The Weekly Market Update – 8/7/23: Jobs Growth Slows, Wages Higher

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,478.03	-2.27%	0.62%	16.63%	8.42%	4,796.56	7.1%
Dow Jones Industrial Average	35,065.62	-1.11%	1.91%	5.79%	6.76%	36,799.65	4.9%
NASDAQ Composite	13,909.24	-2.85%	0.88%	32.89%	12.26%	16,057.44	15.4%
Russell 2000	1,957.46	-1.21%	3.64%	11.14%	3.83%	2,442.74	24.8%
MSCI EAFE (USD)	2,143.22	-2.41%	0.54%	10.25%	10.63%	2,398.71	11.9%
MSCI Emerging Markets (USD)	1,018.02	-2.41%	2.88%	6.45%	2.44%	1,444.93	41.9%
Bloomberg Commodity Index	105.93	-1.21%	4.39%	-6.09%	-13.05%	237.95	124.6%
Barclays U.S. Aggregate Bond	88.81	-0.71%	-1.09%	-0.08%	-6.27%	112.07	26.2%

Source: FactSet

July employment data reflected slowing monthly jobs gains, but the unemployment rate was lower and wage gains were higher. According to the Bureau of Labor Statistics (BLS), July nonfarm payrolls (jobs) increased by 187 thousand (K), modestly below the 200K consensus estimate (per FactSet from Wall Street economists). At the same time, the prior two months' (June and May) job gains were revised lower by 41K, with the June nonfarm payroll gain revised to 185K, vs. the 206K originally reported. July gains were led by health care +63K, social assistance +24K, and financial activities (mostly real estate-related) +19K. Also, construction jobs were 19K higher in July. The only large segment to report lower jobs in July was professional and business services -8K, driven by a loss of 22K for temporary help. The June and July jobs gains of 185K and 187K, respectively, were the two lowest months since December 2020, and the U.S. economy has produced 31 consecutive months of jobs gains. A sustainable trend of slowing, but still positive, month-to-month employment gains creates a more comfortable position for the Federal Reserve Bank (Fed) as the Fed is attempting to help guide lower inflation (using higher interest rates) without tipping the economy into a recession (a measurable decline in economic activity lasting more than a couple of months). After raising its overnight bank lending fed funds interest rate target range by 0.25% to 5.25% to 5.50% in July, the Fed does not meet again until September. Modest jobs gains could keep the Fed on pause (no more fed funds rate increases). On the other hand, July wages (as measured by average hourly earnings) increased 4.4% year-over-year (Y/Y) in July and grew at either 4.3% or 4.4% Y/Y for the past five months. This exceeded the BLS' consumer inflation rate (consumer price index, or CPI) of 3.0% in June. This is good for consumer purchasing power, but ongoing elevated wage growth creates challenges for corporate expenses, possibly weighing on profit margins and company earnings. A BLS alternative measure of jobs growth, the Establishment survey, painted a slightly stronger July employment picture, with jobs up 268K and the monthly unemployment rate dropping to 3.5% in July from 3.6% in June. We continue to believe that the Fed is likely done hiking its fed funds target, but the combination of wage growth and low unemployment is likely to keep interest rates at elevated levels.

Interest rates moved higher last week, following a U.S. credit rating downgrade. Fitch, one of three widely used debt issuance ratings agencies (the other two are Moody's and S&P Global), lowered its U.S. government long-term credit rating to AA+ from AAA on 8/1/23. The downgrade was attributed to ongoing growth in debt issuance (due to annual budget deficits) and "erosion of governance," due to repeated debt limit negotiations. U.S. long-term interest rates initially spiked on the news as the U.S. 10-year Treasury yield moved to 4.19% (8/3/23) from 3.97% (7/28/23), but since has moved back to 4.08% (8/7/23). We do not expect Fitch's action to cause a material impact on financial markets, however, it highlights that the U.S. Treasury must continue to borrow money and refinance maturing bonds at higher interest rates, which will contribute to budget challenges as interest payments continue to rise.

As second quarter (2Q23) earnings season moves into the home stretch, investors await the July consumer inflation (CPI) report. Through early Monday (8/7/23), 85% of S&P 500 companies had reported 2Q23 financial results, with earnings tracking down 6.1%, slightly better than pre-quarter estimates but below the trend of a week ago. The FactSet consensus for the July CPI is 3.3%, an uptick from 3.0% in June due to a spike in gasoline prices.

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