Financial Markets This Week

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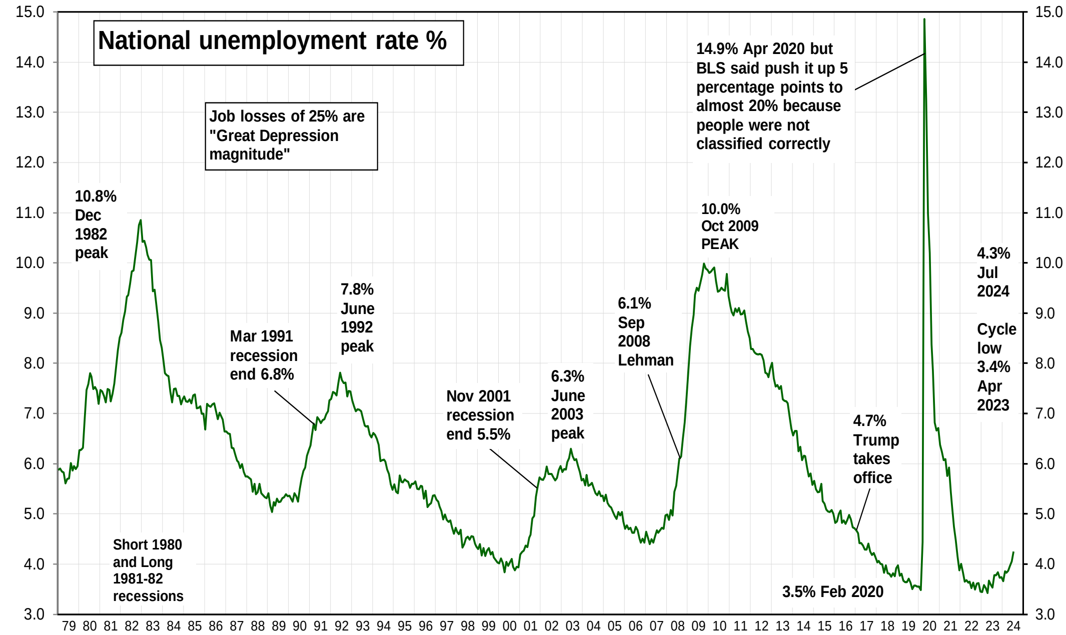
DOESN'T LOOK RIGHT



Too many jobless Americans out there this month for this to be anything other than a recession. It was the combination of a slower 114K payroll jobs increase and two-tenths increase to 4.3% (barely, 4.253%) on the unemployment rate that set the market off. Here are our more colorful remarks immediately after the shock July monthly employment situation report at 830am ET Friday. (Sounds harsh looking at what we wrote now, nonfarm payroll jobs have not declined even one month yet, but it is not just us panicking. Two major Wall Street firms see 50 bps rate cuts in September and in November.) Hang on. Unemployment up two-tenths to 4.3%, payroll employment slows to a crawl at just 114K. This is just what a recession looks like. The dark storm clouds threatening the economy have moved in from offshore suddenly and are very, very real. Biden will not be the first President in decades not to have a recession occur on his watch, but don't blame the White House or Congress. It is the Fed's fault. Get ready for another famous Powell intermeeting rate cut.

It looks like the sharper downturn in the labor market Powell said they were watching for has just become a reality. Fed officials got the risks to the outlook completely wrong, they are not two-sided, balancing inflation versus unemployment, the risks are decidedly to the downside for the labor markets, and rising joblessness could drag the entire economy under. Job losses of this magnitude have never happened outside of recessions.

Monthly changes (000s)	Jul	Jun	May	Apr	Mar
Payroll employment	114	179	216	108	310
Private jobs	97	136	206	108	232
Leisure/Hospitality jobs	23	1	18	-9	54
HH Employment Survey*	67	116	-408	25	498
Unemployment rate %	4.3	4.1	4.0	3.9	3.8
Participation rate %	62.7	62.6	62.5	62.7	62.7
Not in labor force (mln)	100.215	100.429	100.516	100.083	99.989
... and Want A Job (mln)	5.600	5.234	5.717	5.637	5.443
Average hourly earnings	$35.07	$34.99	$34.88	$34.75	$34.69
MTM % Chg	0.2	0.3	0.4	0.2	0.4
YOY % Chg	3.6	3.8	4.0	3.9	4.1

* Household (telephone) Survey of employment behind unemployment rate

The markets crashed yesterday on the fears the economy was coming in for a much harder landing and investors were right. Fed officials missed this one just like they missed the worst outbreak of inflation in fifty years. Forecast errors keep happening down there at the central bank in Washington with amazing statistical regularity. Fed officials are just whistling in the dark when they say unemployment remains low historically. It's a recession. They missed this one! If Powell was the head of a major US corporation he would be packing his bags already. This market is going down big. Bet on it.

Payroll jobs slowdown in July

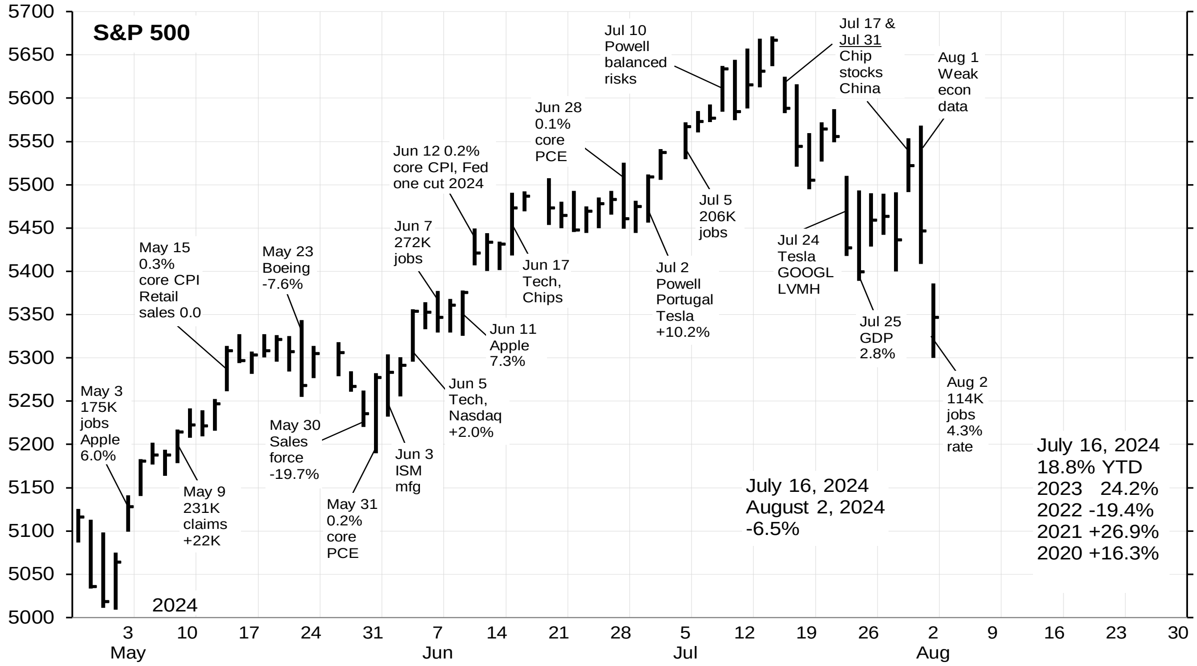
Dec. 2023 Totals millions		Jul 24	Jun 24	May 24	7 months Dec 23 to Jul 24	12 months Dec 22 to Dec 23
157.304	Nonfarm Payroll Employment	114	179	216	1419	3013
134.228	Total Private (ex-Govt)	97	136	206	1156	2304
21.723	Goods-producing	25	11	12	123	275
0.600	Mining	-1	2	-3	-5	15
12.960	Manufacturing	1	-9	3	-7	26
1.063	Motor Vehicles & parts	-1	5	4	14	32
1.108	Computer/electronics	0	-2	2	-7	1
1.729	Food manufacturing	2	3	2	13	10
8.120	Construction	25	20	13	140	236
5.148	Specialty trade contractors	19	10	7	84	135
112.505	Private Service-providing	72	125	194	1033	2029
28.867	**Trade, transportation, utilities**	22	20	34	212	161
15.603	Retail stores	4	-12	8	74	118
3.209	General Merchandise	7	6	-2	82	118
3.247	Food & Beverage stores	-4	-2	2	9	24
6.521	Transportation/warehousing	14	22	26	115	-69
1.552	Truck transport	-2	-1	-7	-7	-35
0.570	Air transportation	-1	2	1	6	40
1.060	Couriers/messengers	11	8	14	52	-10
1.767	Warehousing and storage	11	6	7	28	-99
3.012	**Information**	-20	1	-1	-16	-83
0.494	Computing, data, web hosting	-3	1	-1	1	8
9.233	**Financial**	-4	10	12	8	88
2.997	Insurance	3	9	5	29	50
2.496	Real Estate	-1	0	4	-2	63
1.378	Commercial Banking	-4	-3	-2	-19	-17
1.115	Securities/investments	1	7	3	9	33
22.882	**Professional/business**	-1	2	55	110	149
2.765	Temp help services	-9	-23	14	-51	-217
2.558	Management of companies	5	2	1	5	15
1.673	Architectural/engineering	4	5	10	38	39
2.525	Computer systems/services	4	6	2	27	41
1.194	Legal services	-1	-2	-2	-10	12
1.158	Accounting/bookkeeping	-4	5	4	15	26
25.831	**Education and health**	57	79	69	559	1058
5.440	Hospitals	20	16	11	139	194
8.635	Ambulatory health care	26	22	37	199	345
3.843	Educational services	-7	2	-5	4	93
16.816	**Leisure and hospitality**	23	1	18	110	561
1.924	Hotel/motels	6	-3	-3	-3	70
12.292	Eating & drinking places	20	0	17	62	309
23.076	Government	17	43	10	263	709
2.360	Federal ex-Post Office	2	2	0	30	82
5.404	State government	7	16	-19	48	273
2.637	State Govt Education	3	3	-26	1	183
14.711	Local government	9	25	28	179	351
8.039	Local Govt Education	26	1	10	73	162

Review & Outlook: The Fed raised rates to levels that preceded the 2007-09 recession which is one reason to keep the focus on whether a recession is here. Unemployment rises in recessions so it is natural to focus on joblessness. It is true every recession since the mid-70s was signaled when the unemployment rate rose 0.5 percentage points from the cycle low and that happened in February this year. It is also true that in every recession since the 90s, the Fed had already cut interest rates before joblessness rose 0.5 percentage point; the Powell Fed has done nothing and the rate is now 0.9 percentage points off the low, or 1.448 million people in the table below. What is missing for recession of course is a decline in economic activity, although the 2001 recession only saw a modest 0.4% drop in real GDP. Stay tuned. Jobless claims signal it could get worse next month.

GDP and Job Losses in Recessions

GDP Decline	Recession	Length	Unemployment % Rise	Unemployment Millions	Unemployment Peak	Rate
--	2024	--	0.9	1.448	Jul 24	4.3
-9.1	2020	2 months	11.4	17.510	Apr 20	14.9
-4.0	2007-09	18 months	5.6	8.586	Oct 09	10.0
-0.4	2001	8 months	2.5	3.785	Jun 03	6.3

INTEREST RATES

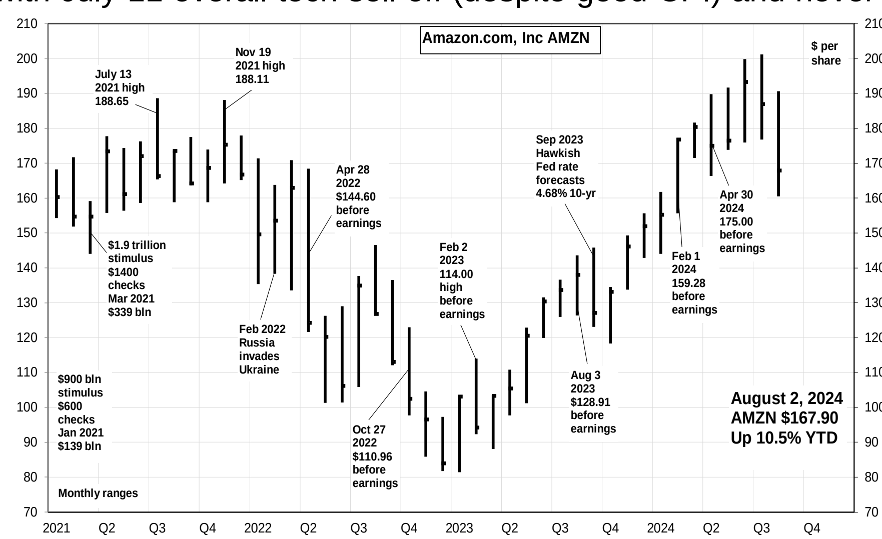


Unfortunately, we looked at our 401K at the market top on July 16, and then today: down 6.5% is a big number and a big deal. Not sure it is a big enough shock to qualify for an “external” one that can come from out of nowhere and start a recession. But the dealers or at least those speculating and hedging in Fed funds futures markets have gone crazy this week. On Friday, all but 5 bps of a 50 bps rate cut at the September meeting is discounted. At the next three meetings all but 5 bps of 125 bps of rate cuts are discounted over the next three Fed meetings: September, November, December. Let’s see that would put Fed rates at 4.25% at year-end, exactly where the Fed Governors and Presidents in their wisdom first pegged “neutral” rates for the economy, which would not speed or retard economic growth, when they first made those controversial interest rate forecasts way back in January 2012.

Amazon.com, Inc. (AMZN) up 10.5% YTD

Earnings reaction Thursday after the bell was going to drag the whole market down before the recession-fears employment report Friday morning did the work for them. Amazon shares fell 8.8% Friday versus a 1.8% loss for the S&P 500. Investors Thursday evening did not like online sales growth. Stock failed at the $200 level with July 11 overall tech sell-off (despite good CPI) and never climbed back.

Calendar Year Mln $	Net Sales	Operating Income	AWS Sales	AWS Income	Income minus AWS
Q2 2024	147,977	14,672	26,281	9,334	5,338
Q1 2024	143,313	15,307	25,037	9,421	5,886
Q4 2023	169,961	13,209	24,204	7,167	6,042
Q3 2023	143,083	11,188	23,059	6,976	4,212
Q2 2023	134,383	7,681	22,140	5,365	2,316
Q1 2023	127,358	4,774	21,354	5,123	-349
Q4 2022	149,204	2,737	21,378	5,205	-2,468
Q3 2022	127,101	2,525	20,538	5,403	-2,878
Q2 2022	121,234	3,317	19,739	5,715	-2,398
Q1 2022	116,444	3,669	18,441	6,518	-2,849

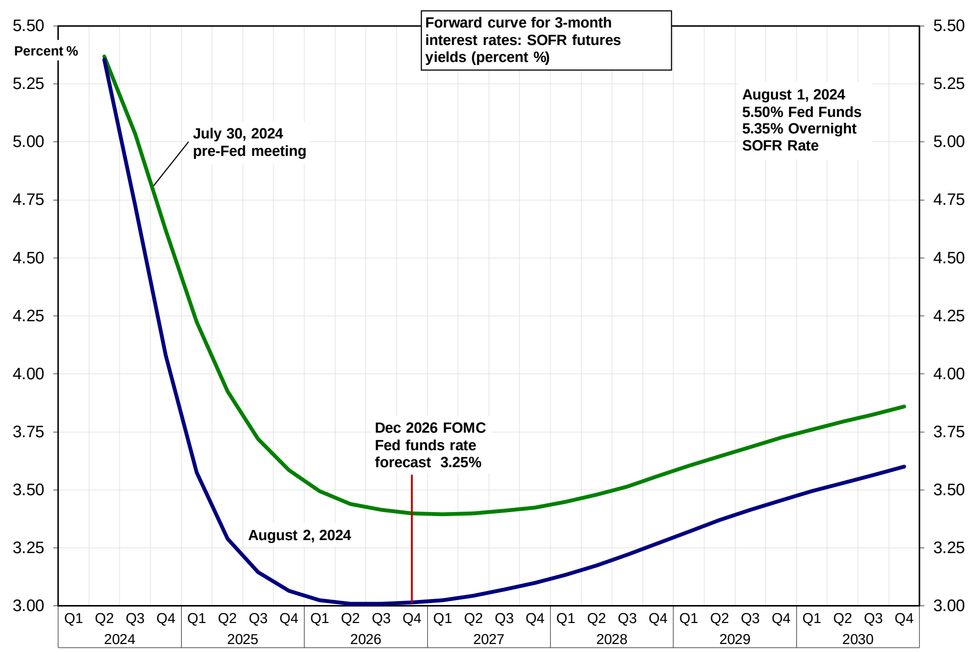


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	31-Jul	24-Jul	17-Jul	10-Jul	3/11/20*	3/11/20
Factors adding reserves						to Jul 31
U.S. Treasury securities	4413.615	4423.725	4423.552	4438.095	2523.031	1890.584
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2318.190	2332.216	2335.932	2335.997	1371.846	946.344
Repurchase agreements	0.005	0.000	0.100	0.001	242.375	-242.370
Primary credit (Discount Window)	6.925	6.751	6.634	6.803	0.011	6.914
Bank Term Funding Program	102.066	102.410	103.248	105.998		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.698	2.715	2.735	2.788		
Main Street Lending Program	10.879	10.880	10.869	11.199		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.155	0.159	0.163	0.122	0.058	0.097
Federal Reserve Total Assets	7228.9	7256.7	7259.5	7275.3	4360.0	2868.886
~~3-month Libor %~~ SOFR %	5.38	5.34	5.35	5.34	1.15	4.230
Factors draining reserves						
Currency in circulation	2348.663	2347.678	2350.408	2356.054	1818.957	529.706
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	854.001	767.419	766.779	722.328	372.337	481.664
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	413.200	399.121	399.401	422.147	1.325	411.875
Federal Reserve Liabilities	4050.212	3980.838	3937.028	3934.269	2580.036	1470.176
Reserve Balances (Net Liquidity)	3178.700	3275.885	3322.446	3341.046	1779.990	1398.710
Treasuries within 15 days	84.041	63.939	57.058	62.997	21.427	62.614
Treasuries 16 to 90 days	135.154	178.740	184.932	206.784	221.961	-86.807
Treasuries 91 days to 1 year	562.900	543.643	544.310	534.437	378.403	184.497
Treasuries over 1-yr to 5 years	1472.796	1479.645	1479.567	1471.206	915.101	557.695
Treasuries over 5-yrs to 10 years	637.850	637.651	637.630	646.240	327.906	309.944
Treasuries over 10-years	1520.874	1520.107	1520.056	1516.431	658.232	862.642
Note: QT starts June 1, 2022	Change	7/31/2024	6/1/2022			
U.S. Treasury securities	-1357.164	4413.615	5770.779			
Mortgage-backed securities (MBS)	-389.256	2318.190	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed met July 30-31, 2024 to consider its monetary policy. Confidence in inflation returning to 2.0% target (PCE June 2024 was 2.5% for gosh sakes), no longer required in the market's view. Net, net, the Federal Reserve is as close as they can get to teeing up a first interest rate cut when they next meet in September as they say the risks are back to being two-sided. Before Wednesday's meeting the risks they needed to be attentive to were all just inflation, inflation, inflation. Now the labor market is back in focus and after Friday, boy is it ever. We are surprised many dealers see so many rate cuts and of large magnitude as well. We are fairly confident about a recession, but it takes time to play out and payroll employment needs to decline two or three months to be sure and to align with the signal from rising unemployment, and Friday's jobs for July were still positive at 114K. It took Powell a while to get to rate cuts in 2019: January 4, 2019 Powell said they could be "patient" on their higher rates forecast, and the first 25 bps cut from the 2.5% peak was not until July 31, 2019. The difference now is the economy may be in a recession, despite the Fed's Chair's comment Wednesday that unemployment remains low historically (it was 4.1% when he spoke). Stay tuned. Weekly jobless claims will lead the way on a recession call or not.

Fed Policy-key variables				Long
	2024	2025	2026	Term
Fed funds	5.1	4.1	3.1	2.8
PCE inflation	2.6	2.3	2.0	2.0
Core inflation	2.8	2.3	2.0	
Unemployed	4.0	4.2	4.1	4.2
GDP	2.1	2.0	2.0	1.8
June 2024 median Fed forecasts				



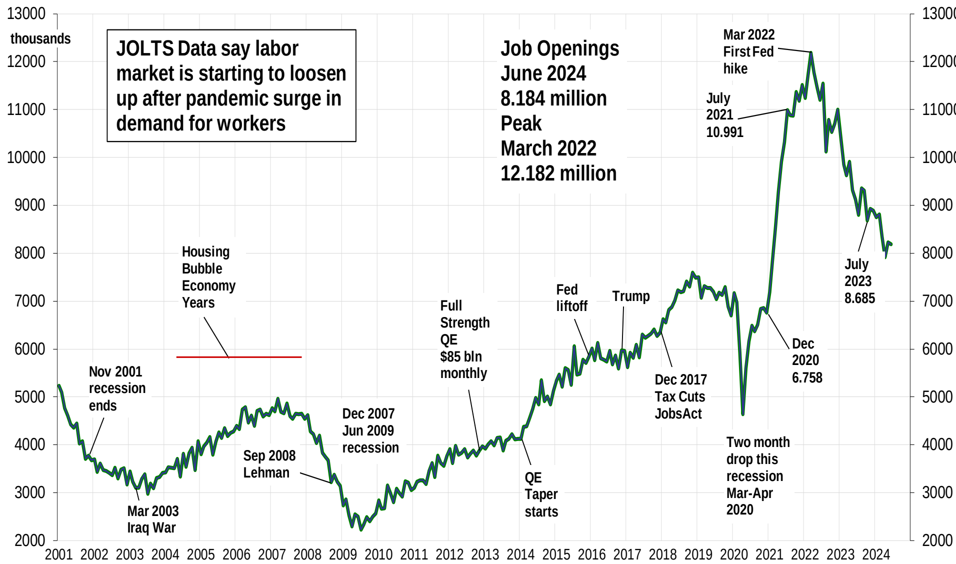
October Fed funds futures discount 45 bps of a 50 bps rate cut on September 18. And 120 bps of 125 bps rate cuts are discounted this year.

Fed funds futures call Fed policy		
Current target: August 2 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.475	Aug 2024	Intermeeting
5.050	Oct 2024	Sep 18
4.300	Jan 2025	Add Nov 7, Dec 18*
Last trade, not settlement price		
* Not strictly true, Jan 2025 contract has		
Jan 29 as the expected Fed decision date		

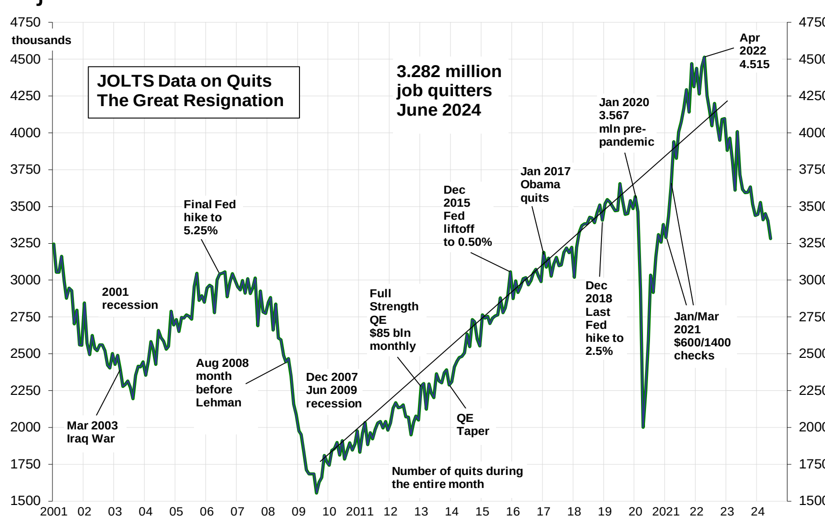
Next up: July CPI inflation report Wednesday, August 14															
Monthly						2024	2023								2023
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Core CPI inflation	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4	0.5
Core PCE inflation	0.2	0.1	0.3	0.3	0.3	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3
Core PCE YOY	2.6	2.6	2.8	2.8	2.8	2.9	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8
Core CPI YOY	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.3	4.7	4.8	5.3	5.5

OTHER ECONOMIC NEWS

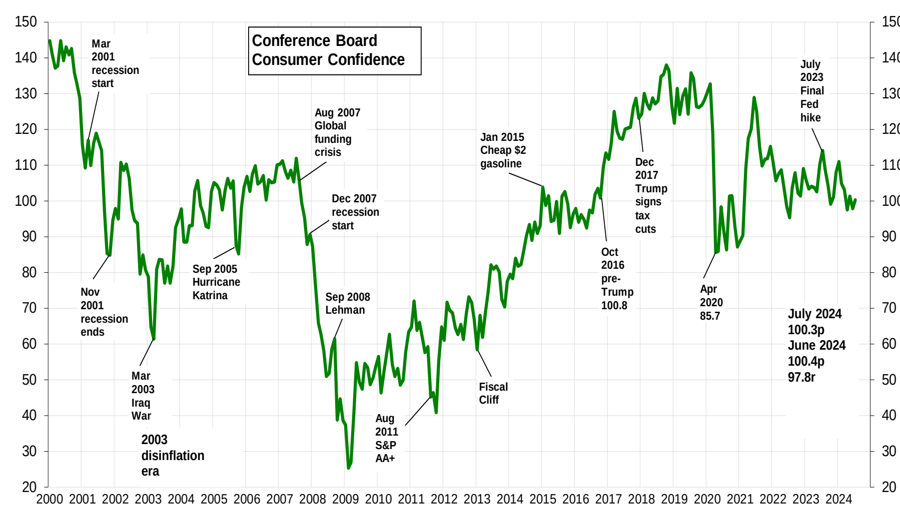
There are still millions of jobs out there (Tuesday)



Breaking economy news. Job openings were stable at 8.184 million in June following the 8.230 million count at the end of May. There had been a surprising, bordering on worrisome decline in April, but the demand for labor has risen back somewhat. All is not rosy however for the outlook as jobholders have suddenly turned more cautious with the level of those quitting in June dropping 121K to 3.282 million. Fewer workers in construction, state and local education, and accommodation and food services quit their jobs this month.



Net, net, the labor market looks like it has fully rebalanced and the number of job openings has now stabilized after plummeting for months, so the danger of the economy going off the rails and companies no longer needing new workers has passed for now. The Federal Reserve meeting today does not need to speed up the decision on whether to cut interest rates as there is no material weakness in the labor market at the end of June at least. The rise in unemployment looks significant historically, but the increase in joblessness remains a puzzle for now because the weekly layoffs count is not soaring as it would in an economic recession. Close, but no cigar. There are still millions of jobs out there and that should give Fed officials confidence that the economy is not about to go off the rails. There are still more openings than there are unemployed in America.

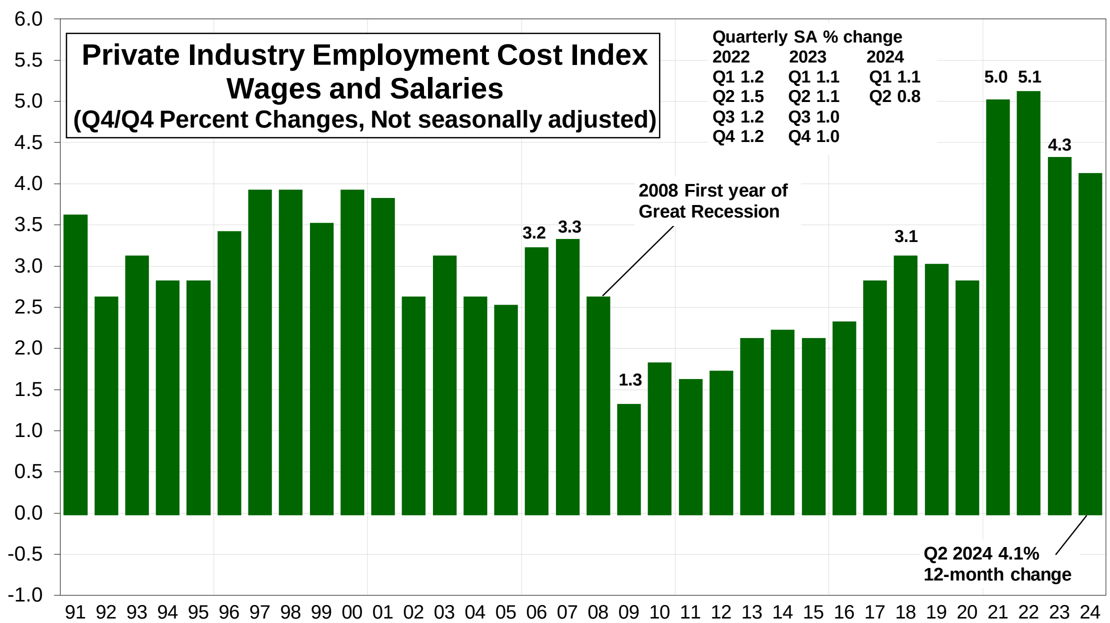


P.S. Consumer confidence showed little change in July or any other month recently.

Cooler wages green light Fed cuts (Wednesday)

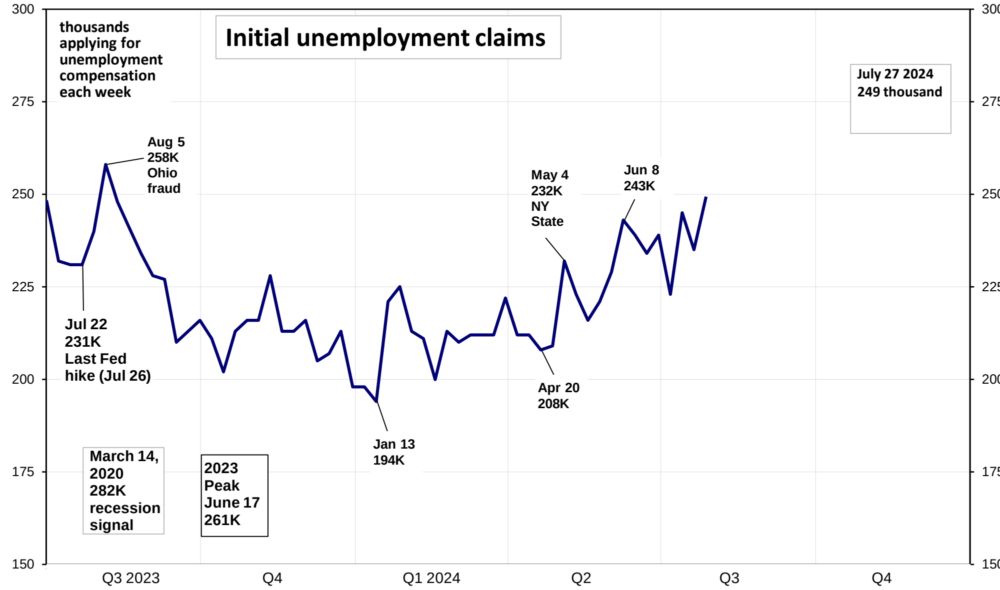
Breaking economy news. The employment cost index for civilian workers fell to an increase of 0.9% in Q2 2024 from a blistering hot 1.2% jump in the first quarter. The cooler wage data give a green light to the Fed, if officials want to signal a rate cut is coming up soon when they issue their press statement later today. Private industry wages and salaries rose 0.8% in Q2 2024 from 1.1% in the first quarter and are rising 4.1% in the last 12 months. The quarterly data are seasonally adjusted, but the first quarter of the year is often higher as many corporations adjust their employees wages at the start of the new year.

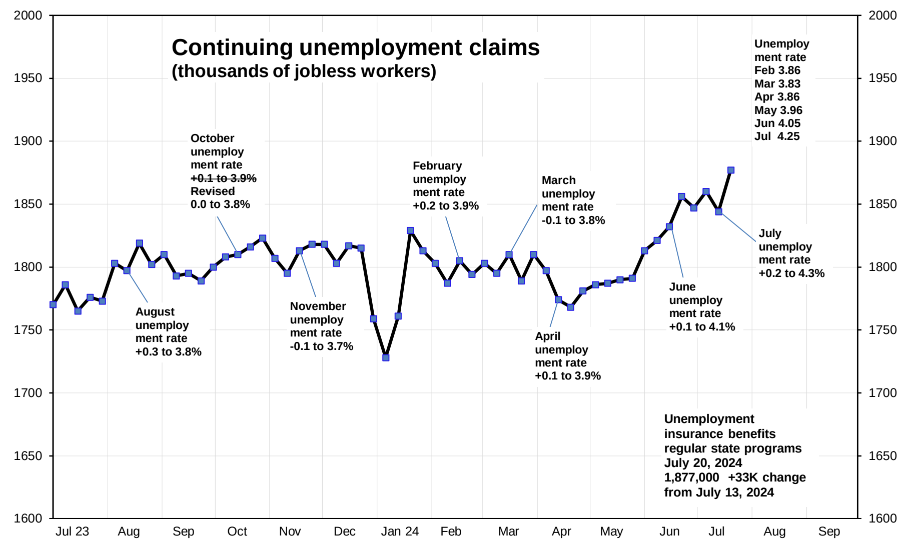
Net, net, upward wage pressures on inflation were not so hot and time will tell whether this second quarter cool down is significant and lasting, but the good news for today is that wages and salary increases in private industry are more in line with where Fed officials would like it to be. Fed Chair Powell has stated before that wages follow inflation more often than the other way around, but wages are starting to be more consistent with what workers saw before the pandemic. In 2019, private industry wages rose 3.0%, and in the last 12 months ending June 2024 wages and salaries are up 4.1%. The economy is gradually returning to normal and Fed officials are hoping inflation will continue to slow. Cooler wages give the green light to Fed rate cuts. Bet on it.



Recession-magnitude layoffs (Thursday)

Breaking economy news. The trend continues upward after taking the prior week off. First-time applications for jobless benefits rose 14K to 249K in the July 27 week and this even as Texas claims believed to be affected by Hurricane Beryl fell 6,232 not seasonally adjusted. In fact all claims nationwide not seasonally adjusted fell 10,012 so it was all the seasonal factor pushing the number up to 249K. Not clear what would be happening in this particular week seasonally speaking. Maybe everyone goes to the beach. By the way, in the prior July 20 week when Texas claims rose 5,962, the state commented the layoffs were in the finance and insurance industry. Unclear why the hurricane would be affecting that industry where many workers just work from home if you call it work.





Net, net, companies have been warning for months that sales were slowing and the business outlook was darkening, and now they have done the unthinkable: they have started to lay off workers at a hurried pace that has not been seen outside of an economic recession. The recession clouds are not just offshore anymore, they have moved onshore and are starting to pound the ground with heavy rains. Just a day after the Fed meeting, markets want to know, how could monetary officials have missed this? They moved to a neutral bias from one that concentrated solely on inflation risks, but they missed the growing signs of severe deterioration in the labor market. Just a day later no less. Jobless claims are soaring in a way that can only happen in a recession and it will be a miracle if the job losses stop here. More layoffs are coming. Bet on it. The economy is down for the count. Recession is here. Get your affairs in order. The Federal Reserve under Chair Powell unleashed the worst inflation in half a century, and now it looks like there will be no soft landing for the economy after all. The economy is crashing and Powell did it again, keeping rates high for too long until it became a noose around the country's neck. Stay tuned. Story developing badly. Recession-magnitude job layoffs are here and all the Fed's horses and all the Fed's men will not be able to put the economy back together again.

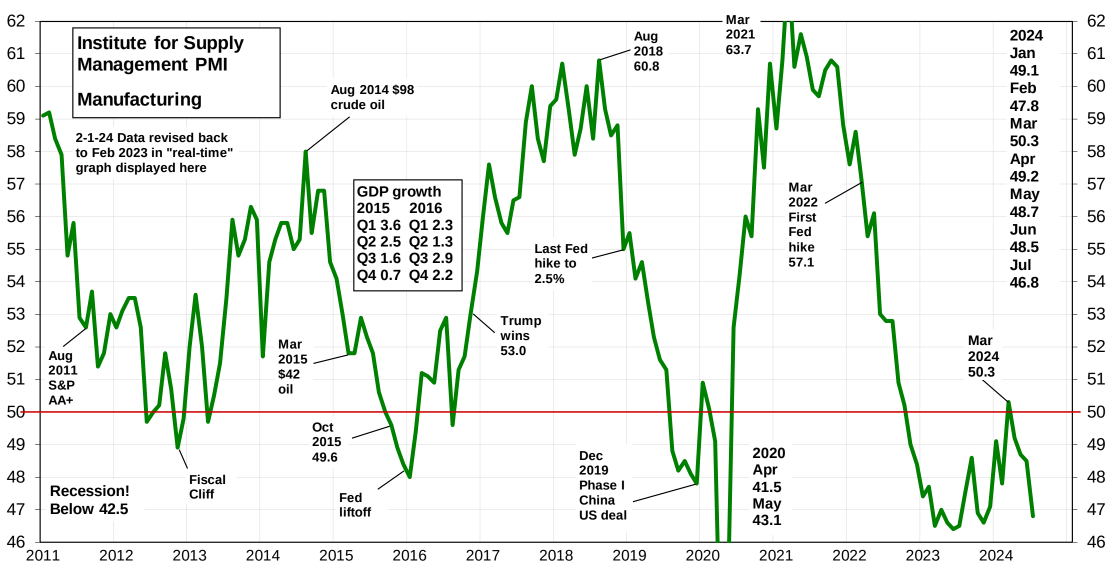
ISM manufacturing layoffs are up (Thursday)

Breaking economy news. Surprising drop for the ISM manufacturing index of 1.7 points to 46.8. The respondents are saying demand is continuing to soften into the second half of the year. The number of sales calls are down, business is slowing, the sharpest decline in order levels in a year. It certainly sounds like manufacturing is in a recession.

Net, net, the economic data keep rolling on in the direction of a downturn if not recession this morning. The stock market doesn't know whether to laugh or cry because while three Fed rate cuts may be coming this year and 10-year bond yields are falling below 4.00%, the winds of recession are coming in hard according to purchasing managers at manufacturing firms. Factory hires fell off a cliff in July with the employment index tumbling 5.9 points to 43.4. The overall index is down 1.7 percentage points to 46.8. The ISM survey takers insist a recession for the overall economy is not indicated unless the index falls to 42.5, but we don't know, the index itself is falling like a stone. Stay tuned. Anecdotal information on the economy like the purchasing managers index is at odds with real data on industrial production from the Federal Reserve where factory output has popped in May and June after activity had been flat for over a year. It's hard to know what to believe for tomorrow's monthly employment report, but the reading on the labor market could be worse than expected given the jump in jobless claims and layoffs from manufacturing firms cited by the purchasing managers survey.

ISM manufacturing index

	Jul 24	Jun 24	May	Apr 24
PMI index	46.8	48.5	48.7	49.2
Prices	52.9	52.1	57.0	60.9
Production	45.9	48.5	50.2	51.3
New orders	47.4	49.3	45.4	49.1
Supplier deliveries	52.6	49.8	48.9	48.9
Employment	43.4	49.3	51.1	48.6
Export orders	49.0	48.8	50.6	48.7



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