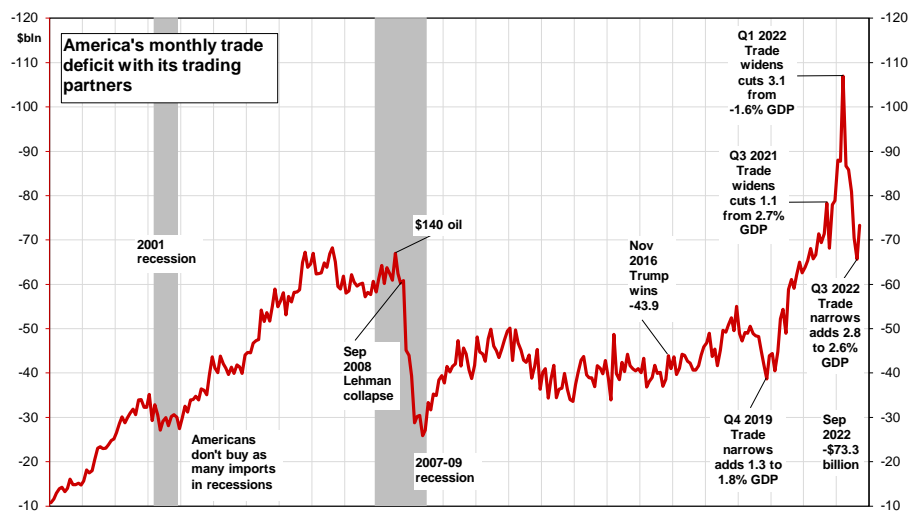
Some clouds: trade deficit and jobless claims

Breaking economy news. Signs of economic weakness in two reports today. But the markets are ignoring the news after being whipsawed by the Fed's miss communications yesterday, rallying on the rate hike slowdown in the press statement before Powell saying a half hour later he thought rates had to go higher than the 4.75% terminal rate in the Fed's September forecasts. Looking more like a committee of one. Initial weekly jobless claims didn't do much at 217K in the October 29 week. But the total number of people receiving benefits, so-called continuing claims, are moving up the last three weeks which could mean people are not finding jobs as quickly as they had been so they remain stuck on the nation's unemployment rolls. The Fed is still pushing interest rates up until something breaks, so we are watching the labor market like a hawk and the weekly data beyond the survey week for tomorrow's payroll jobs report show a softer labor market.



The trade deficit widened to \$73.3 billion in September from \$65.7 billion in August. The deficit is still much lower than the \$84.5 billion average in the second quarter. Exports are running about the same adding 1.5 percentage points to GDP in the second quarter and 1.6 percentage points to growth in the third quarter, although one wonders for how long. The Euro bought over \$1.20 in June 2021 and now it buys less than one dollar. If Europe cannot afford to buy as much from US then maybe the US export boom is nearer the end. The real puzzle is in the drop off in import demand where increasing demand for imports is the norm over time unless American consumers stop buying everything, like in recessions. Imports were a 0.4 percentage point drag on second quarter GDP, and then suddenly added 1.1 percentage points to the 2.6% third quarter growth. There can't be lasting growth from less demand for imports that's for sure.

Imports from China are running higher than year earlier levels in September at \$49.2 billion (\$47.4 billion in September 2021) despite covid lockdowns and other supply and shipping disruptions. Imports of cell phones are moving higher.



Net, net, there are some clouds on the horizon for the economy with rising numbers of jobless workers on the nation's unemployment rolls and falling demand for imported goods. Imports bounced 1.1% to \$272.918 billion in September, but remain well under the demand seen in the second quarter. Americans buy fewer imports in economic recessions normally. There are some clouds on the horizon for the economic outlook, time will tell if the gray skies turn to rain.

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