The Weekly Market Update – 9/5/23: A "Goldilocks" Jobs Report

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,515.77	2.50%	1.47%	17.61%	14.18%	4,796.56	6.2%
Dow Jones Industrial Average	34,837.71	1.43%	1.25%	5.10%	10.56%	36,799.65	5.6%
NASDAQ Composite	14,031.82	3.25%	1.77%	34.06%	18.75%	16,057.44	14.4%
Russell 2000	1,920.83	3.63%	1.70%	9.06%	4.16%	2,442.74	27.2%
MSCI EAFE (USD)	2,104.02	2.46%	-1.30%	8.24%	14.32%	2,398.71	14.0%
MSCI Emerging Markets (USD)	985.68	1.51%	-0.38%	3.06%	-0.85%	1,444.93	46.6%
Bloomberg Commodity Index	106.72	1.18%	5.17%	-5.39%	-12.26%	237.95	123.0%
Barclays U.S. Aggregate Bond	88.26	0.33%	-1.70%	-0.70%	-3.95%	112.07	27.0%

Source: FactSet

The August U.S. employment report reflected ongoing jobs growth but at a moderating rate, giving the Federal Reserve Bank (Fed) more room to pause interest rate hikes. According to the Bureau of Labor Statistics (BLS), the U.S. economy created 187 thousand (K) net nonfarm payrolls (jobs) in August. This modestly exceeded the FactSet consensus estimate (from Wall Street economists) of 170K, but at the same time, previously reported jobs data for June and July were revised lower by a combined 110K. The 3-month average monthly new jobs growth was 150K at the end of August, compared to 201K and 312K at the end of June and March, respectively. This is the slowest rate of job creation in the post-pandemic era and is similar to the 3-month average in the first half of 2019, nearly a year prior to the pandemic. Other data in the August employment report included wages (as measured by average hourly earnings), which were up +4.3% year-over-year (Y/Y) and +0.2% month-to-month (M/M), and the unemployment rate, which increased to 3.8% (up from 3.5% in July) and was the highest monthly rate since February 2022. The unemployment rate rose despite jobs growth as the civilian labor force increased 736K M/M, which was the largest increase since January. At 62.8%, the labor force participation rate (people who have a job or are seeking employment as a percentage of the working age population) surged to its highest level since February 2020 (63.4%). At the height of the pandemic shutdown (April 2020), the U.S. civilian labor force decreased by 8.0 million (M) as people left the eligible labor force voluntarily either due to early retirement or discouragement. We estimate that gap is now 1.6M. Perhaps many have returned to the labor force due to high levels of job openings or wage growth, but the return could also be attributed to necessity as accumulated savings deplete, or to expectations that the economy will slow. When the Fed next meets to discuss monetary policy on 9/20/23, we expect no change to the overnight bank lending fed funds target from its current range of 5.25% to 5.50%. The Fed has enacted previous interest rate hikes to its fed funds target in an attempt to slow economic growth to limit inflationary pressures. At a time when consumer inflation (the BLS' consumer price index) is well below peak levels, and jobs gains are moderating, we expect the Fed to take a wait-and-see position and continue to monitor economic data. At this point, an economic soft landing (no recession) remains possible, in our opinion.

Consumer spending data was solid in August, although income growth slowed. On 8/31/23, the Bureau of Economic Analysis (BEA) reported personal income and consumer spending data for July. On a M/M basis vs. June, personal consumption expenditures (spending) increased +0.8%, better than the +0.7% FactSet consensus estimate, as spending on both goods and services increased. When combined with other consumer data for July, the data confirmed that U.S. economic data to begin 3Q23 (the third quarter) was solid. However, personal income grew +0.2% M/M, below the +0.3% consensus estimate. At the same time, the personal savings rate (savings as a % of personal income) dipped to 3.5% from 4.3% in June. With spending growing faster than incomes, consumers are likely to moderate spending in the months ahead, in our view.

Following Monday's Labor Day holiday, investors will tiptoe back into markets as September gets underway. The week is chock full of sell-side (broker/dealer firms) investor conferences, giving institutional investors an opportunity to hear business updates from dozens of presenting companies. Among multiple investor events are conferences covering technology, industrials, banking, communications services, semiconductors, and healthcare. Presentations should provide an early look at 3Q23 business trends.

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

Important Disclosure: The information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.