The Weekly Market Update – 12/5/22: Moderating November Jobs Gains; Post-Pandemic Labor Market Changes

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,071.70	1.13%	13.56%	-14.57%	-10.85%	4,796.56	17.8%
Dow Jones Industrial Average	34,429.88	0.24%	19.86%	-5.25%	-0.16%	36,799.65	6.9%
NASDAQ Composite	11,461.50	2.09%	8.38%	-26.74%	-26.23%	16,057.44	40.1%
Russell 2000	1,892.84	1.27%	13.70%	-15.70%	-13.92%	2,442.74	29.1%
MSCI EAFE (USD)	1,983.24	1.03%	19.37%	-15.10%	-10.81%	2,398.71	20.9%
MSCI Emerging Markets (USD)	973.85	3.49%	11.20%	-20.95%	-19.68%	1,444.93	48.4%
Bloomberg Commodity Index	114.47	-0.39%	2.67%	15.43%	19.49%	237.95	107.9%
Barclays U.S. Aggregate Bond	90.60	1.43%	3.29%	-13.50%	-13.92%	112.07	23.7%

Source: FactSet

The November headline employment report reflected continued solid jobs gains, but underlying trends are weakening. The Bureau of Labor Statistics (BLS) reported that the U.S. created 263 thousand (K) net new nonfarm payrolls (jobs) in November (from its monthly Establishment survey), better than the 200K consensus estimate from FactSet (from Wall Street economists). The leisure and hospitality group added 88K jobs (led by restaurants and bars) but remained 980K below pre-pandemic levels; healthcare added 45K and government added 42K, while social assistance and construction added 23K and 20K, respectively. Categories reporting November jobs declines included retail trade -30K, transportation and warehousing -15K, and business support services -11K. Since February of 2020 (pre-pandemic period), professional/technical (legal, accounting, consulting) led all categories in adding to jobs with 900K more employed. Also, transportation and warehousing employed 820K more workers than in February of 2020. On the flipside, there were 860K fewer employees in leisure and hospitality and 420K fewer local government jobs. Despite the report coming in above estimates, the 263K monthly jobs gains was the lowest of 2022 (and the lowest since April 2021), indicating a moderating trend. In addition, the BLS' Household survey (more expansive but less accurate), which is used to track the unemployment rate and other data, reflected more concerning trends as the number of employed persons dropped 138K in November, following a 328K decline in October. While the unemployment rate held at 3.7%, it was 3.5% in September, and the labor participation rate (the percentage of working-age adults who have a job) dropped to 62.1% from 62.2% in October. In February of 2020, the labor participation rate was 63.4%; it is lower today as people have left the workforce. The drop in participation indicates that the U.S. workforce has declined by 3.34 million since the start of the pandemic. November wages, as measured by average hourly earnings, increased 5.1% year-over-year (Y/Y), up from October's 4.9% Y/Y increase. While wage gains are good for worker budgets, those gains can add to inflation pressures, creating challenges for the U.S. Federal Reserve Bank (Fed) in its effort to fight inflation.

The widely-followed, large-company S&P 500 equity index posted a solid increase in November, adding to fourth quarter (4Q22) gains. The S&P 500 gained 5.4% on a price basis (not including dividends) in November, following an October increase of 9.0%. This put the 4Q22 gain (through November) at +13.8%, reflecting the equity market's best two-month stretch of 2022. Through 11 months, the index was down 14.4%. We attribute the 4Q S&P 500 rally to investor hope that the Fed will soon pause its aggressive policy to raise short-term interest rates (to choke inflation) and increasing support for an economic "soft landing" scenario in 2023. A soft landing would be lower trends in U.S. gross domestic product (GDP, the value of goods and services produced), including a potential modest recession (a GDP decline of less than 1%). Following the reported GDP growth of 2.9% in 3Q22, the FactSet consensus estimate for 4Q22 is +0.8%, with -0.3% and -0.8% now (as of 12/5/22) estimated for 1Q23 and 2Q23, respectively. We see considerable uncertainty regarding GDP growth in early 2023, leading to continued market volatility.

Some positive news over the weekend as China appears ready to ease some of its COVID restrictions. China's uneven economic recovery caused by lockdowns has created significant challenges for supply chains (supply), as well as exporters to China (demand). A return to "normal" could help to reduce costs and boost sales for companies with exposure to the region.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

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