Your Weekly Investment
Insights
October 7, 2024

VERDENCE CAPITAL ADVISORS

Key **Takeaways:**

- Blockbuster September jobs report.
- Household employment surges.
- Consumers still spending on experiences.
- Wage inflation will get the attention of the Fed.
- Yields rise on inflation risk with better jobs report.

What Does September's Blockbuster Jobs Report Mean for the Fed?

There is no other way to say it than the September jobs report we received last week was a shockingly robust report. The U.S. economy added 254K jobs in September which was well above the expectation of 150K jobs. This was even above the most optimistic economist's estimate (220K). There were also 72K additional jobs added in the prior two months. In addition, this is extraordinary as September has historically been the second worst month of the year for job creation. In this weekly insights, we discuss the recent employment report and what it means for the Federal Reserve.

- **Household employment pushes the rate lower:** Household employment jumped by 430K which pushed the unemployment rate lower. The unemployment rate is even better than the headline shows because when you move out a couple of decimal points it is close to 4.0% (at 4.051%) which is the second consecutive month that the rate has moved lower. According to Bloomberg, when you consider those working multiple jobs and exclude employment in private households the household survey increased 666K.

- **Jobs created show consumer still spending:** Manufacturing jobs declined for the second consecutive month, but jobs tied to the consumer were strong. For example, private goods producing jobs jumped and the strongest category of job creation was in leisure and hospitality. This suggests the consumer's appetite to continue to spend on experience is strong.

- **Earnings better than expected:** Average hourly earnings grew more than expected in September (+0.4% MoM vs. 0.3% estimate) which pushed the year-over-year growth in earnings to 4.0%. This was a four-month high. The Fed will be paying attention to this reading as wage inflation has been an issue with the tight labor market after the pandemic. Higher wages can inadvertently result in higher prices. However, they can take solace in the fact that the average weekly hours worked ticked modestly lower (to 34.2), which does take away some of the benefit of the increase in wages.

- **Underemployment rate also improving:** The U6 rate measures the number of Americans that are working part time for economic reasons or have given up looking for work. This rate has been steadily rising in recent months to the highest level since October 2021. However, in September the rate saw its biggest monthly drop in 10 months.

The Bottom Line:

The labor market report was a good report and has fueled the optimism for those expecting a perfect soft landing. However, there is another side to this report that has been overlooked, inflation. We saw interest rates rise across a variety of maturity ranges last Friday after the report as wage inflation remains a concern. In addition, stronger job creation may result in a rise in prices which further complicates the Fed's job. We think the jobs report removes the chance of another 50 bps rate cut at the meeting in November. Also keep in mind that the Fed will still get one more jobs report (on November 1) before the election and before their next meeting (Nov 7). Another strong jobs report could remove any

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additional rate cuts in 2024 and put the recent equity rally at risk.

Key Takeaways:

- Manufacturing sector remains in contraction territory.
- Job openings unexpectedly increase.
- U.S. adds more jobs than expected.
- Global equities under pressure, but U.S. outperforms.
- Bond yields surge after payrolls data.
- Energy prices carry commodity gains.

Weekly Economic Recap –

Job Growth Surpasses Expectations, Unemployment Rate Falls

Manufacturing as measured by the ISM Manufacturing Index remained in contraction territory (a reading below 50) for the 22nd month out of the past 23. The weakness was led by new orders and production.

Job openings, as tracked by the JOLTS Report, unexpectedly increased in August after two straight months of declines. Layoffs decreased while resignations fell to the lowest level since August 2020, pushing the quits rate (i.e., those leaving their jobs voluntarily) to its lowest level in four years.

In Septembe, the service sector as measured by the ISM Services Index expanded at the fastest pace since February 2023 . The new orders gauge increased the most since the start of 2023. However, prices paid for materials and services increased to the highest level since January.

The U.S. economy added more jobs than expected in September (254K vs. 142K) and the most in six months. The unemployment rate fell to 4.1%. Leisure and hospitality jobs contributed the most to the headline increase. The labor force participation rate was unchanged for the third straight month at 62.7%. Average hourly earnings increased at the fastest annualized pace in four months (4.0%).

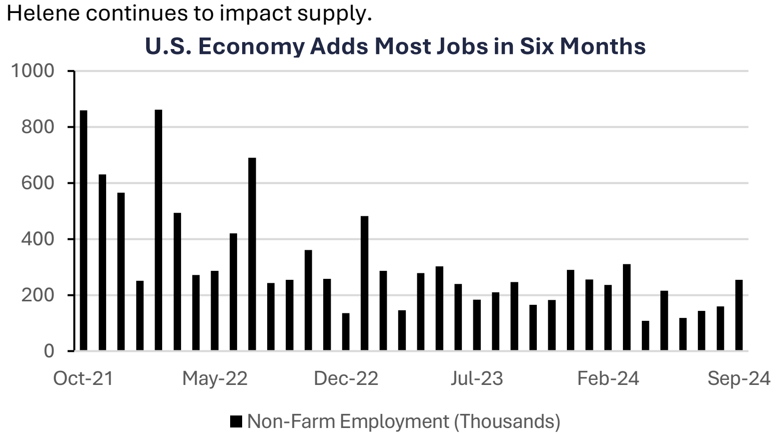
Weekly Market Recap –

U.S. Equities Lead Global Equity Performance; Yields Surge

Equities: The MSCI AC World Index was lower for the first time in four weeks. The U.S. rallied while its developed market counterparts declined. The S&P 500 was higher for the fourth straight week as investors digested the better-than-expected U.S. jobs data late last week. Small-caps as tracked by the Russell 2000 Index were lower for the second straight week as interest rates rose on the better jobs report.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the third week and posted its worst one week decline since October 2023. Treasury yields surged after the release of better-than-expected payrolls data. Floating rate instruments and leveraged loans were the best performing sectors of fixed income. Investment grade corporate bonds performed the worst and were lower for the third straight week.

Commodities/FX: The Bloomberg Commodity Index was higher for the fourth straight week. Crude oil prices climbed the most since March 2023 as geopolitical tensions surged between Israel and Iran. Natural gas prices posted their second straight week of double-digit gains as Hurricane Helene continues to impact supply.



Footnotes: Data is as of September 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

Global Equities Mixed as Strong Labor Report Puts Fed Rate Cuts into Question

U.S. Equities

	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	42,353	0.1%	3.5%	8.3%	30.4%	14.0%
S&P 500	5,751	0.3%	4.3%	4.2%	36.9%	21.9%
Russell 1000 Growth	3,775	0.3%	6.1%	0.4%	41.4%	24.3%
Russell 1000 Value	1,868	0.2%	2.6%	9.6%	30.2%	16.6%
Russell Midcap	3,517	-0.1%	4.1%	9.3%	31.6%	14.4%
Russell 2000	2,213	-0.5%	3.3%	9.0%	29.8%	10.3%
Nasdaq	18,138	0.1%	6.2%	-0.1%	38.1%	21.5%

International Equities

	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	847	-0.6%	4.1%	4.3%	33.2%	18.1%
MSCI EAFE (USD)	2,413	-3.7%	0.6%	2.5%	26.2%	10.5%
MSCI Europe ex UK (USD)	2,684	-3.9%	-0.4%	1.2%	26.1%	8.9%
MSCI Japan (USD)	4,009	-5.7%	-0.1%	0.3%	24.6%	10.3%
MSCI UK (USD)	1,292	-2.5%	-0.2%	4.1%	25.5%	13.5%
MSCI EM (USD)	1,179	0.4%	10.1%	7.5%	30.4%	17.7%
MSCI Asia ex Japan (USD)	773	1.4%	13.0%	9.8%	33.8%	22.8%

Fixed Income

	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.4%	-1.2%	-0.6%	3.9%	11.4%	3.4%
U.S. Govt/Credit	4.3%	-1.2%	-0.6%	3.7%	11.1%	3.3%
U.S. 10 Year Treasury	4.0%	-1.7%	-1.4%	4.0%	10.4%	2.1%
U.S. TIPS (1-10YR)	4.0%	-0.8%	0.3%	2.7%	8.9%	4.2%
U.S. High Yield	7.1%	-0.1%	1.4%	5.1%	17.1%	7.8%
EM Bonds (USD)	6.4%	-0.5%	1.1%	5.2%	18.0%	7.7%
Municipal Bonds	3.3%	0.0%	0.8%	2.8%	10.8%	2.3%

Commodities

	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	244	1.9%	8.0%	1.2%	5.9%	7.7%
Crude Oil (USD/bbl)	$75.1	10.1%	7.4%	-8.1%	-7.7%	3.4%
Gold ($/oz)	$2,653.6	0.4%	5.9%	10.5%	44.2%	28.2%
Copper	$457.4	-0.3%	13.1%	-2.5%	25.2%	16.7%
Wheat	$589.8	0.9%	3.9%	-4.0%	-11.5%	-12.0%
U.S. Dollar	103	1.7%	1.3%	-2.3%	-3.4%	1.1%
VIX Index	19.2	13.3%	-9.9%	58.9%	3.4%	54.3%

Footnotes: Data is as of October 4, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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