## The Weekly Market Update – 10/10/22: Jobs and Wages Slow, But More Rate Hikes Expected

| Major Indices (Price Returns) | Close | Last Week | Quarter-to-Date | Year-to-Date | Trailing 12-Months | All-Time High | % to High |
|---|---|---|---|---|---|---|---|
| S&P 500 | 3,639.66 | 1.51% | 1.51% | -23.64% | -15.50% | 4,796.56 | 31.8% |
| Dow Jones Industrial Average | 29,296.79 | 1.99% | 1.99% | -19.38% | -13.44% | 36,799.65 | 25.6% |
| NASDAQ Composite | 10,652.41 | 0.73% | 0.73% | -31.91% | -26.27% | 16,057.44 | 50.7% |
| Russell 2000 | 1,702.15 | 2.25% | 2.25% | -24.19% | -22.78% | 2,442.74 | 43.5% |
| MSCI EAFE (USD) | 1,693.58 | 1.93% | 1.93% | -27.50% | -25.76% | 2,398.71 | 41.6% |
| MSCI Emerging Markets (USD) | 897.74 | 2.51% | 2.51% | -27.13% | -28.36% | 1,444.93 | 61.0% |
| Bloomberg Commodity Index | 117.14 | 5.06% | 5.06% | 18.12% | 16.25% | 237.95 | 103.1% |
| Barclays U.S. Aggregate Bond | 87.36 | -0.40% | -0.40% | -16.59% | -17.20% | 112.07 | 28.3% |

*Source: FactSet*

**Growth in jobs and wages slowed in August, but the slowdown was likely not enough to suggest a reduced pace of Federal Reserve Bank (Fed) interest rate hikes.** As a general rule, in our opinion, investor sentiment for equities rises when economic data is strong and better than expected, and sentiment declines when data softens. In the current environment, however, as the Fed is fighting inflation by tightening credit conditions (by raising the target on its overnight bank lending fed funds interest rate), Fed Chairman Jerome Powell (at the Fed's 9/21/22 press conference) said that the Fed wants to see sustained lower inflation, "below-trend GDP growth," and "softer labor market conditions." Following the report, the widely-followed, large company S&P 500 equity index dropped 2.8% on 10/7/22. We attributed the market weakness to investor concern that ongoing jobs growth will fuel the Fed's aggressive interest rate increase path, raising the potential of hiking too far, too fast, potentially causing a deeper-than-optimal slowdown. We believe that the Fed's definition of a softer labor market includes a modest decrease in monthly jobs along with a meaningful decrease in the pace of year-over-year (Y/Y) wage increases. September's monthly U.S. jobs data was reported by the Bureau of Labor Statistics (BLS) on 10/7/22. Monthly nonfarm payrolls increased 263 thousand (K), which was above the FactSet consensus (from Wall Street economists) of 250K. Not only was the monthly increase lower than the prior two months' (August and July) gains of 315K and 537K, respectively, but it was the lowest monthly Y/Y jobs increase since April 2021. In addition, monthly wages, as measured by average hourly earnings (AHE), increased 5.0% Y/Y in September. This was down from 5.2% in August, and was the lowest monthly Y/Y increase in 2022. In our view, both the monthly jobs gains and wage increase point to slowing growth and support the view that the U.S. economy is slowing. But we also believe that investors expect a larger decline given the pace of Fed rate hikes (at five consecutive Fed committee meetings) that has taken the fed funds target to its current level of 3.00% to 3.25%. The Fed is not expected to halt its interest rate hike path until jobs and wage growth falls even more from the September levels.

**For the second consecutive month, U.S nonfarm employment was higher than February 2022, but the composition of the jobs market changed quite a bit over that 29-month period.** According the BLS' Establishment survey, U.S. nonfarm employment was 153.0 million (M) in September 2022 (up 263K from August). This compared to 152.5M in February 2022, dropping to a low of 133.4M in April 2020 due to the pandemic lockdowns. While jobs are now back to the pre-pandemic levels, employment in Leisure and Hospitality is 1.0M lower (-6.1%) and local government employment dropped 490K (-3.4%). But Transportation and Warehousing employs 850K (+15.0%) more than pre-pandemic, Professional and Technical (legal, accounting, consulting) also is 850K (+8.7%) higher, and Information Services added 150K (+5.1%). As jobs growth slows in the months ahead, we expect weakness in those segments that have surged the most during the post-pandemic recovery.

**While the U.S. bond market is closed for a Monday holiday, equity markets are open and investors await key inflation data.** Top of mind is Thursday's September consumer price index (CPI, consumer inflation reported by the BLS). According to FactSet, September CPI is expected to increase 8.1% Y/Y, the third month lower since June's 9.1% increase. However, core CPI (excluding food and energy) is estimated at 6.5% Y/Y, up from 6.3% in August, due to higher price trends for shelter and medical care.

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