D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 11/7/22: Mixed Jobs Data Not Enough For The Fed

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	3,770.55	-3.35%	5.16%	-20.89%	-18.13%	4,796.56	27.2%
Dow Jones Industrial Average	32,403.22	-1.40%	12.80%	-10.83%	-9.54%	36,799.65	13.6%
NASDAQ Composite	10,475.25	-5.65%	-0.95%	-33.04%	-32.41%	16,057.44	53.3%
Russell 2000	1,799.87	-2.55%	8.12%	-19.84%	-21.65%	2,442.74	35.7%
MSCI EAFE (USD)	1,770.32	1.22%	6.55%	-24.22%	-24.20%	2,398.71	35.5%
MSCI Emerging Markets (USD)	884.98	4.66%	1.05%	-28.17%	-30.03%	1,444.93	63.3%
Bloomberg Commodity Index	117.49	5.13%	5.39%	18.48%	13.68%	237.95	102.5%
Barclays U.S. Aggregate Bond	85.96	-0.94%	-2.00%	-17.93%	-18.29%	112.07	30.4%

Source: FactSet

A mixed October jobs report revealed underlying weakness, but not enough to suggest a pivot from the U.S. Federal Reserve Bank's (Fed) inflation-fighting (higher interest rates) monetary policy. According to the U.S. Bureau of Labor Statistics' (BLS) Establishment survey (wide sample size), nonfarm payrolls (net new jobs) increased by 261 thousand (K) in October, exceeding the 200K FactSet consensus estimate (from Wall Street economists). While above expectations, the monthly increase was the lowest of 2022 and the three months ended October averaged 289K, compared to monthly jobs gains averaging 405K the prior three months. The BLS' alternative Household survey (includes more categories, including self-employed workers) showed that jobs in October declined 328K, and the three-month average was a gain of 106K. The Household survey also showed that the unemployment rate (people unemployed compared to the civilian labor force) ticked higher to 3.7% from 3.5% in September as the labor participation rate (those employed as a percentage of the eligible population) dropped to 62.2% from 62.3%. In the past month, despite 10.7 million job openings in September (from the BLS' job openings and labor turnover survey), the labor force declined and unemployment ticked higher. October wage growth, as measured by average hourly earnings (AHE), increased 4.7% year-over-year (Y/Y), which was the lowest Y/Y monthly growth of 2022. In summary, the U.S. jobs market continues to slow from elevated levels from 2021 and early 2022, and the Y/Y increase in wages appears to have peaked in the first quarter of 2022. The Fed's stated policy of continued hikes in short-term interest rates and no open market purchases of Treasury securities is intended to slow inflation and create softer labor market conditions. The October jobs report, in our view, indicates that conditions on both fronts are tightening. However, this is likely not enough to alter Fed policy over the near term, as we expect additional hikes in the Fed's overnight bank lending fed funds interest rate target (currently at a range of 3.75% to 4.00%). We believe that the Fed would like to see a loss of jobs (based upon projections of a 4.4% unemployment rate in 2023), and wage growth below 4.0% (in 2019, AHE increased an average of 3.3%). This is likely to contribute to increased volatility in U.S. equity markets as a slowing economy creates earnings uncertainty in 2023.

S&P 500 third quarter (3Q22) earnings have been in line with expectations but estimates for both 4Q22 and full-year 2023 have trended lower as analysts incorporate economic uncertainty and cautious corporate outlooks. As of early Monday, 11/7/22, 86% of S&P 500 companies had reported quarterly results with earnings growth of 2.4%, in line with FactSet consensus estimates at the end of September. But 4Q22 S&P 500 earnings estimates are now expected to be flat vs. 4Q21, down from expected growth of 5% on 9/30/22, and the 2023 earnings growth estimate is now 6% compared to 8% in September. We continue to see 2023 earnings growth as a meaningful headwind for equities in coming months, but we view the lower revisions positively for now as it represents investor acknowledgement that earnings estimates have been overly optimistic.

U.S. interest rates have moved higher in November and investors await a key consumer inflation report for October. The U.S. 2-year Treasury yield was 4.73% early on 11/7/22, up from 4.49% on 10/31/22, while the 10-year Treasury yield moved to 4.21% from 4.07% over the same period. The October consumer price index (CPI) from the BLS is due Thursday with a Y/Y increase of 8.0% expected. Excluding food & energy, "core CPI" is estimated at 6.5%.

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