## The Weekly Market Update – 2/5/24: Jobs Slowdown Turns into Job Surge

| Major Indices (Price Returns) | Close | Last Week | Quarter-to-Date | Year-to-Date | Trailing 12-Months | All-Time High | % to High |
|---|---|---|---|---|---|---|---|
| S&P 500 | 4,958.61 | 1.38% | 3.96% | 3.96% | 21.64% | 4,958.61 | 0.0% |
| Dow Jones Industrial Average | 38,654.42 | 1.43% | 2.56% | 2.56% | 13.40% | 38,654.42 | 0.0% |
| NASDAQ Composite | 15,628.95 | 1.12% | 4.11% | 4.11% | 34.91% | 16,057.44 | 2.7% |
| Russell 2000 | 1,962.73 | -0.79% | -3.17% | -3.17% | 1.59% | 2,442.74 | 24.5% |
| MSCI EAFE (USD) | 2,223.18 | 0.02% | -0.58% | -0.58% | 5.84% | 2,398.71 | 7.9% |
| MSCI Emerging Markets (USD) | 988.21 | 0.32% | -3.47% | -3.47% | -4.20% | 1,444.93 | 46.2% |
| Bloomberg Commodity Index | 96.67 | -2.14% | -2.00% | -2.00% | -13.53% | 237.95 | 146.2% |
| Barclays U.S. Aggregate Bond | 90.90 | 0.56% | -0.88% | -0.88% | -0.66% | 112.07 | 23.3% |

*Source: FactSet*

**U.S. jobs creation beat expectations in January, suggesting that a moderating jobs growth outlook is delayed.** According to the Bureau of Labor Statistics (BLS), U.S. nonfarm payrolls (jobs) increased +353 thousand (K) in January**.** This was well above the FactSet consensus estimate (from Wall Street economists) of +176K and represented the largest monthly new jobs gain in a year (January 2023 +482K). Contributing to moderating labor market expectations was a slowing trend in the second half of 2023 (2H23), when monthly jobs growth was significantly below the levels of 1H23, and the average jobs gain in the fourth quarter (4Q23) was the slowest quarter of the year. But that changed with the January report as well, as previously reported December 2023 and November 2023 jobs data were revised higher by a combined +126K. After the revisions, jobs gains accelerated in 4Q23 from 3Q23, and January revealed 2024's strong start. The dispersion of January jobs gains was healthy, with meaningful upticks for professional and business services +74K, healthcare +70K, retail trade +45K, and social assistance +30K.  Gains in government jobs moderated to +36K after averaging +57K monthly throughout 2023. The unemployment rate held steady at 3.7% (the 2023 low was 3.4% in April), but the labor participation rate (which is the percentage of the eligible working population that is employed) dipped to 62.5% from 62.8% in December, indicating that the eligible workforce has expanded. Two data points to watch closely are average hourly earnings (AHE) and average weekly hours. AHE, or wages, increased +4.5% in January year-over-year (Y/Y), which was the strongest Y/Y comparison since February 2023. Strong wage growth, while a driver of consumer spending, can be inflationary and could slow the anticipated path of lower interest rates. Average weekly hours (BLS data) decreased to 34.1 in January from 34.3 in December, indicating that companies have cut back on hours despite adding jobs on a monthly basis.

**The Fed held its reference interest rate unchanged for the fourth consecutive meeting and recalibrated expectations for a rate cut at its next meeting in March 2024.** On 1/31/24, the U.S. Federal Reserve Bank (Fed) held its overnight bank lending fed funds target interest rate range unchanged at 5.25% to 5.50%, the same level since July 2023. That was expected and investors waited for discussion about the future path of rates given that inflation trends have continued to move lower. The goal of higher interest rate policy is to curb inflation, so lower sustained inflation should allow interest rates to move to a lower, less restrictive level. U.S. 2-year Treasury note yields (a proxy for short-term rates) moved as low as 4.22% in mid-January. The Fed did indicate that the current tightening cycle (higher rates) has all but ended, paving the way for interest rate cuts in 2024. However, Fed Chair Jerome Powell, at the post-Fed meeting press conference, said that the next Fed meeting on 3/20/24 is not the most likely start date for initial cuts to the fed funds target. This extended the first cut expectation to either the 5/1/24 or 6/12/24 Fed meetings. The strength of the January jobs report allows the Fed, in our view, to move more slowly on cutting interest rates to evaluate the sustainability of improved (low) inflation trends.

**Earnings data for 4Q23 has slightly improved with nearly 50% of S&P 500 companies reported.** Through early Monday, the FactSet consensus earnings growth estimate has improved to +1.6% (vs. +1.0% estimated at the end of December), indicating a modest uptick vs. expectations. There still remains a few heavy reporting weeks, with 104 S&P 500 companies scheduled this week. Despite positive, yet underwhelming, 4Q23 results so far, earnings growth expectations for 1Q24 and 2Q24 remain +5.3% and +9.9%, respectively.

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