

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

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

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 September, 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%).

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 Market Recap –

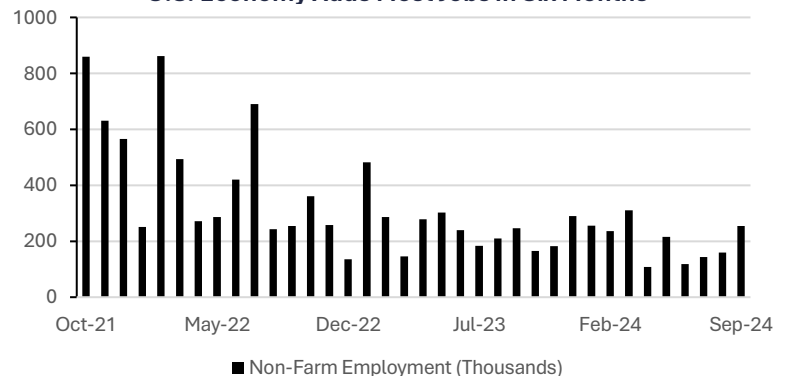
U.S. Equities Lead Global Equity Performance; Yields Surge

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.

U.S. Economy Adds Most Jobs in Six Months



Footnotes: Data is as of September 2024.

Data Source: FactSet Research Systems, Verdence Capital Advisors.

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

		Current	1WK	1MO	3MO	1YR	YTD			Current	1WK	1MO	3MO	1YR	YTD
U.S. Equities	Dow Jones Industrial Average	42,353	0.1%	3.5%	8.3%	30.4%	14.0%	International Equities	MSCI AC World (USD)	847	-0.6%	4.1%	4.3%	33.2%	18.1%
	S&P 500	5,751	0.3%	4.3%	4.2%	36.9%	21.9%		MSCI EAFE (USD)	2,413	-3.7%	0.6%	2.5%	26.2%	10.5%
	Russell 1000 Growth	3,775	0.3%	6.1%	0.4%	41.4%	24.3%		MSCI Europe ex UK (USD)	2,684	-3.9%	-0.4%	1.2%	26.1%	8.9%
	Russell 1000 Value	1,868	0.2%	2.6%	9.6%	30.2%	16.6%		MSCI Japan (USD)	4,009	-5.7%	-0.1%	0.3%	24.6%	10.3%
	Russell Midcap	3,517	-0.1%	4.1%	9.3%	31.6%	14.4%		MSCI UK (USD)	1,292	-2.5%	-0.2%	4.1%	25.5%	13.5%
	Russell 2000	2,213	-0.5%	3.3%	9.0%	29.8%	10.3%		MSCI EM (USD)	1,179	0.4%	10.1%	7.5%	30.4%	17.7%
	Nasdaq	18,138	0.1%	6.2%	-0.1%	38.1%	21.5%		MSCI Asia ex Japan (USD)	773	1.4%	13.0%	9.8%	33.8%	22.8%
Fixed Income	U.S. Aggregate	4.4%	-1.2%	-0.6%	3.9%	11.4%	3.4%	Commodities	Bloomberg Commodity Index	244	1.9%	8.0%	1.2%	5.9%	7.7%
	U.S. Govt/Credit	4.3%	-1.2%	-0.6%	3.7%	11.1%	3.3%		Crude Oil (USD/bbl)	\$75.1	10.1%	7.4%	-8.1%	-7.7%	3.4%
	U.S. 10 Year Treasury	4.0%	-1.7%	-1.4%	4.0%	10.4%	2.1%		Gold (\$/oz)	\$2,653.6	0.4%	5.9%	10.5%	44.2%	28.2%
	U.S. TIPS (1-10YR)	4.0%	-0.8%	0.3%	2.7%	8.9%	4.2%		Copper	\$457.4	-0.3%	13.1%	-2.5%	25.2%	16.7%
	U.S. High Yield	7.1%	-0.1%	1.4%	5.1%	17.1%	7.8%		Wheat	\$589.8	0.9%	3.9%	-4.0%	-11.5%	-12.0%
	EM Bonds (USD)	6.4%	-0.5%	1.1%	5.2%	18.0%	7.7%		U.S. Dollar	103	1.7%	1.3%	-2.3%	-3.4%	1.1%
	Municipal Bonds	3.3%	0.0%	0.8%	2.8%	10.8%	2.3%		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, Verdenance Capital Advisors.

Disclaimer:

© 2024 Authored by Megan Horneman, Chief Investment Officer, Verdence Capital Advisors, LLC. Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

This material was prepared by Verdence Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdence Capital, and Verdence Capital does not verify any information included in such material. Verdence Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdence Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdence Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdence Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdence Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content. Weekly Insights/Qtly & Annual Outlook The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index. Semi-Annual Chart Pack Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Products shown may have minimum account sizes or minimum investments which may preclude retail and non-high net worth investors from being able to invest in these products. You should be aware that certain LPs may be closed to new investors and therefore your clients may be prevented from investing in these products. Portfolio Implementation and Rationales The SMA Asset Allocation Models do not represent a personalized recommendation of a particular investment strategy to you or your clients. You should not buy or sell an investment without first considering whether it is appropriate for your client's portfolio. Additionally, you should review and consider any recent market news. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed. Supporting documentation for any claims or statistical information is available upon request. Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. Diversification and asset allocation do not ensure a profit and do not protect against losses in declining markets. Any forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. Investments in growth stocks may experience price volatility due to their sensitivity to market fluctuations and dependence on future earnings expectations. Sector allocation references to market capitalization ("smid cap" or "micro caps" etc.) may be subject to special risks given their characteristic narrow markets, limited financial resources, and less liquid stocks, all of which may cause price volatility. International/global investing can involve special risks, such as political changes and currency fluctuations. These risks are heightened in emerging markets. A significant percentage of the underlying investments in aggressive asset allocation portfolio investments have a higher-than-average risk exposure. You should consider your risk tolerance of each of your clients carefully before choosing such a strategy. An investment with multiple underlying investments (which may include asset-allocation or custom blended investments) may be subject to the expenses of those underlying investments in addition to those of the investment itself. Investments may reside in the specialty category due to 1) allowable investment flexibility that precludes classification in standard asset categories and/or 2) investment concentration in a limited group of securities or industry sectors. Investments in this category may be more volatile than less flexible and/or less concentrated investments and may be appropriate as only a minor component in an investor's overall portfolio. Investment Managers You and your clients should carefully consider investment objectives, risks, charges, and expenses of Funds discussed. This and other important information are contained in the respective Fund prospectuses and summary prospectuses, which should be read carefully before investing. Investment portfolio statistics change over time. Current performance may be lower or higher than return data quoted herein. The investment return and the principal value of an investment will fluctuate; so, an investor's shares/units, when redeemed, may be worth more or less than their original cost. Verdence relies heavily on unaudited third-party data. Data sources include public data, such as mutual fund data, and non-public data, such as information provided by other investment advisors and managers of limited partnership pooled accounts. Data and/or statistics included on this Portal, including references to performance, opinions, ratings, rankings, manager statistics and demographic information, product, or strategy descriptions, either quantitative or qualitative, are based upon information reasonably available to us as of the applicable date(s) then-published. Information has been obtained from sources that we believe to be reliable, but these sources cannot be guaranteed as to their accuracy or completeness. All data and information produced by a third party has the potential to be incorrect, incomplete, or otherwise misleading. No implication shall be created that the information contained on the Site is correct, including as of any time subsequent to the publish date, and Verdence does not undertake an obligation to update such information at any time after such date. Verdence makes no warranty or representation of the veracity of the data and information and its use of the information should not be implied as an endorsement of any material or statements made. Data, particularly non-public data, is subject to error and where the information is not audited, the potential for error is greater. Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Certain products shown may have account minimums or minimum investment sizes that are unattainable for your clients and therefore they may not be eligible to invest in these products. Reference to registration with the Securities and Exchange Commission ("SEC") does not imply that the SEC has endorsed or approved the qualifications of Verdence or its respective representatives to provide any advisory services described on the Site.