Financial Markets This Week

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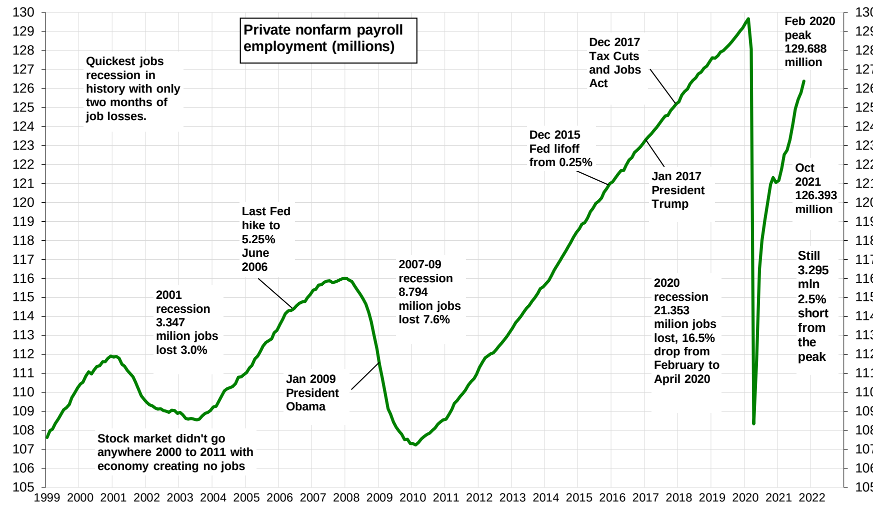
CLOSER AND CLOSER TO FULL EMPLOYMENT WE GO



The jobs report didn't hit it out of the park versus market expectations, but solid gains nevertheless of 531K in October along with big upward revisions to the prior subpar job months: September was 194K and now is 312K, August was 366K and now is 483K. 531 thousand with another 235 thousand in revisions equals 766 thousand. 766 thousand more jobs with average hourly earnings up 4.9% the last year will drive consumer spending through the roof at least in nominal terms. Inflation isn't going away when wages are growing 4.9%. Private payroll employment is only down 3.3 million from the peak, and 1.4 million of that is leisure and hospitality: bars, restaurants, football games, Disneyland, hotels/motels. Maybe the economy is closer to full employment than Washington officials believe.

Monthly changes (000s)	Oct	Sep	Aug	Jul	Jun
Payroll employment	531	312	483	1091	962
Private jobs	604	365	504	816	808
Leisure/Hospitality jobs	164	88	71	408	397
Unemployment rate %	4.6	4.8	5.2	5.4	5.9
Not in labor force (mln)	100.450	100.412	100.074	100.123	100.253
... and Want A Job (mln)	5.978	5.969	5.682	6.517	6.428
Average hourly earnings	$30.96	$30.85	$30.67	$30.55	$30.44
MTM % Chg	0.4	0.6	0.4	0.4	0.4
YOY % Chg	4.9	4.6	4.1	4.0	3.7

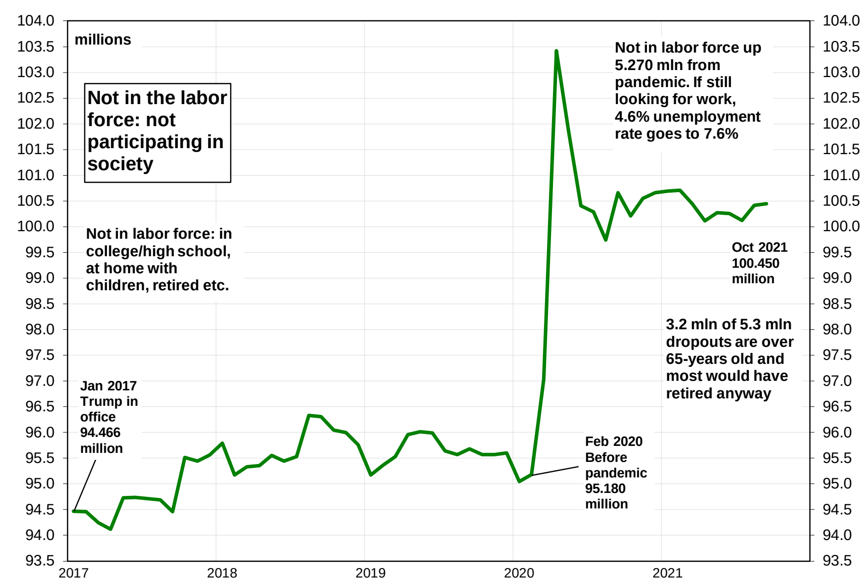
We don't doubt that these data are an accurate count of employment in America with the population nearing 333 million, although the news that personal and laundry services jobs increased 28 thousand was… interesting. Other oddities are the 28K jump in motor vehicles and parts when production is sputtering due to the lack of chips and industry sales down in the dumps. The 531K jobs gain held even with the loss of 65 thousand jobs in state and local government education and state government education which represents payback for faulty seasonal factors. If you are looking for the Delta variant effect, we guess it is fading fast with the eating and drinking places hiring 119K in October. Employment levels are 6.4% lower at bars and restaurants than they were before the pandemic. Today's report shows the economy isn't out of the woods yet, but it is pretty darn close. Hiring is strong, and the inflation fires are burning bright, and Washington is still fumbling around with passing the Build Back Better plan. If they don't hurry it will be too late because the economy is back already from the worst days of the pandemic recession that ended well over a year ago now.

Net, net, the economy roared back to life with employers starting to make headway at filling those massive job openings nationwide totaling over ten million. Ten million help-wanted signs around the country dropped the unemployment rate another two-tenths closer to full employment. The unemployment rate today is 4.6% versus the best economy in fifty years level of 3.5% before the pandemic. Close enough. Wage pressures are so intense right now that economists are scratching their heads about how on earth the economy cannot already be well beyond full employment. Employers don't give away cash to their workers if they have a deep bench from which to call up talent. The labor supply pool is near empty when you account for the large number of baby boomer dropouts this recession once they turned 65 years old. They aren't going back to work.

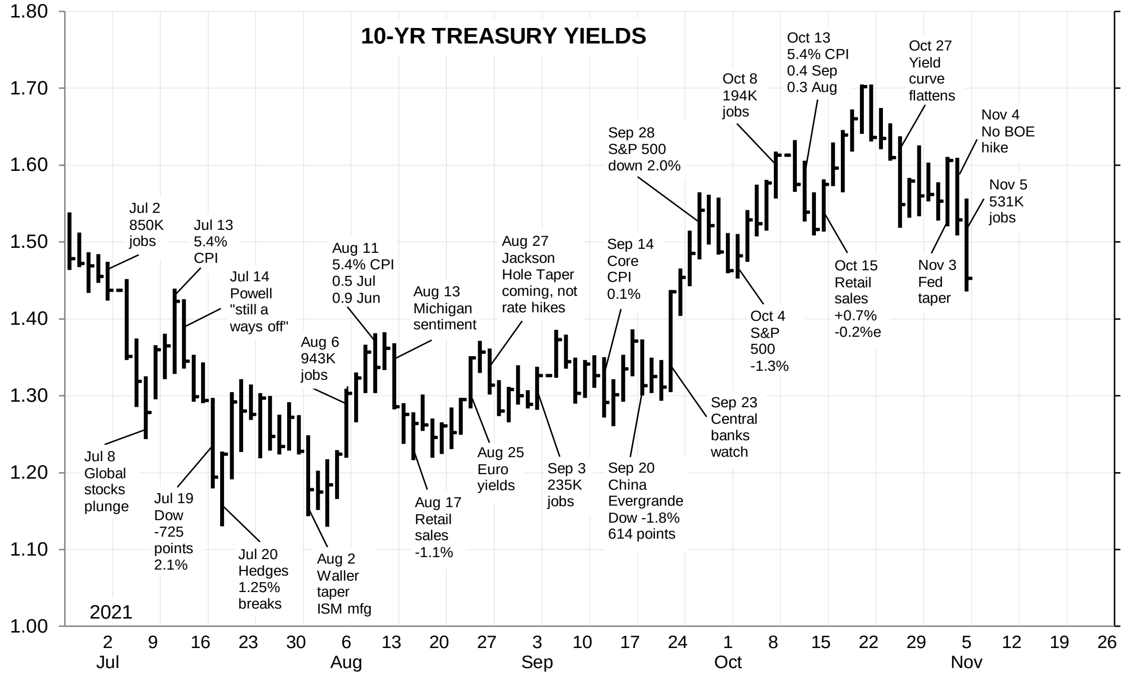
Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Oct 21	Sep 21	Aug 21	20 months Feb 20 Oct 21	Oct 21	Feb 2020
Nonfarm Payroll Employment	531	312	483	-4,204	148,319	152,523
Total Private (ex-Govt)	604	365	504	-3,295	126,393	129,688
Goods-producing	108	65	54	-459	20,678	21,137
Mining	5	5	6	-32	609	641
Manufacturing	60	31	49	-270	12,529	12,799
Motor Vehicles & parts	28	-6	15	-47	940	986
Construction	44	30	-1	-150	7,498	7,648
Private Service-providing	496	300	450	-2,836	105,715	108,551
Trade, transportation, utilities	104	122	82	-159	27,717	27,876
Retail stores	35	57	22	-140	15,470	15,610
General Merchandise	15	18	1	121	3,120	2,999
Food & Beverage stores	16	-10	-5	25	3,100	3,075
Transportation/warehousing	54	57	67	149	5,972	5,823
Truck transport	8	5	9	-9	1,516	1,525
Air transportation	9	11	9	-50	467	517
Couriers/messengers	-5	22	27	172	1,055	883
Warehousing and storage	20	15	16	172	1,499	1,328
Utilities	0	0	-2	-11	537	547
Information	10	4	33	-122	2,792	2,914
Financial	21	7	17	7	8,882	8,875
Insurance	-1	-3	1	5	2,861	2,856
Real Estate	12	13	12	-33	2,329	2,362
Commercial Banking	-4	-4	-2	-71	1,329	1,400
Securities/investments	11	-2	2	42	1,008	966
Professional/business	100	76	139	-215	21,254	21,469
Temp help services	41	6	27	-173	2,772	2,945
Management of companies	7	2	7	-79	2,346	2,425
Architectural/engineering	2	13	19	48	1,594	1,546
Computer systems/services	7	11	12	51	2,290	2,239
Legal services	5	5	5	-13	1,153	1,165
Accounting/bookkeeping	4	2	5	45	1,073	1,028
Education and health	64	13	72	-795	23,770	24,565
Hospitals	1	-4	5	-87	5,150	5,238
Educational services	17	-21	58	-148	3,630	3,779
Leisure and hospitality	164	88	71	-1,383	15,532	16,915
Hotel/motels	23	9	16	-314	1,791	2,105
Eating & drinking places	119	40	-9	-784	11,524	12,308
Government	-73	-53	-21	-909	21,926	22,835
Federal ex-Post Office	-1	1	2	18	2,278	2,260
State government	-25	-21	0	-272	5,031	5,303
State Govt Education	-22	-16	8	-205	2,392	2,596
Local government	-45	-33	-25	-656	14,013	14,669
Local Govt Education	-43	-86	-59	-270	7,760	8,030

The so-called Great Resignation, with baby boom generation retirees and others reassessing their connection to the labor force, is tightening up the labor market faster than the economic models predicted and this means demand pressures and shortages will persist and that inflation will gain a permanent foothold if Federal Reserve policy makers are not careful. They took a baby step this week in starting to taper, but they are still adding money to the economy through their asset purchases through next June, and they cannot start putting the brakes on this economy until they actually lift interest rates. We have penciled in a first rate hike from 0.25 to 0.50 percent in July 2022. Stay tuned. Watch here where the economy goes next.



INTEREST RATES

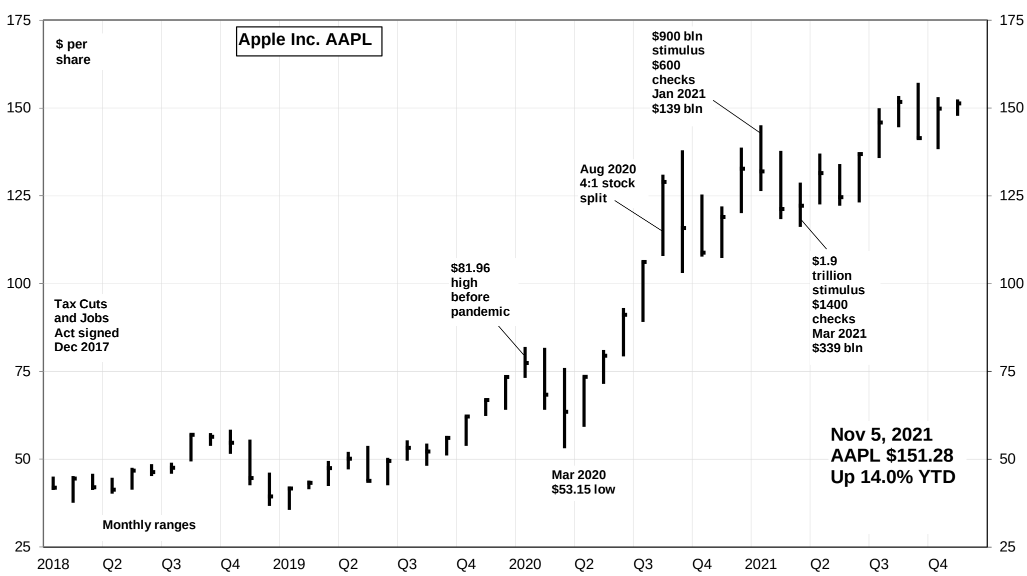


Big news week. By Friday, most commentaries had given up on explanations and just went with "bonds rally after strong jobs report." We guess you could say the yield curve flattened as strong jobs mean the Fed is closer to rate hikes despite what Powell said Wednesday. The move looks technical as the yield rally trend has broken and bonds are back in rally mode with traders betting on higher prices for bonds. Stocks didn't have a losing day this week, so much for the Fed taper worries. Gone. Bank of England news Thursday didn't meet market expectations for a rate hike, which surely still is coming; this news brought down U.S. 2-yields as well, setting the foundation for the bond rally.

Apple Inc. AAPL up 14.0% YTD, calendar Q3 earnings released last Thursday

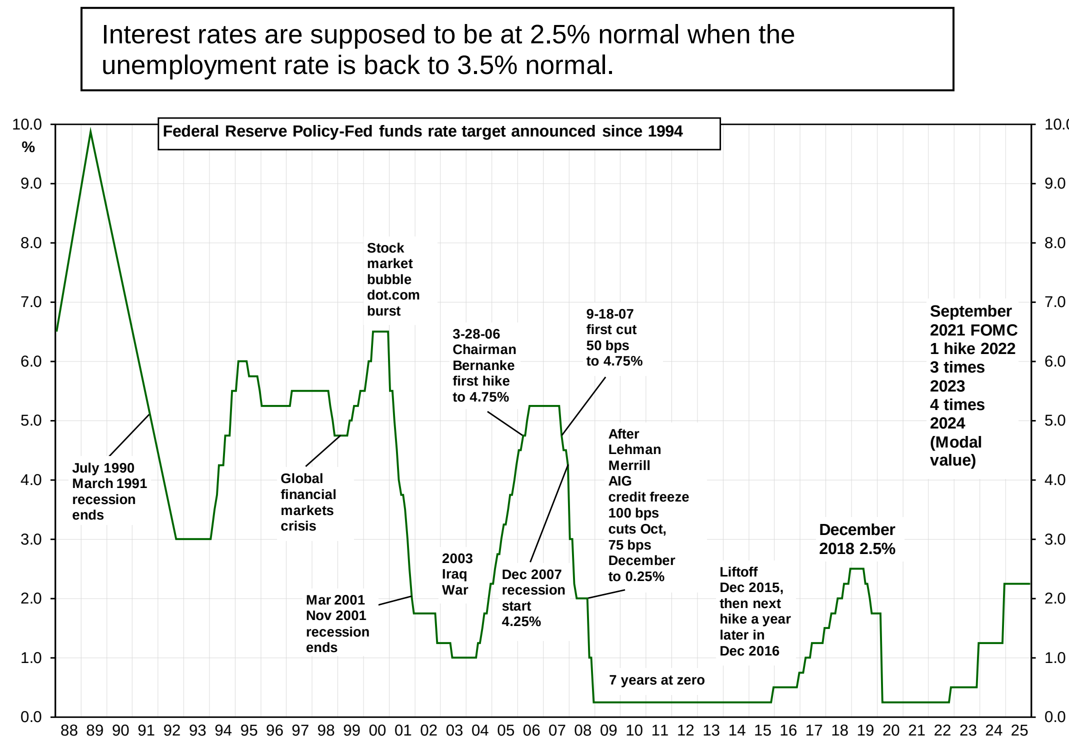
Earnings for the September 30, 2021 quarter were released October 28, 2021 after the bell. The stock rallied the day of the report as it often does, but then sank on the news after 4pm. Thursday closed at $152.57 and traded down to $146.41 at Friday's low. Earnings were up 29% YOY to $83.360 billion in the September quarter which missed Street estimates for the first time since 2017. Apple expects record earnings in the December holiday quarter which were $111.439 billion in 2020.

S&P 500 Weights	
Top 6: 24% of S&P	
6.38	MSFT
6.02	AAPL
3.76	AMZN
2.31	TSLA
1.97	FB
2.28	GOOGL
2.14	GOOG
24.86	Top 6



FEDERAL RESERVE POLICY

The Fed met on November 2-3, 2021 to consider its monetary policy. At long last the taper announcement. They said it would be soon and sure enough, soon meant the next meeting. If their goal was to not set off a panic like the taper tantrum in 2013, they achieved their goal. The market has barely moved. The S&P 500 was actually up 0.2% from the 2pm ET announcement ten minutes after they delivered the long-awaited news. It took even longer for the 10-yr Treasury yield to move up a couple of basis points from 1.57 to 1.60 percent. The Fed owns $5.5 billion Treasuries and $2.5 trillion mortgage-backed securities. Their holdings will go up a little higher for a time before tapering is complete. It is mission accomplished for Fed officials who must be beaming that their taper announcement did not set off a long-feared sell-off in the financial markets. The taper announcement was a shot heard round the world except investors seemed not to be listening. It is all greed and no fear right now for stock market investors. Damn the Fed torpedoes, full speed ahead.

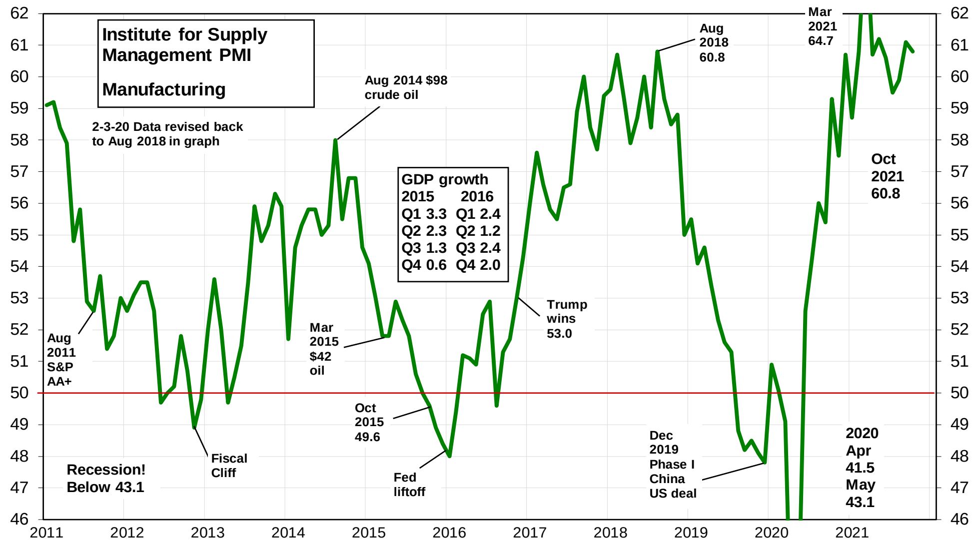


In the press statement, they said starting later this month, they will increase Treasury purchases by $70 billion and MBS by $35 billion per month, a reduction of $10 billion and $5 billion, respectively, from its current QE asset purchases pace. If all goes well, they will finish up in the middle next year: for Treasuries that is $60 billion in December, $50 billion in January, $40 billion in February, $30 billion in March, $20 billion in April, and $10 billion in May, and, and zero in June. Drip, drip, drip. Twice as fast as the Bernanke taper, but still seems too slow. Time will tell if the reduction of liquidity will cause the stock market to crater. Haha. Big joke. Nothing keeps the stock market from climbing ever higher.

Net, net, the Federal Reserve announced it would reduce its pace of asset purchases for the first time since the extraordinary liquidity injection began in March 2020 during the financial market meltdown. They bought $3.0 trillion Treasuries and $1.2 trillion mortgage-backed securities since March 11, 2020. Time will tell if taking away the punch bowl will start to let the air out of the asset bubble brewing in the stock market and in the new bubble forming in housing prices. The Fed has a more stringent test for raising interest rates, but even that test may be met shortly after the tapering is complete in the middle of 2022 if the inflation genie doesn't go back into her bottle.

OTHER ECONOMIC NEWS

Manufacturers held back by supply chain issues (Monday)



Breaking economy news. The ISM manufacturing index slipped back in October to 60.8 from 61.1. The Delta variant is becoming less of an issue and the supply constraint that American industry faces is looking more permanent. Shortages in the economy have unleashed an outbreak of inflation and higher prices before in U.S. history and it isn't any different this time. Sixteen industries are growing and only two are in decline: Wood Products and Nonmetallic Mineral Products (look this one up if you don't know what it is). Supply chain issues were everywhere in the comments section from purchasing manager executives including "getting anything from China is near impossible." Sounds troubling as nearly every product in our household has "Made in China" on it, and it has been this way increasingly for over a decade now. The 60.8 index reading remains high, but the details of the report when you pull the tarp back are more troubling as manufacturing is clearly being held back by shortages and supply chain issues that are made even worse by the higher prices that the shortages beget.

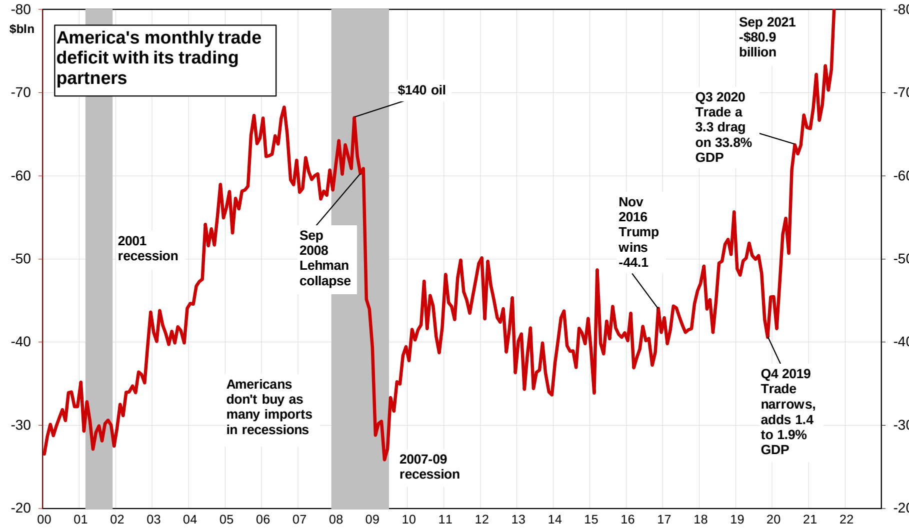
ISM manufacturing index

	Oct 21	Sep 21	Aug 21	Jul 21
PMI index	60.8	61.1	59.9	59.5
Prices	85.7	81.2	79.4	85.7
Production	59.3	59.4	60.0	58.4
New orders	59.8	66.7	66.7	64.9
Supplier deliveries	75.6	73.4	69.5	72.5
Employment	52.0	50.2	49.0	52.9
Export orders	54.6	53.4	56.6	55.7

Net, net, despite a high overall level of activity, manufacturing executives were slightly less confident at the start of the fourth quarter with the new order flow much less robust. Several categories were higher, but the reasons were not a sign of strength for the manufacturing sector. Employment is higher, but manufacturing is finding it hard to hire the workers they need to run their factories. Production was barely changed, and does not show the major weakness that manufacturing is facing in the auto industry beset by shortages and in the aftermath of Hurricane Ida. Supplier deliveries jumped but only due to problems faced by suppliers when it comes to labor hiring, input shortages, transportation and logistics issues. Finally, inflation was everywhere in this ISM manufacturing report with the Prices index jumping 4.5 points to 85.7%. The inflation reading looks like the economy is running hot and the upward trajectory will not be arrested by the end of the pandemic. There are shortages everywhere in response to demand that is too strong. The only thing that can cool economic demand is Federal Reserve policy and the earliest date for an interest rate hike that traditionally applies the brakes to the economy is not until they finish tapering their asset purchases in the middle of next year. Stay tuned. Watch here where the world goes next.

Record trade deficit sinks the dollar, new low for jobless claims (Thursday)

Breaking economy news. Those were the days. The late 80s. The dollar actually rallied against the Euro today as the Federal Reserve is tapering and other important reasons in markets overseas. The U.S. trade deficit widened to a record $80.9 billion in September as reported today. The advance report on trade in goods last week hinted at what was to come. Trade was a drag of 1.1 percentage point in Q3 2021 for GDP, that is, 2.0% real GDP growth would have been 3.1% if we made it here in America. Not likely with wages going up sharply at U.S. manufacturing plants. There are labor shortages as well that Fed officials foolishly believe will go away once the covid rain stops and people can venture outside again or get child care or something.

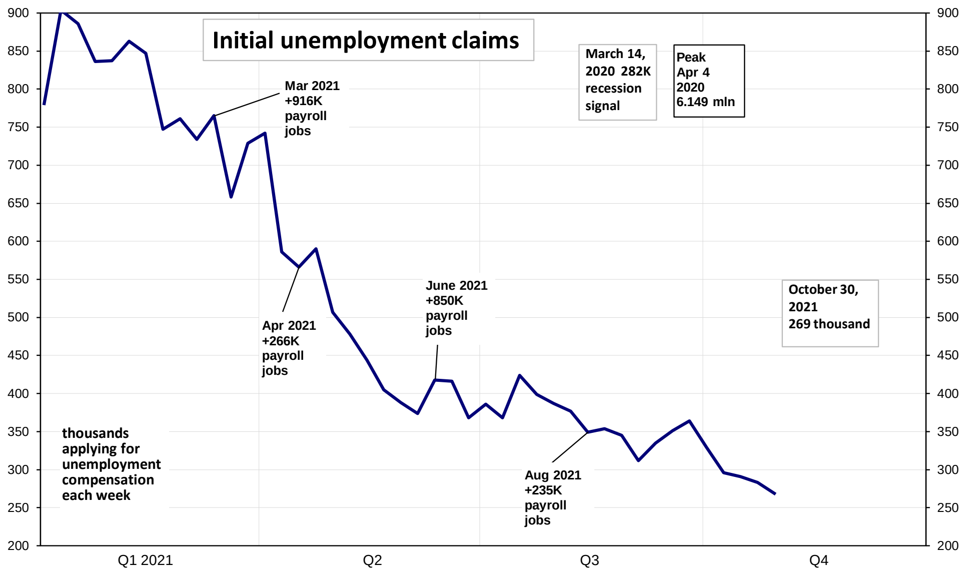


The trade deficit record wasn't all imports as U.S. exports of goods tumbled in September. It wasn't really due to auto exports which were higher even if auto parts and other vehicle accessories were lower. Most of the export weakness centered in crude oil and petroleum products, nonmonetary gold and other precious metals. As far as imported goods, where's your iPhone? Cell phone imports were $9.8 billion in September, up from $8.0 billion in August and maybe they are floating on a ship off of Long Beach if you can't find one. Semiconductors are running $51.5 billion in the first nine months of 2021 versus $43.8 billion the same period in 2020, but apparently this is not enough for U.S. auto manufacturers who can't find the parts to make cars.

U.S. Imports of Goods from the Rest of the World

Millions of dollars	Sep 2021	Aug 2021	2021 YTD	2020 YTD
Total *	239,218	237,167	2,085,130	1,702,414
Foods, feeds, beverages	15,632	15,691	134,164	114,512
Industrial supplies, materials	57,981	56,997	468,583	360,184
Crude oil	12,292	11,884	92,924	57,974
Finished metal shapes	2,555	2,626	24,818	36,923
Capital Goods ex-autos	65,628	63,091	564,789	472,328
Computers	8,575	7,374	74,363	64,254
Computer accessories	6,406	6,312	50,766	41,318
Semiconductors	6,018	5,897	51,520	43,807
Electric apparatus	6,101	5,646	50,506	38,362
Telecom equipment	5,304	5,068	48,343	42,937
Medical equipment	4,866	5,114	45,053	33,956
Auto vehicles, parts, engines	25,854	28,006	260,901	214,217
Consumer goods	63,153	63,234	567,451	462,472
Pharma preparations	14,347	15,650	127,214	122,621
Cell phones	9,830	8,040	86,573	70,949
Toys, games, sporting goods	4,630	4,616	43,155	27,186
Furniture, household goods	3,890	4,320	36,695	26,702
Household appliances	3,334	3,331	30,627	22,889
Other goods	10,969	10,149	89,242	78,702
* Total Imports of goods on Census Basis				

Net, net, the U.S. economy is strong and demand is off the charts with labor in short supply, as seen in the new post-pandemic low in unemployment claims, and with demand for goods from factories overseas setting a new record as manufacturing here in the USA is unable to keep up. Presents for the holidays are coming to a store shelf near you don't worry about that with imports of goods $240.9 billion in September versus $203.6 billion in September 2020. Jobless claims we forgot to mention up top fell 14K to 269K in the October 30 week so whatever the payroll jobs data are tomorrow, next month's report will be even stronger because economic demand is on fire with companies searching high and low to bring workers into the factory floors and the shops and restaurants around the country. Companies are hanging on tight to their workers and not laying anyone off which is the usual sign that the economy is not just at full employment, but is actually well beyond it. Inflation is up, there are labor shortages, rate hikes are coming. Lots of 'em. Bet on it.



Unemployment Benefits Recipients		
16-Oct-21	Program	28-Aug-21
1,980,615	Regular State	2,656,747
7,985	Federal Employees	8,723
5,428	Newly Discharged Veterans	6,054
277,109	*Pandemic Unemployment Assistance	5,487,233
233,684	*Pandemic Emergency UC	3,805,795
144,319	Extended Benefits	98,730
2,933	State Additional Benefits	1,063
20,875	STC/Workshare	42,382
2,672,948	TOTAL	12,196,727
* Programs expired September 6, 2021		

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