

Summary

Economic data for the week included ISM manufacturing data coming in unchanged, and still contractionary, while ISM services improved further into expansion. Friday's employment situation report came in far better than expected, in higher nonfarm payrolls and a drop in the unemployment rate.

Equities were mixed globally with gains in the U.S. and China, while other developed and emerging countries saw declines. Bonds fell back generally with higher interest rates. Commodities rose with a sharp gain in crude oil along with Middle East concerns.

Economic Notes

(0) The **ISM manufacturing index** was unchanged in September at 47.2, below expectations for a small increase to 47.5. This kept the index in contraction, where it has been for most of the past several years. Production and new orders rose by several points, but stayed in contraction, while employment declined further into contraction. Supplier deliveries, though, rose a few points, staying in slight expansion, while prices paid fell by -6 points to now contractionary territory (tied to the sharp drop in petroleum prices). Respondents to the survey noted a general slowing of production activity in response to economic slowing, with some executives mentioning that business overall was 'flat,' and plans were somewhat on hold until interest rates were to fall further, and we get past the November election.

(+) The **ISM services/non-manufacturing index** for September rose 3.4 points to 54.9, staying in expansion, exceeding the median forecast calling for a small bump to 51.7. New orders and business activity each rose by over 6 points to a reading close to 60, which is strongly expansionary. Prices paid rose by several points as well, more into expansion. The overall index figure was the fastest pace in a year and a half, with two-thirds of sectors reporting expansion. This continues to bode well for the majority of the economy tied to services, and responsible for the current 'soft landing' data.

(-) **Construction spending** fell -0.1% in August, in contrast to the 0.2% increase expected, in addition to several revisions lower for prior months. Private residential and non-residential both declined, which offset gains of nearly 2% in public residential and a smaller gain in public non-residential. Year-over-year, spending is up 4%, which is less impressive after adjusting for construction cost inflation.

(+) The **JOLTS** job openings report showed an increase of 329k to 8.040 mil., well above the median forecast of 7.693 mil. Openings gained the most in construction (138k), government (103k), and trade/transport/utilities (92k); declines were largest in 'other' services (-93k), financial (-52k), and private education/health care (-18k). The job openings rate rose by 0.2% to 4.8%, while the hiring rate fell a tenth to 3.3%. On the departure side, the layoff and quits rates fell a tenth each to 1.0% and 1.9%, respectively.

(0) **Initial jobless claims** for the Sep. 28 ending week rose by 6k to 225k, just above the 221k median forecast. Continuing claims for the Sep. 21 week fell by -1k to 1.826 mil., below the 1.830 mil. expected. The impact of Hurricane Helene, likely to be significant in Southeastern states, occurred after the end of the reporting period so was not captured in the data. Otherwise, changes were minor around the country.

(+) The employment situation report for September came in far stronger than expected. **Nonfarm payrolls** rose by 254k, compared to the 150k consensus forecast, and above the 203k monthly average over the past 12 months (which includes the recent structural adjustment revisions). It also included 72k in upward revisions for the two prior months. Specifically, large gains were had in leisure/hospitality (78k), health care/social assistance (72k), government (31k, mostly state/local), and construction (25k). On the negative side were job losses in transportation (-9k) and goods manufacturing (-7k). The **unemployment rate** fell back by a tenth of a percent to 4.1%, as household employment gained 430k. That level still kept the 'Sahm Rule' in effect, as it's based on moving averages over various parts of the trailing 12 months. (Interestingly, the unemployment rate tends to be quoted on a seasonally-adjusted basis; non-adjusted unemployment fell by a more dramatic half-percent to a mere 3.9%.) The

U-6 underemployment rate fell by two-tenths to 7.7%. **Average hourly earnings** rose by 0.4%, a tenth higher than expectations, and bringing the year-over-year change to a still-healthy 4.0%. **Average weekly hours** fell by -0.1 to 34.2.

Labor data has been mired in a cloud of confusion over the past few months, when including headline data, ‘routine’ month-to-month revisions, and the annual government ‘major’ revisions. At this point, looking at everything, conditions continue to look relatively healthy, with the possibility now that the Fed overreacted by cutting interest rates by -0.50% last month. Accordingly, futures market odds for rate cuts in November and December have fallen back to -0.25% each, with additional -0.50% moves seemingly off the table for now anyway.

Market Notes

Period ending 10/4/2024	1 Week %	YTD %
DJIA	0.13	14.03
S&P 500	0.26	21.87
NASDAQ	0.12	21.51
Russell 2000	-0.48	10.32
MSCI-EAFE	-3.73	10.45
MSCI-EM	0.42	17.72
Bloomberg U.S. Aggregate	-1.24	3.40

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
9/27/2024	4.68	3.55	3.50	3.75	4.10
10/4/2024	4.73	3.93	3.81	3.98	4.26

U.S. stocks were mixed early in the week, with decent economic data coupled with Fed Chair Powell again reiterating in a high-profile speech that “more cuts” would be coming, but also downplaying the speed, as the FOMC is “not a committee that feels like it’s in a hurry to cut rates quickly.” This appears to have disappointed markets a bit. The East and Gulf Coast port strike also raised the likelihood of a negative impact on near-term GDP by at least a few tenths of a percent if it went on for a few weeks (although a temporary agreement was reached by Thurs.). By week’s end, the stronger-than-expected nonfarm payrolls report again pointed to a possible slower Fed rate cutting path, which was felt in interest rates more than it was in equities (with the offsetting story of still-strong economic growth a likely positive).

Sector results were mixed, with energy leading the way with a 7% gain on the heels of rising oil prices tied to the Middle East conflict, followed by financials, utilities, and communications which each gained about a percent. Losing groups included materials, consumer staples, and consumer discretionary, which lost over a percent each. Real estate also declined nearly -2% as interest rates ticked higher by the end of the week in response to stronger employment data.

Foreign stocks were mixed, with gains in Japan and emerging markets offset by declines in Europe and the U.K., with pressure lower from a strong U.S. dollar, in addition to weaker economic indicators, and the Middle East concerns nearby. In emerging markets specifically, China continued a sharp rally of over 10% on optimism generated the prior week from government stimulus; most other key EM nations fell back on the week, such as South Korea, Taiwan, and Turkey, in keeping with the dollar strength.

Bonds lost ground for the week, notably by Friday as the strong employment situation report raised odds of a stronger economy and tempered chances for deeper Federal Reserve rate cuts in the near term. Senior floating rate bank loans fared better, with gains, as would be expected. The stronger U.S. dollar pulled down returns for foreign bonds, especially in emerging markets.

Commodities rose for the week, led by energy, while other segments were little changed. Crude oil prices rose over 9% last week to \$74/barrel, having climbed steadily throughout the week, following Iran's missile barrage on Israel and President Biden's hints about the targeting of Iranian oil facilities. While oil remains sensitive to Middle East geopolitical tensions, it has been less so in the recent conflict, although several areas remain vulnerable—notably Strait of Hormuz shipping routes and Iranian production—the latter of which that could be affected by any Israel targeting. As it stands now, weak Chinese demand and ample inventories elsewhere have outweighed these concerns.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), 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.