Financial Markets This Week

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

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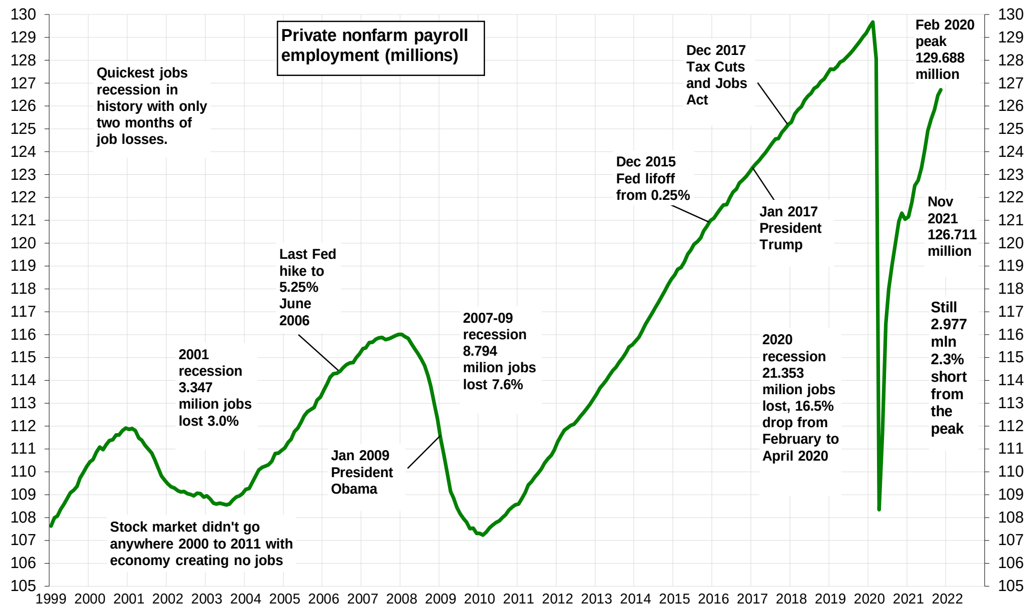
UNEMPLOYMENT TUMBLES AS COMPANIES SNAP UP WORKERS TO MEET THE ECONOMY'S VERY STRONG DEMAND



Breaking economy news. 210K payroll jobs in October with 82K in upward revisions the prior two months. The monthly employment situation report from the Bureau of Labor Statistics. Hot or Not? The labor force statistics show American workers are in hot demand with unemployment tumbling and wages up another 8 cents this month to $31.03 per hour, an increase of 4.8% the last year. Companies are saying they just can't get enough help even with jacking up worker wages and it is likely the jobs numbers would be even stronger if the labor pool was not running so dry. Fed Chair Powell said slack in the labor market was disappearing and the huge 0.4 percentage point drop in unemployment to 4.2% shows that is the case. Fed officials need to hurry up the tapering of their asset purchases because interest rate hikes are going to be necessary to cool off this economy that is in danger of overheating. Fed officials are further behind the curve than ever after today's red hot jobs market report. The best level of unemployment before the pandemic was 3.5%, and if this keeps up, the economy will be back there in just two months. The Fed forecasts didn't see this happening until the end of 2023. Instead, the "best economy in fifty years" is just two months away.

Monthly changes (000s)	Nov	Oct	Sep	Aug	Jul
Payroll employment	210	546	379	483	1091
Private jobs	235	628	424	504	816
Leisure/Hospitality jobs	23	170	108	71	408
HH Employment Survey*	1136	359	526	509	1043
Unemployment rate %	4.2	4.6	4.8	5.2	5.4
Not in labor force (mln)	99.977	100.450	100.412	100.074	100.123
... and Want A Job (mln)	5.859	5.978	5.969	5.682	6.517
Average hourly earnings	$31.03	$30.95	$30.84	$30.67	$30.55
MTM % Chg	0.3	0.4	0.6	0.4	0.4
YOY % Chg	4.8	4.8	4.5	4.1	4.0

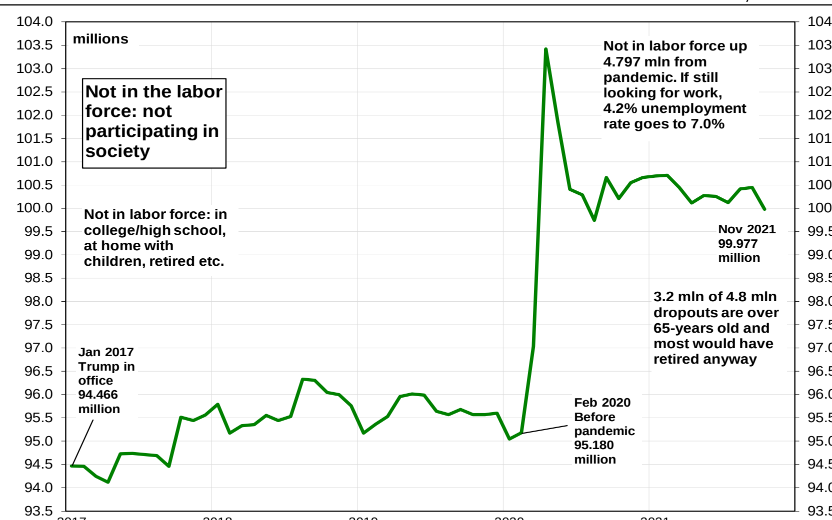
* Household (telephone) survey of employment behind unemployment rate

Net, net, don't be fooled by the measly 210K payroll jobs gain this month because the economy's engines are actually in overdrive as shown by the plunge in joblessness from 4.6% in October to 4.2% in November. The new lows in the weekly jobless claims data did not lie as the Household Survey data found over a million more jobs this month with the number of unemployed crashing by 542 thousand. Wages are up so much it seemed to bring almost half a million people off the sidelines and back into the labor market. Everyone is participating, everyone can get a job. Unemployment is tumbling as companies snap up workers to meet the economy's very strong demand. The U.S. economy is back on a tear with full employment right around the corner. Fed rate hikes are coming. Lots of them. Bet on it.

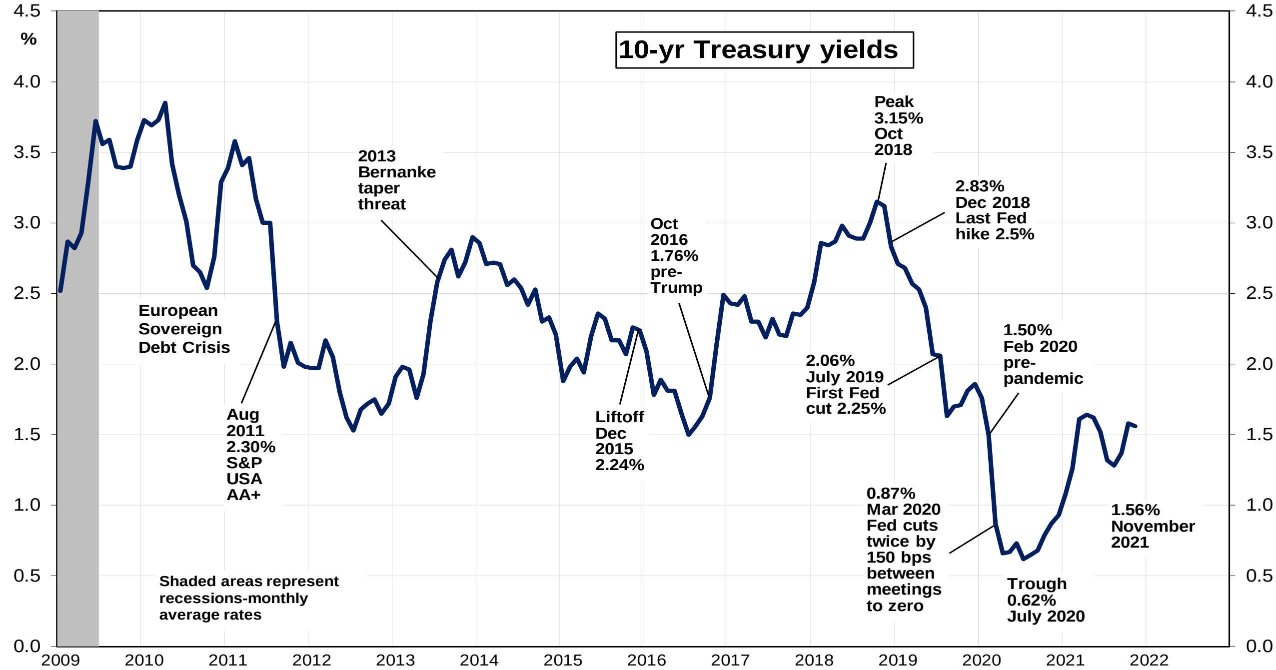
P.S. There are drop outs, but Washington will have a long wait for them to come back, let alone carry their weight. Two-thirds of the 4.8 million are elderly. Don't ask when full employment will be reached. It's here today.

Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Nov 21	Oct 21	Sep 21	21 months Feb 20 Nov 21	Nov 21	Feb 2020
Nonfarm Payroll Employment	210	546	379	-3,912	148,611	152,523
Total Private (ex-Govt)	235	628	424	-2,977	126,711	129,688
Goods-producing	60	94	65	-413	20,724	21,137
Mining	-2	4	2	-38	603	641
Manufacturing	31	48	29	-253	12,546	12,799
Motor Vehicles & parts	-10	19	-3	-63	924	986
Construction	31	43	35	-115	7,533	7,648
Private Service-providing	175	534	359	-2,564	105,987	108,551
Trade, transportation, utilities	37	111	112	-125	27,751	27,876
Retail stores	-20	38	39	-176	15,434	15,610
General Merchandise	-20	17	9	92	3,091	2,999
Food & Beverage stores	9	19	-7	40	3,115	3,075
Transportation/warehousing	50	60	63	210	6,033	5,823
Truck transport	6	8	5	-4	1,521	1,525
Air transportation	3	9	12	-47	470	517
Couriers/messengers	27	-1	36	217	1,100	883
Warehousing and storage	9	22	13	180	1,508	1,328
Utilities	0	0	0	-11	536	547
Information	-2	11	4	-123	2,791	2,914
Financial	13	26	12	30	8,905	8,875
Insurance	3	4	2	16	2,872	2,856
Real Estate	3	14	13	-28	2,334	2,362
Commercial Banking	-3	-4	-3	-74	1,327	1,400
Securities/investments	9	11	-1	51	1,017	966
Professional/business	90	121	111	-69	21,400	21,469
Temp help services	6	46	15	-153	2,792	2,945
Management of companies	4	5	2	-77	2,348	2,425
Architectural/engineering	2	3	13	51	1,597	1,546
Computer systems/services	10	11	15	68	2,308	2,239
Legal services	3	5	6	-9	1,156	1,165
Accounting/bookkeeping	8	6	5	58	1,086	1,028
Education and health	4	59	16	-793	23,772	24,565
Hospitals	-4	6	-9	-92	5,146	5,238
Educational services	-2	12	-21	-156	3,623	3,779
Leisure and hospitality	23	170	108	-1,334	15,581	16,915
Hotel/motels	7	25	13	-302	1,803	2,105
Eating & drinking places	11	122	54	-757	11,552	12,308
Government	-25	-82	-45	-935	21,900	22,835
Federal ex-Post Office	-2	-2	-4	11	2,270	2,260
State government	-9	-28	-10	-273	5,030	5,303
State Govt Education	-3	-22	-5	-198	2,398	2,596
Local government	-18	-49	-33	-678	13,991	14,669
Local Govt Education	-13	-49	-84	-386	7,644	8,030



INTEREST RATES



Rapid reversal in bond yields from the best of times (highest yields anyway) to the lowest of times the last couple of weeks. The stock market has fallen with the new Covid variant. Powell said Tuesday they would finish tapering a few months early: March. Maybe some of the move down in yields is yield curve flattening trades, normal if the Fed is tightening, raising interest rates, although why the curve is flattening already with “bond yields of 1.5%” is strange if Fed policy is going to move rates to 2.5% normal levels. What was the peak 10-year yield in late 2018 while the Fed was tightening before the pandemic? Answer: 3.15%, so then why are bond yields falling now? Weak the stock market perhaps.

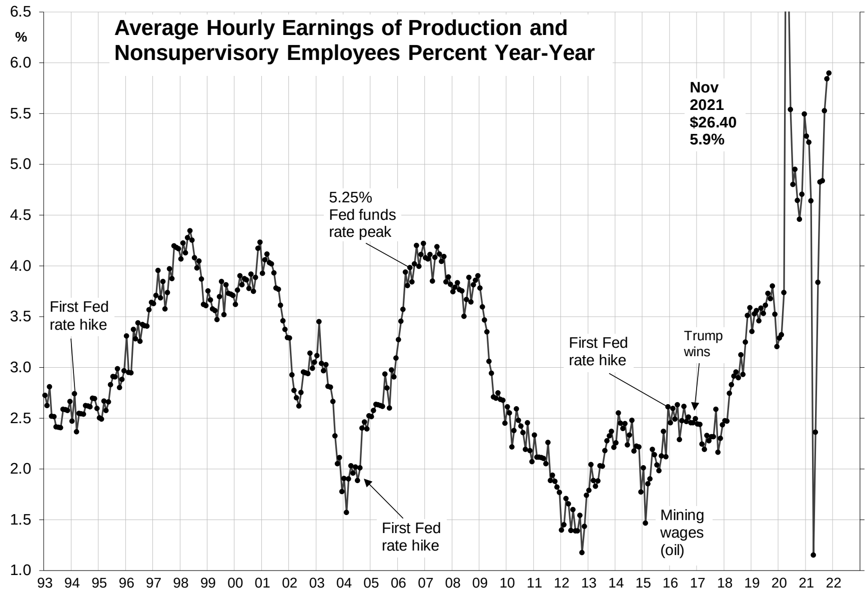
The Facebook company is now Meta. Stock down 20.2% from September 1 high

Earnings for the September 30, 2021 quarter were released Monday, October 25, 2021 after the bell. FB was $328.69 at the close October 25. Revenues in the December quarter are estimated at $31.5 to $34.0 billion, the company said, a little less than expected, but there are more stock buybacks. Company revenues were uncertain due to “continued headwinds from Apple’s iOS 14 changes.” On October 28 Facebook became Meta with a new business segment for augmented and virtual reality.

S&P 500 Weights	
Top 6: 25% of S&P	
6.62	AAPL
6.37	MSFT
3.85	AMZN
2.27	TSLA
2.06	NVDA
2.22	GOOGL
2.09	GOOG
25.48	Top 6

FEDERAL RESERVE POLICY

Fed's Models Missed Wage Inflation



The Fed meets on December 14-15, 2021 to consider its monetary policy. Unemployment plunged 0.4 percentage points to 4.2% which means at this rate, the economy is just two months away to being back to the 3.5% best economy in fifty years before the pandemic. Even before Friday's employment report, it seemed like all of a sudden everyone at the Federal Reserve has got inflation religion: they believe in it, inflation is real, and it is no longer something to have higher than average for some time to even out the bad years when inflation was persistently below 2 percent for many years. The bad years are right now.

Fed Chair Powell spilled the beans in testimony before the Senate on Tuesday, November 30. We don't know if he welcomed the question from Senator Warner D-VA or what, but now the whole world believes Fed officials will taper more quickly at the December meeting. The urgency seems to be part of the thinking that they might have to raise interest rates earlier than they were thinking because of **inflation**. And tapering must be complete before hiking rates we guess the thinking goes. Powell surprised the markets Tuesday with the tapering speedo comment, Dow industrials sank 652 points or 1.9% at the close: not the first time stocks have tanked from a stray, in-coming missile comment by Powell since he has been appointed. Maybe he wanted to get the message out there. Anyway, Powell surprised the markets Tuesday, but by Thursday, all the other Fed officials were already falling into line to speed up the tapering at the December meeting.

Senator Warner D-VA questions Powell Tuesday, November 30, 2021

Which factors most influenced that decision on tapering and how long do you think it will take the Fed to gradually wind down these purchases?

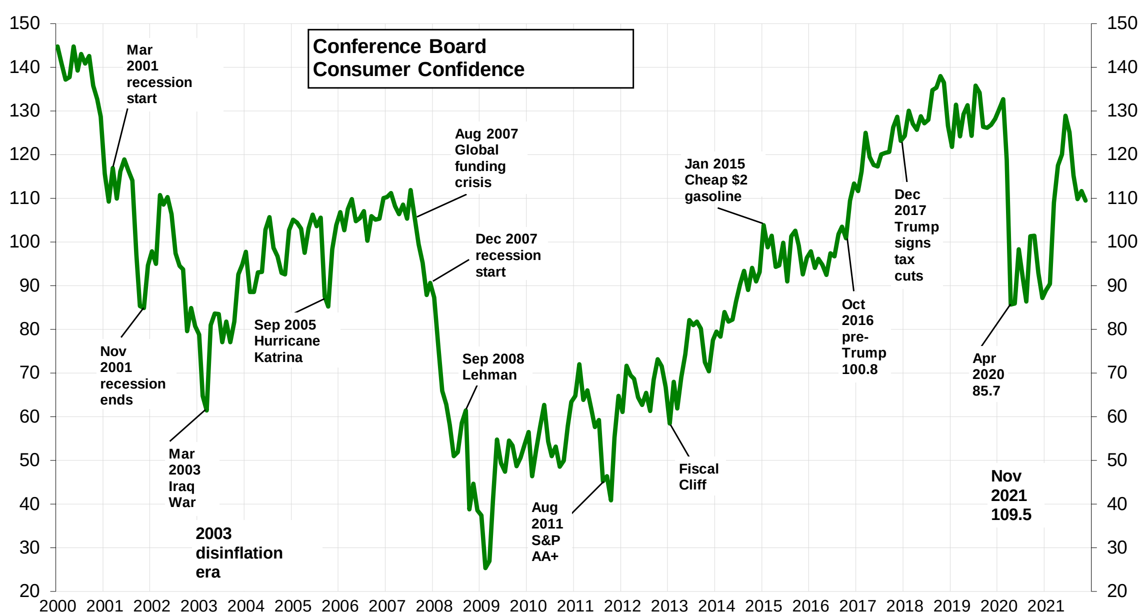
We actually haven't made a decision on that. But I would just say this, the most recent data show elevated inflation pressures, a rapid improvement in many labor market indicators without an accompanying addition of labor supply, and also strong spending that signals significant growth in coming months... At this point the economy is very strong and inflationary pressures are high and it is therefore appropriate in my view to consider wrapping up the taper of our asset purchases perhaps a few months sooner and I expect that we will discuss that at our upcoming meeting in a couple of weeks. Of course between now and then we will see another labor market report, another inflation report and we'll also get a better sense of the new Covid variant as well before we make that decision.

OTHER ECONOMIC NEWS

Consumers now say inflation is the concern that weighs on confidence (Tuesday)

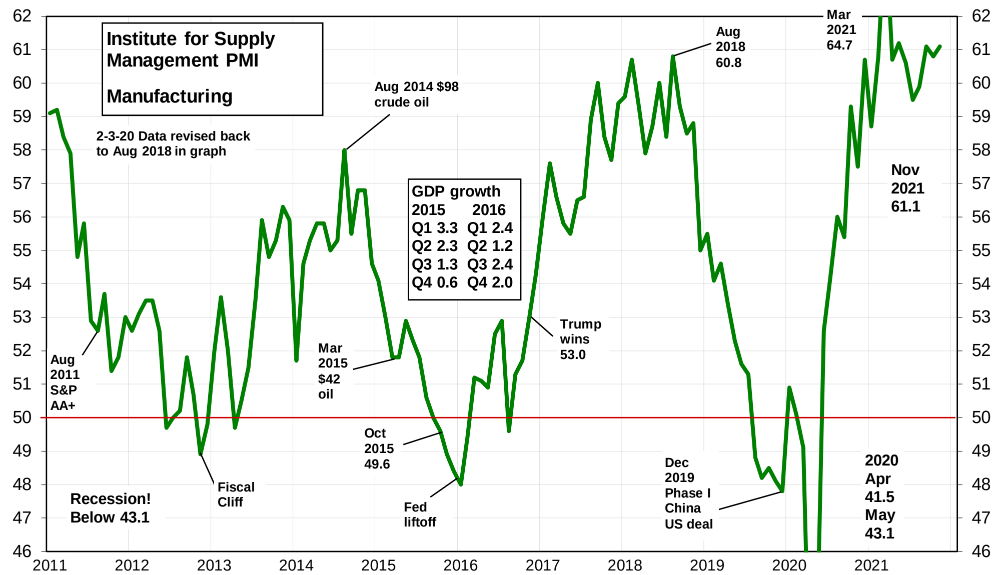
Breaking economy news. The consumer confidence index fell to 109.5 in November from 111.6 in October. October had been higher in the initial report last month jumping from 109.8 to 113.8. Up one month and down the next, this latest temperature reading on how the consumer is doing is bouncing back and forth due to all the uncertainty out there on the outlook that just won't go away. Next month we fully expect consumers will lose heart again based on the latest news of a new Covid virus variant from South Africa called Omicron unless the early reports of "extremely mild symptoms" turn out to be true. The reasons seem to keep shifting, but the trend in consumer confidence is undeniably downbeat since the peak of the confidence index at 128.9 in June. The reopening of the economy boosted consumer spirits at the start of summer, but confidence has plummeted as the summer turned to fall with winter just a month away.

Net, net, the focus of consumers is shifting from jobs and growth to the jump in inflation and the higher prices of store bought goods. Although the worry centers on inflation this month, the latest Covid variant Omicron can shift the worries of consumers from inflation back to economic growth in a nanosecond if the speed of the recovery slows just like the delta variant did to the economy in the third quarter. Inflation worries could go away in a hurry if the economy slows and demand pressures lessen in intensity. But for this month, consumers say inflation is the greater concern and this is taking a toll on confidence. Either way, whether it is inflation worries or a slowing economy, diminished confidence could slow spending and growth as we head into the all-important holiday shopping season. Stay tuned. Story developing.



Factory jobs, orders, production strong, purchasing managers say (Wednesday)

Breaking economy news. Factory output continues to operate at one of the highest levels in history despite some complaints about staffing problems, chip shortages, and supply chain disruptions. The manufacturing purchasing managers index rose 0.3 percentage points to 61.1 in November. A recession signal from this important economic indicator isn't flashed until the index slides under 43.1 so there is little danger the Covid virus and its many variants is going to lead real GDP to decline and send the economy back into recession. The employment index rose 1.3 percentage points to 53.3 in November and any reading above 50.6 means more manufacturing jobs are being created and we will find out on Friday if indeed manufacturing payroll employment increased again after 60K jobs were created in October with 531K total nonfarm payroll jobs. Almost all companies are paying more for raw materials even if the prices index fell back 3.3 percentage points to 82.4 in November. ISM said prices have been above 70 percent for 12 consecutive months.



Net, net, manufacturing executives say activity continues to be exceptionally strong despite the headaches of supply chain disruptions and chip shortages. Production jumped 2.2 points and new orders rallied 1.7 points. If there is trouble ahead for the economy with the Federal Reserve putting on the brakes and the emergence of a new Covid variant, you wouldn't know it based on this latest reading from manufacturing executives. The factory lights are all on and output is higher than it was before the pandemic. Stay tuned. Story developing.

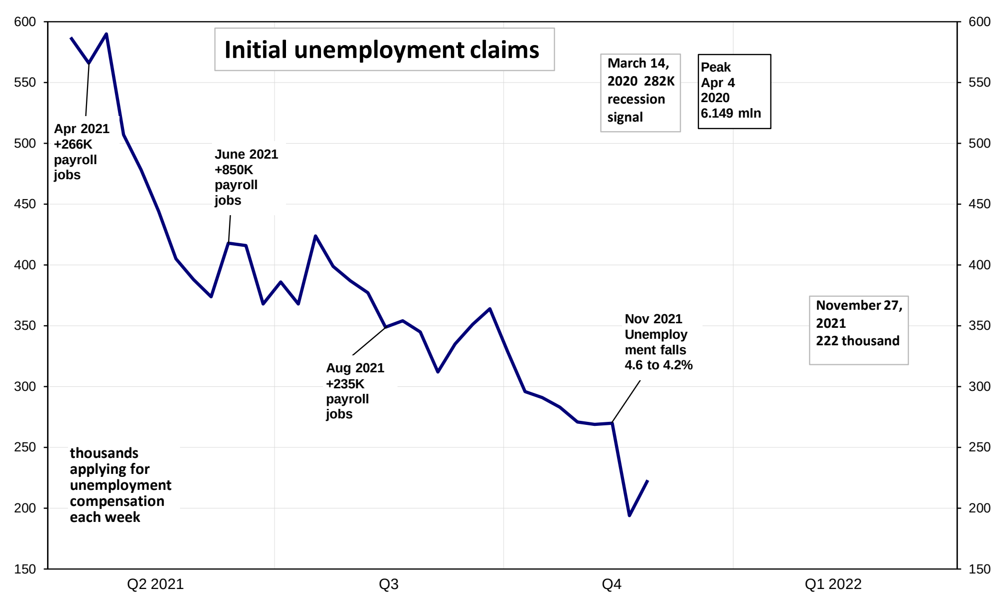
ISM manufacturing index

	Nov 21	Oct 21	Sep 21	Aug 21
PMI index	61.1	60.8	61.1	59.9
Prices	82.4	85.7	81.2	79.4
Production	61.5	59.3	59.4	60.0
New orders	61.5	59.8	66.7	66.7
Supplier deliveries	72.2	75.6	73.4	69.5
Employment	53.3	52.0	50.2	49.0
Export orders	54.0	54.6	53.4	56.6

Jobless claims point to tighter labor market and more wage inflation ahead (Thursday)

Breaking economy news. Initial unemployment claims rose 28 thousand to 222 thousand in the November 27 week, but the November 20 week's level was revised down to 194 thousand which was a giant total decline now of 76 thousand. Jobless claims bounced higher, but not high enough to change the narrative of a tighter labor market where workers are finding work easy to get and employers are hanging onto their workers knowing they will be nearly impossible to replace if they leave. Inflation was being caused by shortages and supply disruptions coming out of the pandemic, but now inflation will be much more durable and lasting as we are seeing the emergence of a new wage-price spiral not seen in the economy since the 1980s. Simply put, today's jobless claims point to a tighter labor and more wage inflation ahead.

Net, net, companies are not laying off workers like they did during the recession. Jobless claims are so low that the anecdotal reports of firms finding it hard to hire the help they need must be true. The decline in overall layoffs the last two weeks make us wonder whether a big payroll jobs number is coming tomorrow because right now job layoffs are minimal and consistent with full employment and the best economy in fifty years seen at the end of 2019 before the pandemic hit. Fed Chair Powell was right to hint the central bank might speed up the tapering process because a tight labor market means increasing wage demands will stoke the fires of inflation. The central bank has misread the economic tea leaves before, claiming erroneously the labor market still had slack remaining, and Fed officials run the risk of downplaying the inflation dangers out there again. Stay tuned. Labor market slack is disappearing. Fast.



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