

## Summary

On the Labor Day-shortened week, economic data included ISM manufacturing and services gaining some ground, a continued reduction in job openings, and an employment situation report coming in largely as expected (and an improvement on the prior month's disappointment).

Equities lost ground globally for the week with concerns over the broader economy and labor markets in the U.S. Though, bonds fared well as yields fell sharply. Commodities fell back led by weaker oil prices due to future demand worries.

## Economic Notes

(-/0) The **ISM Manufacturing Index** for August rose by 0.4 of a point to 47.2, below expectations calling for 47.5, and staying in contraction. The underlying composition included new orders and production falling by several points further into contraction, while employment rose a few points but stayed in contraction. Supplier deliveries fell by several points to just above neutral, while prices paid rose a point further into expansion at 54. Some anecdotal commentary from respondents noted some additional softening in demand during the last few months. The final **S&P Global U.S. manufacturing PMI** index for August was revised down a tenth of a point, at 47.9—a similar level of contraction to the ISM. The trend of manufacturing has remained in contraction for nearly all the past two years, in keeping with weak goods demand, with falling order backlogs.

(+/0) The **ISM Non-Manufacturing/Services Index** for August ticked up by 0.1 of a point to 51.5, ahead of the median forecast calling for no change at 51.4. Underlying data was mixed, including a gain in new orders of 0.6 to 53.0, and supplier deliveries to near neutral. On the other hand, employment and business activity fell by around a point each but remained in expansion over 50. Prices paid ticked higher by a few tenths at over 57—still expanding. The **S&P Global US Services PMI** rose by a half point to 55.7, also further into expansion. Overall, data points to continued expansion on the services side, which has been the primary driver of the U.S. economy, before and since the pandemic disruptions.

(-) **Construction spending** for July fell -0.3%, in contrast to the 0.1% increase expected; however, this came along with several upward revisions for the two prior months. For the month, public nonresidential spending rose by a few tenths, offset by a sharper decline of -3% in public residential spending, while private activity in both segments declined a bit. As construction costs rose 0.6% in July, 'real' construction spending fell nearly a percent in total. It's possible that weather-related stoppages played a role in the tempered summer data.

(-) The **JOLTS** job openings report for July showed a decline of -237k to 7.673 mil., including downward revisions for the prior month, compared to the 8.100 mil. median forecast. Job openings rose the most in the professional/business services (178k), 'other' services (51k), and manufacturing (31k); while the largest declines were seen in private education/health services (-196k), trade/transportation/utilities (-157k), and government (-92k). The job openings rate declined by -0.2% to 4.6%, while the hiring rate rose by 0.2% to 3.5%; on departure side, the layoff and quits rates each increased by 0.1% to 1.1% and 2.1%, respectively. Turnover levels remain below the pace of pre-pandemic. Combined with other data, as the workforce has continued to increase, vacancies per job seeker have fallen to 1.1, so closer to a better balance of supply and demand. This is another data point pointing to labor market slowing, but not in a sharply negative way.

(+) **Initial jobless claims** for the Aug. 31 ending week fell by -5k to 227k, below the 230k median forecast. Continuing claims for the Aug. 24 week fell by -22k to 1.838 mil., well below the 1.867 mil. expected. Claims rose in MA and WI, while they fell in TX and ND, with minimal other impacts. These remain within recent contained ranges.

(+/0) The employment situation report for August came in weaker than some predicted in a few respects, but showed an improvement on the disappointing July report, so was taken as a positive. **Nonfarm payrolls** came in at 142k, short of the 164k expected, but well above the sub-100k gains in the July report, including substantial downward revisions recently. It was also short of the 202k average monthly gain over the past year, after notable revisions. Job gains were most notable by relative size in private education/health services (47k), leisure (46k, two-thirds of which were in food/drinking places), construction (34k), health care (31k), and government (24k, almost all in local). Declines were seen in manufacturing (-24k, all in durable goods, and half of which being in transportation), retail (-11k), and information (-7k).

The **unemployment rate** fell back by a tenth to 4.2% on a rounded basis (which ended up only being a few basis points in reality), while the U-6 underemployment rate rose a tenth to 7.9%. **Average hourly earnings** rose 0.4% for the month, a tenth higher than expected, and raising the pace of the year-over-year increase to 3.8%. **Average weekly hours** rose a tenth to 34.3.

This report was seen as perhaps unfairly important to the Fed's decision upcoming decision on Sept. 18, as to whether the rate cut would end up being -0.25% or -0.50%. The earlier July report was negative enough to raise the chances of the -0.50% cut, although that month's anomaly appeared to be at least partially due to hot weather in CA and auto plant maintenance shutdowns in the Midwest, and not Hurricane Beryl, as the government reiterated at the time. Other data remains less troubling, such as a lack of layoffs and contained jobless claims, each of which would be indicative of more intense labor market stress. The underlying dynamics of larger labor supply due to a surge in immigration in 2023 has also been hard to measure, but appears to be an important factor in the statistics as well. On the opposite side, labor demand continues to plug along, even if job openings have continued to normalize lower. So, in short, this report may not have been weak enough to justify a larger rate cut, keeping -0.25% as the base case. In fact, in a speech given Friday at the Council on Foreign Relations, New York Fed President Williams noted that, "the stance of monetary policy can be moved to a more neutral setting over time," and recent data was "consistent with the good labor market that existed in the period before the pandemic," as well as that the unemployment rate "remains relatively low by historical standards."

In earlier releases, **nonfarm productivity** for Q2 was revised up by 0.2% to 2.5% on an annualized basis, with the year-over-year rate of change stable at 2.7%. **Unit labor costs** were revised down by a more substantial -0.5% to an annualized 0.4% quarterly rate in Q2, with the year-over-year rate down -0.2% to 0.3%. This continues to point to a softening in inflation conditions as seen on the labor input side.

### ***Question of the Week***

#### ***Is this a tricky time of year from a seasonal standpoint?***

September has the reputation of being a volatile month for equity markets. Since 1925, it also has the distinction of being the only calendar month with a net negative return (albeit minor, it's still surprising, considering the upward trajectory of stocks over that 100-year span). October has also been one of the more volatile months (as the first months of quarters have tended to be compared to other months), with a variety of notable 'crashes' over the decades, but a less net negative effect on returns. Academics have attempted to study the post-Labor Day autumn phenomenon, with few conclusions other than perhaps some back-to-work grumpiness, weather-related gloom, a sharp pickup in trading volume after often-slow summers, higher economic activity generally, election uncertainty, early tax loss harvesting, Q3 earnings results, and a tendency to cast aside current year data as 'old news' in favor of looking ahead to the new year. Self-fulfilling prophecies can also create powerful narratives, if enough investors believe a stretch of negativity is inevitable, prompting action in advance.

However, as with most seasonal market anomalies, these have been long-term tendencies rather than year-to-year predictions. For most investors, being out of the market over time has proven to be a far greater risk than trying to time short-term bumps along the way. Again, this is no promise of future results, but the 4th quarter of each calendar year from October through December over that same century of data has demonstrated the strongest returns of all four calendar quarters, tied to the 'Santa Claus Rally' title. Additionally, the 'winter' period of November through April has provided twice the annualized stock market returns compared to the 'summer' period. So, patience through stormy seas has historically paid off.

## Market Notes

Period ending 9/6/2024	1 Week %	YTD %
DJIA	-2.90	8.51
S&P 500	-4.22	14.48
NASDAQ	-5.76	11.75
Russell 2000	-5.67	4.14
MSCI-EAFE	-2.83	8.79
MSCI-EM	-2.24	7.09
Bloomberg U.S. Aggregate	1.29	4.40

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2023	5.40	4.23	3.84	3.88	4.03
8/30/2024	5.21	3.91	3.71	3.91	4.20
9/6/2024	5.13	3.66	3.50	3.72	4.03

U.S. stocks suffered the worst weekly declines in over a year and a half, but representing the third meaningful drawdown this year. By sector, only consumer staples saw a small gain, while all others ended in the negative, led by technology (-7%), energy (-6%), and materials. The sizable technology drop was fueled by NVIDIA down -14%, following rumors about it being subject to a Justice Department antitrust probe, resulting in the largest dollar market cap loss on record. (Moderate changes in trillion-dollar market cap sizes have tended to be record setting.) Real estate also gained slightly, along with lower yields.

Much of the week appeared to be spent worrying over the Friday employment situation report for August, which ended up being a bit weaker than expected along with downward revisions, and causing some concern over the underlying health of the U.S. economy. Interestingly, along with comments from Fed members, it seemed enough to perhaps put aside hopes for a -0.50% Fed rate cut this month, in favor of a more moderate -0.25%. September has given investors the jitters as well, per the seasonal patterns noted earlier.

Foreign stocks behaved in similar fashion to U.S. equities, with the U.K. faring slightly better, and Japan slightly worse than Europe. Minimal news moved the needle, with expectations tied to ECB rate cuts in Sept. like the U.S. Fed. Interestingly, most key emerging markets fared better than developed, but the index was pulled down by especially weak returns in Taiwan and South Korea, on the order of -7% or so, with a higher correlation with the U.S. technology group.

Bonds fared well, as economic worries translated to a 'risk-off' environment and lower yields. U.S. Treasuries led, with gains of over a percent, followed by investment-grade corporates, while floating rate bank loans lagged with minor declines. Foreign bonds generally fared well, along with a weaker U.S. dollar for the week.

Especially interesting in fixed income was that the U.S. Treasury yield curve 'uninverted'—at least as measured by the 10-year/2-year slope. The comparison of those two points on the curve tends to rank behind the more popular 10-year/3-month slope, but is still closely-watched. The good and bad news is that, while initial inversions have been a reliable indicator of an upcoming recession in the admittedly wide range of the next 6 mo. to 2 yrs., the

reversal back to a positive slope has historically tended to occur as a recession is starting. While growth looks currently strong enough to not be in recession based on a variety of indicators, the path remains to be determined. Unsurprisingly, the 2-year/3-month slope is still extremely inverted on a historical basis (near -1.5%), pointing to an expected path of sharp rate cuts in the coming two years.

Commodities fell back broadly during the week, led by energy and industrial metals. Crude oil fell by -8% last week to \$68/barrel. Despite OPEC+ plans to postpone increased production, which could normally create supply worries, these were outweighed by more intense worries over slowing economic demand in the U.S. and China over the next year. Oil prices have bounced around in a relatively wide but contained trading range of \$65-95 over the past two years, with current pricing near the bottom end of that, last seen in summer 2023 (before they quickly shot back up to \$95), so the edges of the price band in both directions have been sensitive to overreaction as of late.

Have a good week.

Ryan M. Long, CFA

Director of Investments

FocusPoint Solutions, Inc.

Sources: FocusPoint Solutions, American Association for Individual Investors (AII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.