The Weekly Market Update – 4/10/23: Healthy Jobs Market Moderating

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,105.02	-0.10%	-0.10%	6.92%	-9.39%	4,796.56	16.8%
Dow Jones Industrial Average	33,485.29	0.63%	0.63%	1.02%	-3.44%	36,799.65	9.9%
NASDAQ Composite	12,087.96	-1.10%	-1.10%	15.49%	-15.00%	16,057.44	32.8%
Russell 2000	1,754.46	-2.66%	-2.66%	-0.39%	-15.25%	2,442.74	39.2%
MSCI EAFE (USD)	2,100.33	0.37%	0.37%	8.05%	-3.73%	2,398.71	14.2%
MSCI Emerging Markets (USD)	984.43	-0.59%	-0.59%	2.93%	-13.78%	1,444.93	46.8%
Bloomberg Commodity Index	106.24	0.69%	0.69%	-5.82%	-14.61%	237.95	124.0%
Barclays U.S. Aggregate Bond	92.01	1.02%	1.02%	3.52%	-5.94%	112.07	21.8%

Source: FactSet

U.S. jobs growth slowed in March, but still reflected a robust employment market. According to the Bureau of Labor Statistics (BLS), U.S. nonfarm payrolls (jobs) increased by 236 thousand (K) in March, largely in line with the 240K FactSet consensus estimate (from Wall Street economists), and the prior two months' jobs reports were revised 17K lower. The monthly jobs gain was the lowest in more than two years (27 months, since December 2020), but the first quarter 2023 (1Q23) average monthly gain of 345K was higher than the 4Q22 monthly average of 284K. The labor force continued to increase, reflecting new entrants and people returning to the job market, as the labor force participation rate (those working or looking for a job as a percentage of the civilian population) increased to 62.6% (from 62.5% in February). While the participation rate remained below the pre-pandemic level (February 2020) of 63.4%, March 2023 was the highest rate since March 2020. The March 2023 jobs gains were led by leisure and hospitality, government, and professional and business services, an indication that service-related sectors are leading the jobs creation. Health care employment also increased, but at a slower pace than recent months, while jobs in transportation/warehousing and retail trade were close to flat. Wage growth also moderated in March as average hourly earnings increased 4.2%, down from 4.6% in February, the lowest monthly year-over-year (Y/Y) increase since June 2021. In addition, average weekly earnings (which includes higher earners) rose 3.3%, further supporting the view that wage growth is moderating. The wage and jobs data remain critical to the outlook for economic growth as the Federal Reserve Bank (Fed) expects, and wants to see, lower jobs and wages as it raises its overnight fed funds interest rate target range. At the same time, a larger slowdown than hoped could lead to weak consumer spending. In our view, consumer data in 1Q23 was relatively strong; while jobs data moderated monthly throughout the quarter, we believe that Fed will remain concerned about inflation and look to keep its fed funds interest rate target elevated.

A key measure of consumer inflation in March is expected show headline improvement, but remain elevated excluding food and energy. The BLS will report the March consumer price index (CPI) on 4/12/23. The FactSet consensus is for a March Y/Y CPI of 5.2%, which would reflect a meaningful improvement from 6.0% in February, and also the lowest Y/Y number since May 2021. On the other hand, core CPI, which excludes food and energy, is estimated at 5.6%, up from 5.5% in February, and equal to the average increase over the past three months. In recent months, volatile gasoline prices have moved lower, while food prices moderated from very high levels. Core CPI has remained elevated due to rent and housing (shelter), with other "services" such as airline travel, hotels, insurance, and long-term care also causing inflation pressure. Tuesday's report will be the Fed's last look at CPI prior to its next Open Market Committee meeting on 5/3/23, so it will be important data for that meeting's interest rate decision. As of 4/7/23, the fed funds futures market is pricing in a 72% chance of another 0.25% rate hike.

The 1Q23 earnings reporting season unofficially kicks off at the end of the week as a handful of large banks are scheduled to release financial results. Overall, S&P 500 companies are expected to report a -6.0% decrease in 1Q23 earnings, reflecting relatively lackluster estimates. Given the early-March bank crisis that exposed industry-wide deposit uncertainty, investors are anxious to hear about deposit retention, higher deposit rates, and expected loan growth. The S&P 500 Financials sector 1Q23 earnings estimate is +2.4%.

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Please refer to page 2 of this report for detailed disclosure information.

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