Weekly market wrap

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‹ Weekly market wrap

More Work to Do: 3 Takes on the

Latest Jobs Report

Key Takeaways:

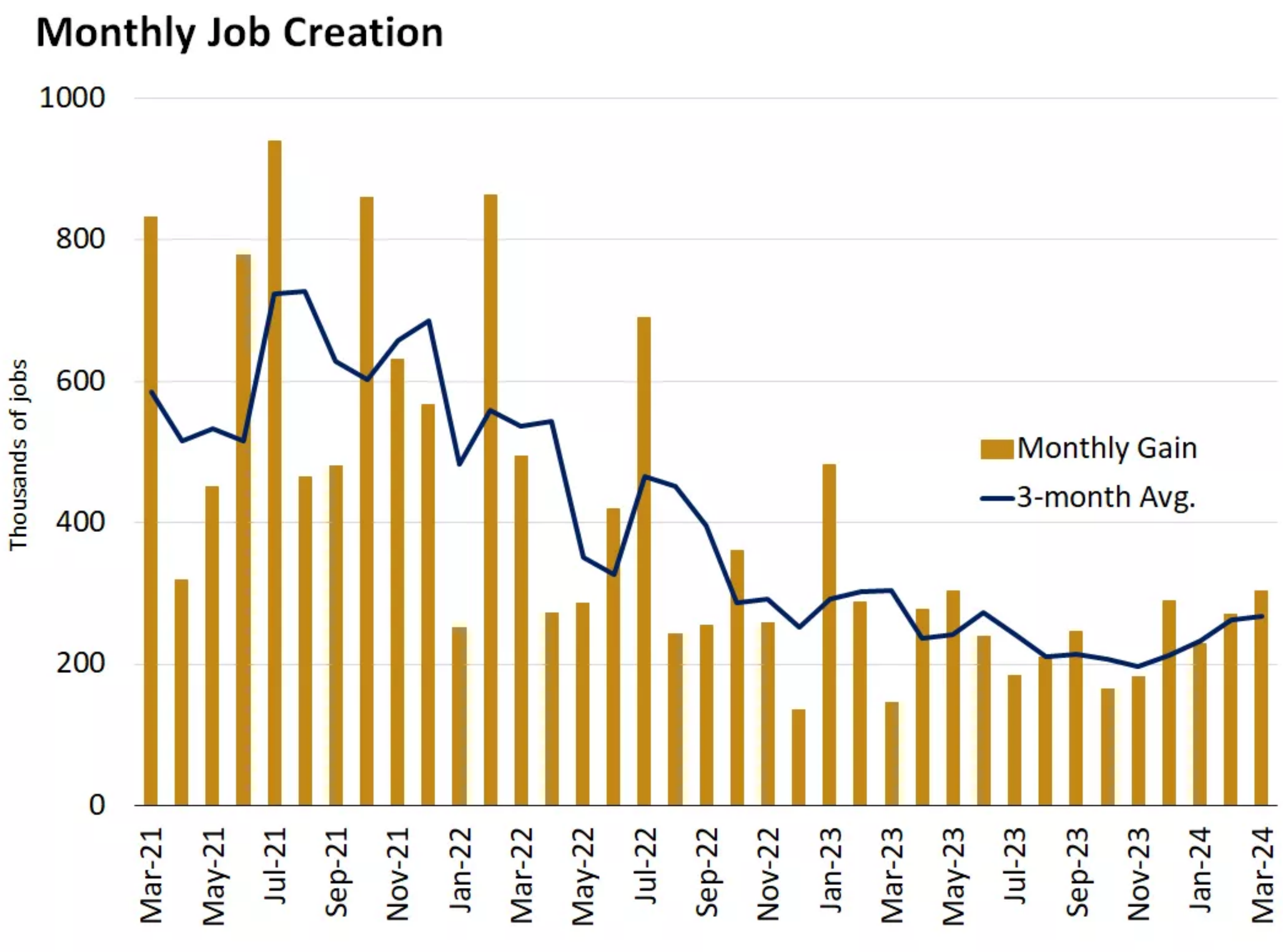
- *Markets got off to a shaky start to the week and the second quarter, as strong economic readings raised concerns around if and when the Fed will be able to start cutting rates.*
- *The week finished with the latest jobs report, which showed that the labor market remains in very good shape. Job growth was better than expected, unemployment remains low, and wage gains are healthy but moderating, helping the inflation outlook.*
- *Despite growing nervousness around the timing and magnitude of Fed rate cuts this year, markets closed out a challenging week on an up note, treating the strong jobs report as an indication that economic growth, and thus corporate earnings growth, remains on a path higher, which should offer broader support to the bull market. We suspect some hiccups will emerge along the way, but we think there is still plenty of evidence in support of a positive outlook for stocks.*

Employment conditions plus inflation trends equals Fed interest-rate decisions. This is the calculus that has been guiding market performance for the last two years. The first variable in that equation was in full focus last week, as the latest jobs report provided a fresh look at the state of the labor market. The read-through was in the eye of the beholder, with another strong month of hiring either inspiring those rooting for a strong economy or spooking those craving a near-term Fed rate cut. Here's our take:

1. The labor market is in very good shape, though its best days are behind it – Reports of the jobs market's demise are greatly exaggerated. March's payroll report shows that employment conditions remain healthy, but we think the extreme tightness in the labor market that has been the hallmark of above-trend consumer spending and GDP growth for the last few years is, in our view, set to soften over the remainder of this year.

- The 303,000 new jobs in March can only be described as impressively strong. This topped consensus expectations for 200,000 and marked the strongest monthly gain in nearly a year. Hiring was most notable in the health care, government, construction and leisure & hospitality sectors, with total employment in the latter now officially back to where it was before the pandemic.[1]

Job growth has picked up in recent months, though we expect it to gradually slow th year.

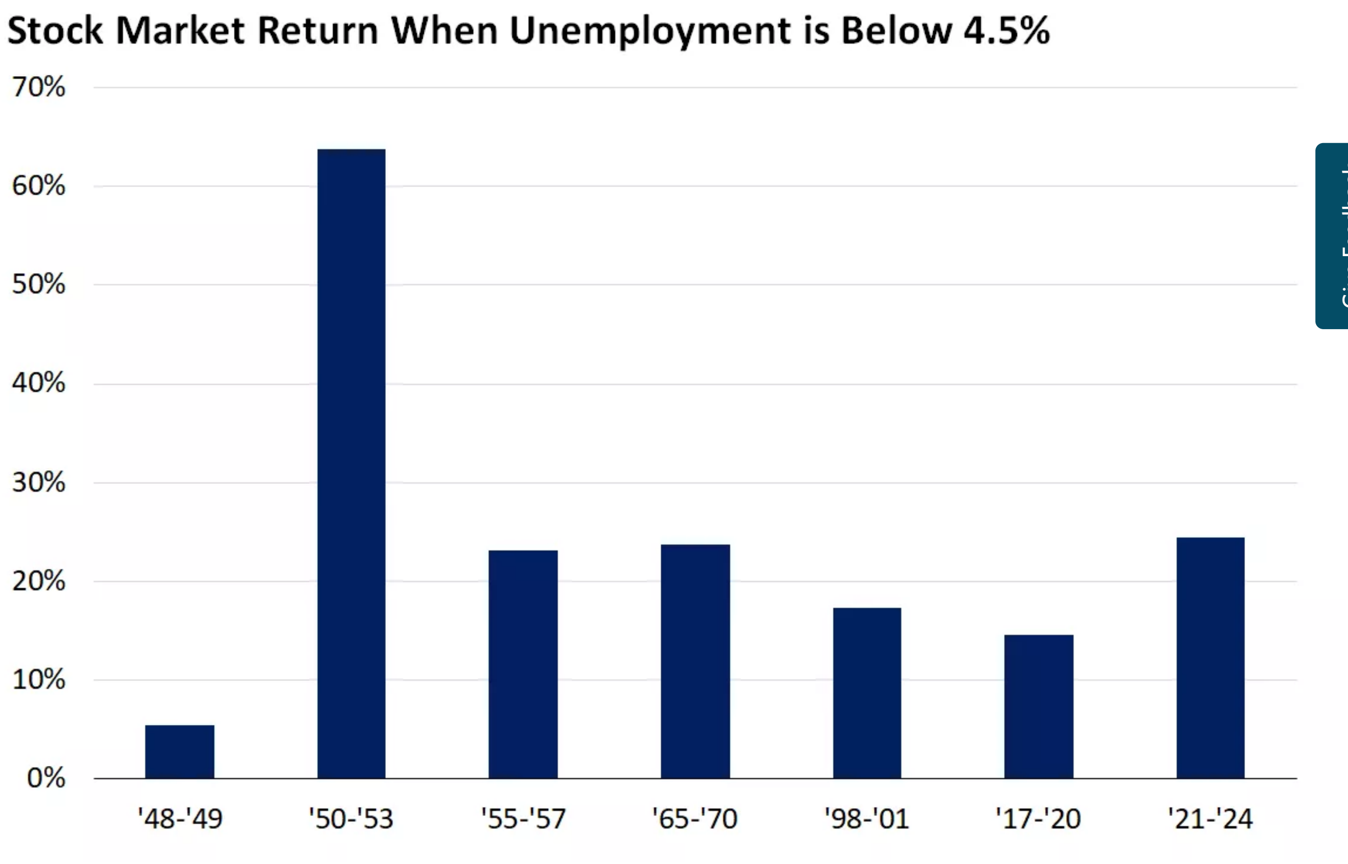


Source: FactSet.

Chart description

- The unemployment rate ticked down slightly to 3.8%, its 26th consecutive month below 4%.[1] This is the longest such streak since the 27-month stretch between 1967 and 1970.[1] We expect unemployment to rise, but more modestly than historical recessionary increases in joblessness. Excluding the 2020 pandemic experience, in the previous seven recessions since 1970, the unemployment rate rose by an average of 3.4%, with an average peak of 8.3%.[1] Our call entering 2024 was that the unemployment rate would tick higher but remain below 5% this year. After a quarter of the way through 2024, it's looking increasingly likely that unemployment can remain somewhat comfortably below that threshold, which bodes well for both the economy and markets. Post-WWII, the stock market has seen strong gains during the periods when the unemployment rate is below 4.5%. Moreover, during the first 24 months of the jobless rate rising from its bottom, those cycles in which unemployment rose by less than 3% (1969-1971, 1979-1981, 1989-1991) saw the stock market gain an average of 29% in those two years. For perspective, the S&P 500 has returned 27% since the unemployment rate bottomed at 3.4% last April.

Stocks have done well when unemployment is low.



Source: Bloomberg, Edward Jones. S&P 500 Index Total Return.

Chart description

Unemployment is starting from a historically low rate, and we expect it to rise only moderately this year.

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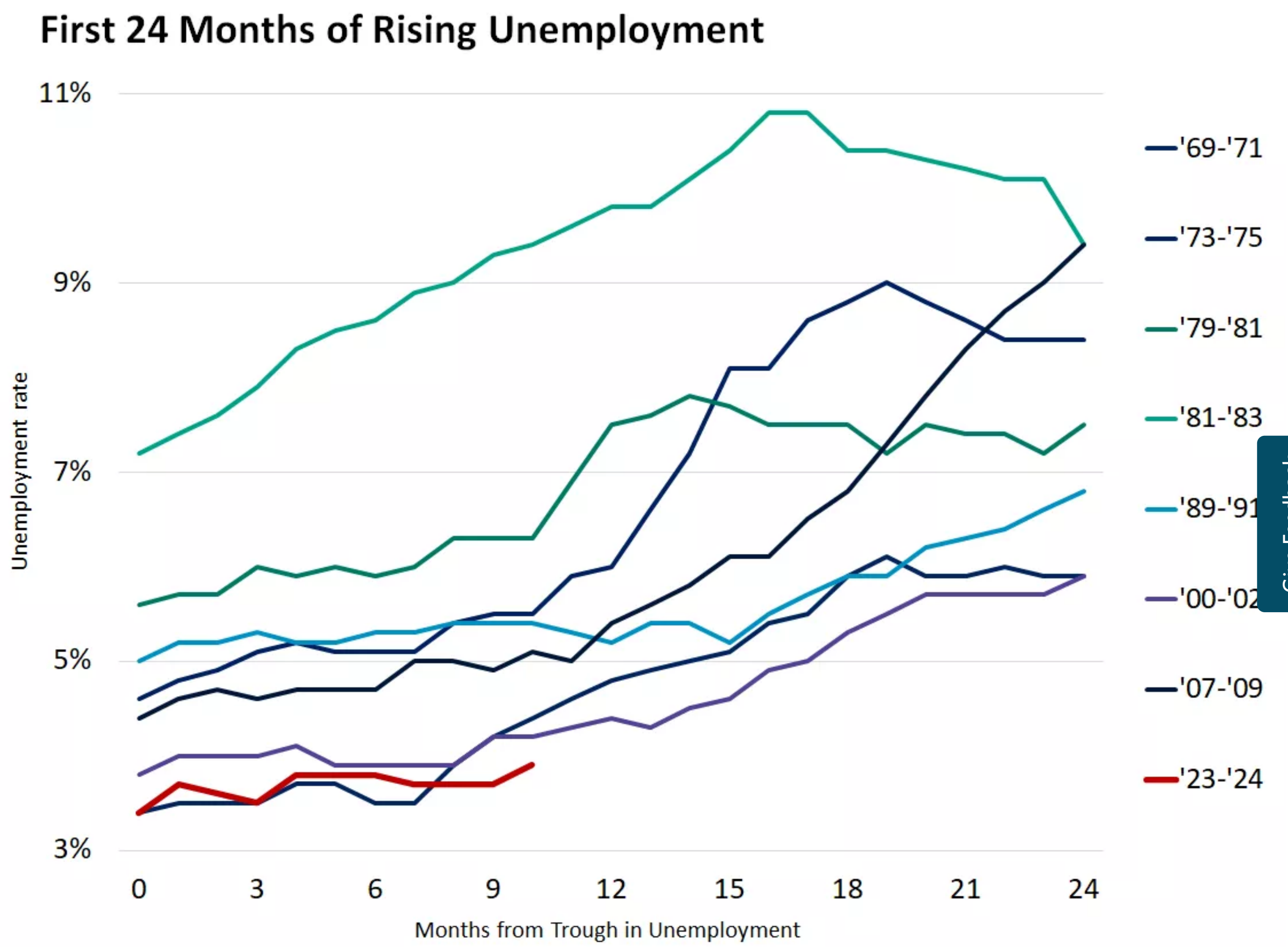


Source: Edward Jones, St. Louis Fed.

Chart description

- The upshot is that the labor market remains in solid shape, which should continue to quell recession risks this year. That said, we think employment conditions are poised to soften, as signaled by other labor-market indicators. Job openings, while still nearly two million above pre-pandemic numbers, have declined by more than one million over the past year, and are roughly 3.5 million below the peak two years ago. Meanwhile, initial jobless claims ticked higher last week, with new claims having now risen more than 20% from the recent lows.

2. Wages are helping the inflation outlook, but slowly – Slower wage growth may not feel like something to root for, but given the importance of inflation continuing to move lower, it's a necessary tradeoff and a silver lining in a softening labor market.

- Workers have held the upper hand for the past few years, as tight labor conditions have driven above-average wage growth. Hourly earnings have risen at an average year-over-year rate of 4.7% in the last 24 months, compared with 2.7% over the previous 10 years. Wages grew at an annual pace of 4.1% in March. While still healthy, this was down from the previous month and now sits at its lowest since June 2021.

- The rate of employees quitting their jobs is falling, another signal of emerging softening in employment conditions. As turnover declines (fewer workers quitting to take a new job at a higher pay), we think this portends further moderation in wage growth. As reference, a 1% decline in the quit rate in '07-'08 was accompanied by a 1% drop in the pace of wage gains.

The rate of workers quitting their jobs is falling, signaling less availability and slower wage gains ahead.

Source: FactSet, Bureau of Labor Statistics.

Chart description

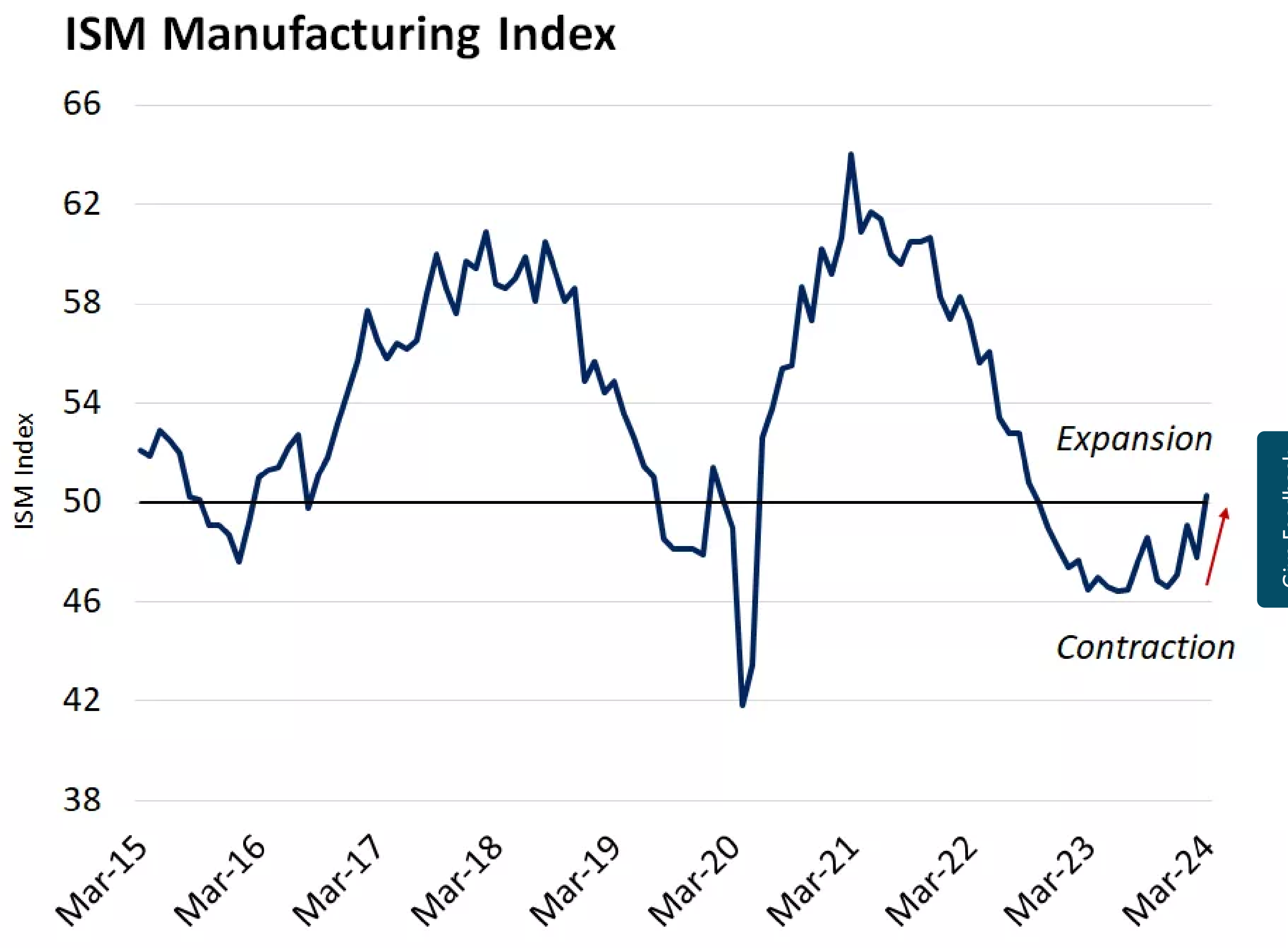
- So while healthy wages are helpful for consumers, a further slowing rate of growth will be a necessary condition for relief on the inflation front. The decline in the ra of wage increases last month lends at least some modicum of support to the cas for the Fed cuts, though we'll need to see this trend persist, and the ongoing strength in monthly job gains does complicate the picture a bit. Nevertheless, we think the downward trend in wage growth will persist, reducing a lingering upward pressure point on consumer price inflation. Recent productivity gains are an encouraging trend, as this can foster an environment within which employment growth can remain sturdy while simultaneously allowing wages and inflation to moderate.

- While we expect that strength to fade somewhat over the balance of the year, we think consumers remain well positioned to weather a slowdown with fewer bruises than a traditional recession. We'd emphasize that while we expect employment conditions to soften ahead, we're starting from an extremely healthy position, whic we think will limit the damage to household consumption and thus the overall economy.

3. Markets took the news reasonably well – It seems fairly obvious that the market should cheer a strong jobs report. However, stock and bond markets are processing all incoming data through the lens of what it means for upcoming Fed policy decisions. Under that premise, we've seen phases over the last 12 to 18 months in which markets treat good news as bad news, and vice versa, reflecting a view that strong economic data threatens the downtrend in inflation and the Fed's ability to cut rates soon. To that end, it was encouraging to see the fairly positive reaction in stock prices to the stronger-than-expected jobs report, which signals to us that there is still hope that the Fed can thread this "soft landing" needle.

- Stocks saw their first real semblance of weakness last week, sparked by Monday's release of the ISM Manufacturing report that revealed that manufacturing activity has rebounded, returning to expansionary territory for the first time since late 2022. This was emblematic of the good-news-is-bad-news reaction, as investors interpreted this acceleration in economic activity as an indication that the Fed won't be able to cut rates as soon or as much as many are hoping.

Manufacturing returned to expansionary territory in March for the first time in 18 months.



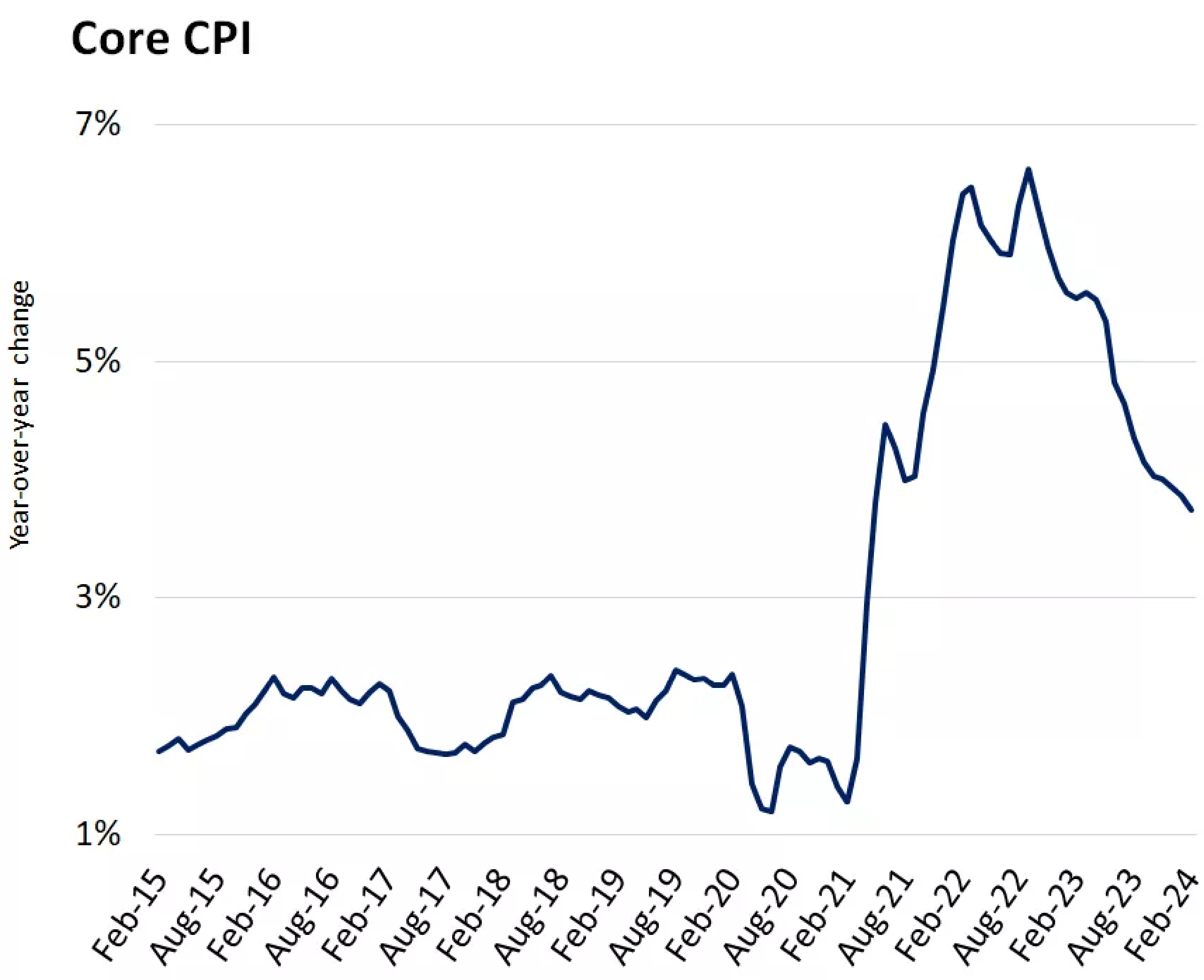
Source: FactSet.

Chart description

- Given the adverse reaction to the manufacturing data, we think that the lift in stock prices following Friday's hot employment report is encouraging. Interest rates also rose in response, so markets appeared to acknowledge that the jobs data likely challenges the Fed's ability to lower rates soon. Thus, we interpret the positive stock-market reaction as a potential indication that the market is still assigning some probability to the economy continuing to hold up alongside a downtrend in inflation that is sufficient to allow the Fed to still cut rates this year. This is consistent with our outlook for the economic expansion and Fed policy.
- We have long held the view that the Fed would not cut rates until June at the earliest. While this is still our base-case scenario, we acknowledge that firming employment conditions could challenge that timetable. This Wednesday's consumer price index (CPI) report will be the catalyst for markets to adjust and react to expectations for the timing and magnitude of rate cuts this year. Expectations are for core CPI to have ticked down to 3.7% last month (from 3.8 February). Anything hotter than that would, in our view, likely spur a bout of

indigestion in the financial markets. Anything cooler that could lend confidence to a summer rate cut would, in our view, add additional fuel to this year's rally.

The moderation in inflation will need to continue in order to support hopes for a summer Fed rate cut.



Source: FactSet, U.S. CPI excluding food and energy.

Chart description

Craig Fehr, CFA
Investment Strategy

Sources: 1. Bureau of Labor Statistics

Weekly market stats

INDEX	CLOSE	WEEK	YTD
Dow Jones Industrial Average	38,904	-2.3%	3.2%
S&P 500 Index	5,204	-1.0%	9.1%
NASDAQ	16,249	-0.8%	8.2%
MSCI EAFE*	2,346	0.0%	4.9%
10-yr Treasury Yield	4.40%	0.2%	0.5%
Oil ($/bbl)	$86.71	4.3%	21.0%
Bonds	$96.70	-1.3%	-1.2%

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*Source: FactSet, 4/5/2024. Bonds represented by the iShares Core U.S. Aggregate Bond ETF. Past performance does not guarantee future results. *4-day performance ending on Thursday.*

The week ahead

Important economic releases this week include CPI inflation data and FOMC minutes from the March meeting.

Review last week's weekly market update.

Craig Fehr

Craig Fehr is a principal and the leader of investment strategy for Edward Jones. Craig is responsible for analyzing and interpreting economic trends and market conditions, along with constructing investment strategies and asset allocation guidance designed to help investors reach their financial goals.

He has been featured in *Barron's, The Wall Street Journal*, the *Financial Times, SmartMoney* magazine, *MarketWatch*, the *Financial Post*, Yahoo! Finance, Bloomberg News, Reuters, CNBC and Investment Executive TV.

Craig holds a master's degree in finance from Harvard University, an MBA with an emphasis in economics from Saint Louis University and a graduate certificate in economics from Harvard.

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Market Data

DJIA 38,904.04 ↑(+307.06)

S&P 500 5,204.34 ↑(+57.13)

NASDAQ 16,248.52 ↑(+199.44)

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