

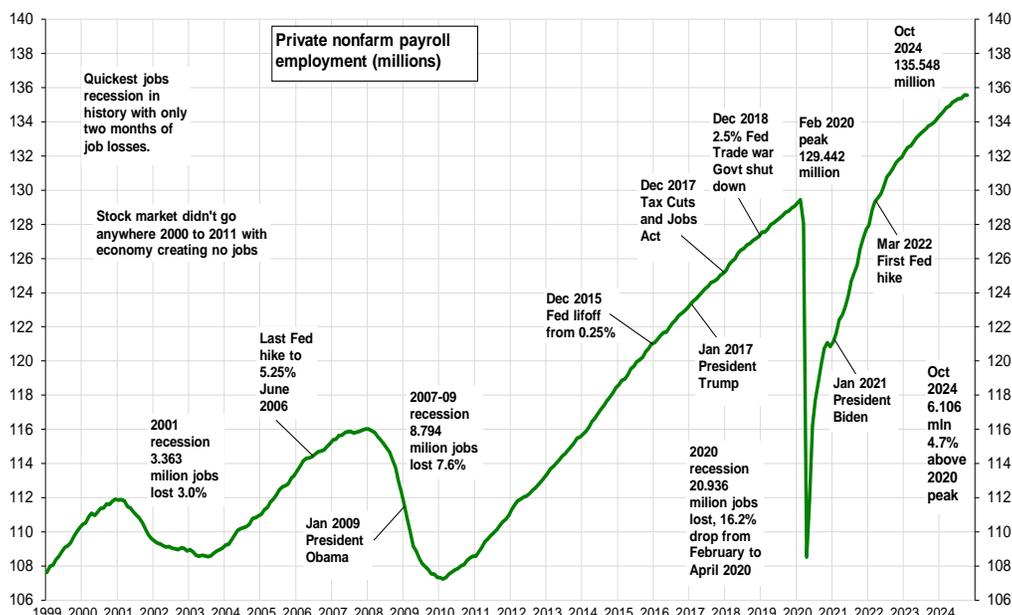
# Financial Markets This Week

1 NOVEMBER 2024

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## NO JOBS REPORT

This time a month ago the economy or at least the labor market was riding high with 254K more payroll jobs in September and 72K of upward revisions to July/August. Just forget about that as today the BLS reported that there were just 12K more payroll jobs in October with 112K of downward revisions to August/September. The



payroll employment data were likely affected by the hurricanes (Helene September 26, Milton October 9), but it is impossible to quantify the net effect, the BLS said. Thanks for trying.

Net, net, a story of rags to riches for the monthly employment report with jobs plentiful a month ago, but now the cupboard is bare with thousands of jobs subtracted from the last two months' gains, and net new jobs came to a virtual halt in October. It seems likely that the Boeing strike and hurricane related damage had a major downward impact on the nationwide jobs

Monthly changes (000s)	Oct	Sep	Aug	Jul	Jun
Payroll employment	12	223	78	144	118
Private jobs	-28	192	37	99	97
Leisure/Hospitality jobs	-4	40	9	38	4
HH Employment Survey*	-368	430	168	67	116
Unemployment rate %	4.1	4.1	4.2	4.3	4.1
Participation rate %	62.6	62.7	62.7	62.7	62.6
Not in labor force (mln)	100.809	100.381	100.306	100.215	100.429
... and Want A Job (mln)	5.666	5.697	5.637	5.600	5.234
Average hourly earnings	\$35.46	\$35.33	\$35.22	\$35.07	\$34.99
MTM % Chg	0.4	0.3	0.4	0.2	0.3
YOY % Chg	4.0	3.9	3.9	3.6	3.8

\* Household (telephone) Survey of employment behind unemployment rate

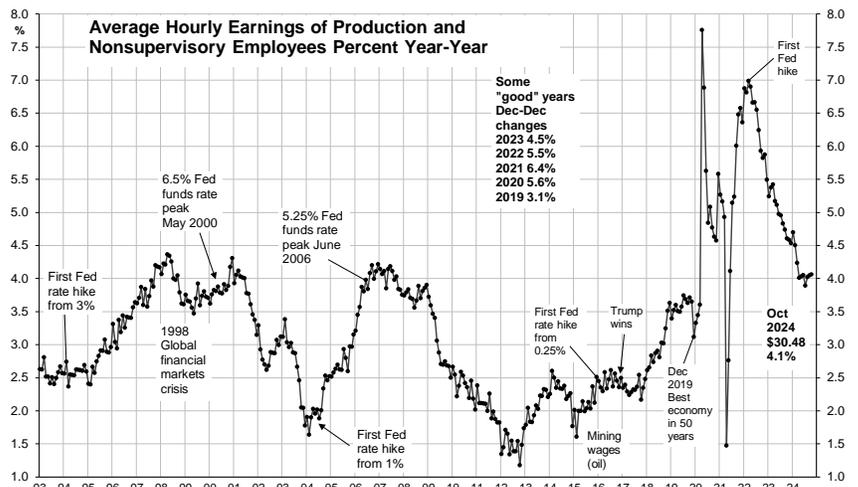
count, but it will take another month to see just how much the labor market stalled if at all. After the jobs report survey week early in October, weekly jobless claims have tumbled back down to all-clear levels suggesting the hurricane effect was fleeting, but the financial markets are clearly confused with little change in stock market prices because this employment report today is hard to read. This is not the clarifying report on the economy that Americans and markets needed before next week's election to answer whether voters are better off than they were four years ago. The one thing we can rule out is that the dramatic slowdown in nonfarm payroll jobs does not indicate the economy is

at a tipping point and in danger of falling over the cliff and into recession. If a recession is coming the consumer does not know it as they are spending freely at the shops and malls and keeping overall economic growth close to 3% last quarter, and we predict real GDP will grow 2.5% in 2024 which is much stronger than the 2.0% forecast by the Federal Reserve. Stay tuned. Plenty of jobs available still in health care and in government. The message today is that the labor market and jobs creation has stalled for technical reasons, the Boeing strike and hurricanes, but the rest of the economy continues to expand at a moderate pace.

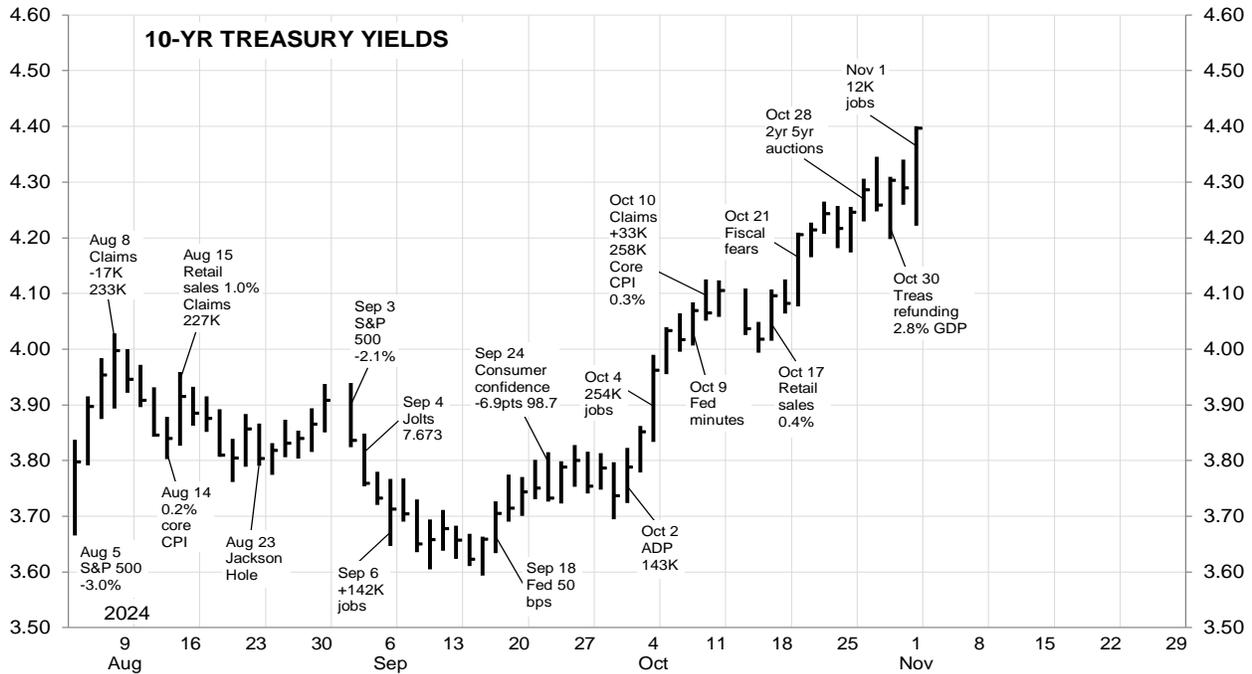
P.S. The consensus was for a 100K gain and the number of just 12K made traders forget to look at the inflation data, wages, in the report. A 0.4% monthly change in average hourly earnings would have set off alarm bells earlier in the year. Average hourly earnings in the graph here are about 4% versus about 3.5% prior to the pandemic. So [stormy weather was a problem and 512K told the BLS](#) they were not at work. In July 436K said they could not get to work after Hurricane Beryl in Texas, and the payroll employment data picked back up a month later. Seems reasonable to expect payroll jobs to pick up again next month.

**Payroll jobs stall in October**

Dec. 2023	Totals	Oct 24	Sep 24	Aug 24	10 months Dec 23 to Oct 24	12 months Dec 22 to Dec 23
157.304	Nonfarm Payroll Employment	12	223	78	1701	3013
134.228	Total Private (ex-Govt)	-28	192	37	1320	2304
21.723	Goods-producing	-37	23	2	98	275
0.600	Mining	1	2	0	-1	15
12.960	Manufacturing	-46	-6	-26	-87	26
1.063	Motor Vehicles & parts	-6	-4	-16	-6	32
1.108	Computer/electronics	-2	0	-2	-12	1
1.729	Food manufacturing	2	2	6	21	10
8.120	Construction	8	27	28	190	236
5.148	Specialty trade contractors	8	18	10	116	135
112.505	Private Service-providing	9	169	35	1222	2029
28.867	Trade, transportation, utilities	-1	27	3	198	161
15.603	Retail stores	-6	15	-15	53	118
3.209	General Merchandise	-2	3	-3	79	118
3.247	Food & Beverage stores	5	3	2	21	24
6.521	Transportation/warehousing	-4	3	11	98	-69
1.552	Truck transport	0	0	1	-6	-35
0.570	Air transportation	-1	-2	2	4	40
1.060	Couriers/messengers	2	7	4	53	-10
1.767	Warehousing and storage	-7	-11	-1	-3	-99
3.012	Information	3	3	-8	-15	-83
0.494	Computing, data, web hosting	1	0	-1	1	8
9.233	Financial	0	4	7	22	88
2.997	Insurance	-1	0	2	29	50
2.496	Real Estate	1	2	7	10	63
1.378	Commercial Banking	0	1	-1	-17	-17
1.115	Securities/investments	0	3	0	8	33
22.882	Professional/business	-47	-9	-47	-9	149
2.765	Temp help services	-49	-20	-23	-160	-217
2.558	Management of companies	3	5	-8	10	15
1.673	Architectural/engineering	4	0	-1	38	39
2.525	Computer systems/services	-5	1	-2	19	41
1.194	Legal services	2	1	-2	-10	12
1.158	Accounting/bookkeeping	0	1	0	17	26
25.831	Education and health	57	95	67	791	1058
5.440	Hospitals	8	16	12	170	194
8.635	Ambulatory health care	36	27	29	289	345
3.843	Educational services	6	14	12	59	93
16.816	Leisure and hospitality	-4	40	9	173	561
1.924	Hotel/motels	3	10	5	10	70
12.292	Eating & drinking places	4	39	2	116	309
23.076	Government	40	31	41	381	709
2.360	Federal ex-Post Office	2	2	2	36	82
5.404	State government	18	13	14	100	273
2.637	State Govt Education	11	6	8	25	183
14.711	Local government	21	14	26	240	351
8.039	Local Govt Education	7	2	16	95	162



INTEREST RATES



Extreme volatility in 10-yr yields Friday continues the fiscal worry trend with upcoming supply from the Treasury November refunding announcement this week. The surprisingly weak 12K payroll jobs number (well, 100K “expected” storms/Boeing strike) brought yields down to 4.22% within seconds on recession guesses and the need for big Fed rate cuts, but that reversed sharply by nearly 20 bps with new 10-yr yield highs ahead of next week’s Treasury auctions, a Fed meeting and the national election results. A stunning reversal of fortune for the 3.6% 10-year Treasury yield the day before the Powell surprise 50 bps rate cut. Okay slow down. The election is Tuesday, November 5, Treasury 3-yr, 10-yr, 30-yr auctions, Mon, Tues, Weds. Stocks fell somehow after Meta and Microsoft earnings on Tuesday evening and were unable to recover Friday, partly on 4.40% 10-year yields.

Alphabet, Inc. (GOOGL) up 22.6% YTD

The stock jumped 2.8% to \$174.46 on Wednesday, October 30, high of day \$182.02, after earnings Tuesday afternoon. Microsoft and Meta earnings brought the stock back down a day later. Alphabet beat on earnings and revenues. Cloud revenue increased 35% to \$11.4 billion with operating income of \$1.9 billion. Cloud operating income was just \$266 million in Q3 2023. Expectations are for Advertising revenues to slow, but it is not happening yet.

Calendar Year	Revenue	Advertising	Cloud	Operating Income
Q3 2024	88,268	65,854	11,353	28,521
Q2 2024	84,742	64,616	10,347	27,425
Q1 2024	80,539	61,659	9,574	25,472
Q4 2023	86,310	65,517	9,192	23,697
Q3 2023	76,693	59,647	8,411	21,343
Q2 2023	74,604	58,143	8,031	21,838
Q1 2023	69,787	54,548	7,454	17,415
Q4 2022	76,048	59,042	7,315	18,160
Q3 2022	69,092	54,482	6,868	17,135

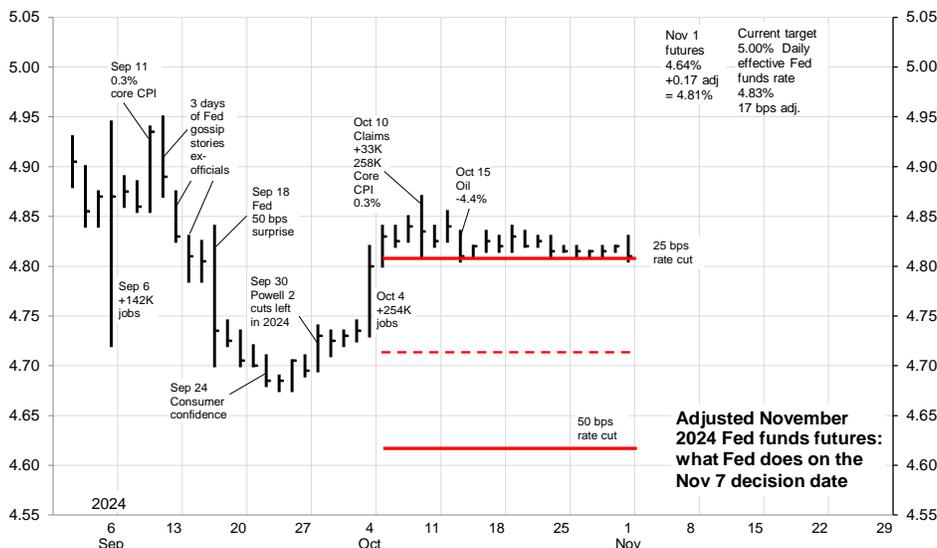


### FEDERAL RESERVE POLICY

The Fed meets November 6-7, 2024 to consider its monetary policy. They start the meeting one day after the Tuesday, November 5 national elections and we are sure they will keep the focus on monetary policy. Maybe put their cell phones in a lock box outside the meeting room. It's a long meeting. Here is the [verbatim transcript](#) when they met eight years ago, the December 13-14, 2016 meeting, after Trump was elected the first time. Plenty of talk of "election" and possible changes to trade and immigration policies. This time around, we are not sure what there is to discuss. November Fed funds futures have discounted a 25 bps rate cut for several weeks now. The market has not completely priced 25 bps at each of the next three Fed decision dates, November 7, December 18, January 29. February 2025 Fed funds futures got down to 4.355% on first reaction to the 12K jobs report Friday, so a little better than 50/50 on a third 25 bps cut at the January 2025 meeting to 4.25%. Same story, February futures almost discounted four 25 bps rate cuts but the 254K jobs report took the dramatic easing story away. There is not a lot of historical experience with the Fed cutting rates gradually, except for Powell's three 25 bps walk-back rate cuts from 2.5% to 1.75% in 2019 helped along by White House "loco Fed" criticism. The Thursday, November 7 press conference with Powell should provide some guidance on where neutral rates are. The 3% Fed forecast for 2026 made at the September meeting says it is there at 3%, but that sounds too low.

Selected Fed assets and liabilities						Change from
Fed H.4.1 statistical release billions, Wednesday data	30-Oct	23-Oct	16-Oct	9-Oct	3/11/20*	3/11/20 to Oct 30
<b>Factors adding reserves</b>						
U.S. Treasury securities	4357.825	4357.656	4357.572	4364.466	2523.031	1834.794
Federal agency debt securities	2.347	2.347	2.347	2.347		0.000
Mortgage-backed securities (MBS)	2265.963	2282.088	2282.088	2282.078	1371.846	894.117
Repurchase agreements	0.031	0.000	0.001	0.001	242.375	-242.344
Primary credit (Discount Window)	1.505	1.768	1.879	1.745		1.494
Bank Term Funding Program	57.831	59.717	66.833	68.883		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.090	2.124	2.201	2.241		
Main Street Lending Program	10.158	10.145	10.135	10.419		
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	0.157	0.163	0.159	0.155	0.058	0.099
<b>Federal Reserve Total Assets</b>	<b>7063.7</b>	<b>7080.7</b>	<b>7090.3</b>	<b>7097.8</b>	<b>4360.0</b>	<b>2703.722</b>
3-month Libor %	4.81	4.83	4.86	4.83	1.15	3.660
<b>Factors draining reserves</b>						
Currency in circulation	2356.502	2355.493	2358.793	2356.532	1818.957	537.545
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	847.137	817.410	814.751	787.395	372.337	474.800
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	228.946	270.839	272.071	343.448	1.325	227.621
<b>Federal Reserve Liabilities</b>	<b>3847.954</b>	<b>3852.216</b>	<b>3861.423</b>	<b>3900.768</b>	<b>2580.036</b>	<b>1267.918</b>
<b>Reserve Balances (Net Liquidity)</b>	<b>3215.794</b>	<b>3228.462</b>	<b>3228.838</b>	<b>3197.045</b>	<b>1779.990</b>	<b>1435.804</b>
Treasuries within 15 days	70.055	64.724	61.915	36.365	21.427	48.628
Treasuries 16 to 90 days	215.127	217.895	178.430	212.598	221.961	-6.834
Treasuries 91 days to 1 year	484.413	486.965	529.229	526.419	378.403	106.010
Treasuries over 1-yr to 5 years	1467.694	1467.656	1467.618	1469.577	915.101	552.593
Treasuries over 5-yrs to 10 years	592.512	592.501	592.491	591.944	327.906	264.606
Treasuries over 10-years	1528.024	1527.915	1527.890	1527.563	658.232	869.792
Note: QT starts June 1, 2022		Change 10/30/2024	6/1/2022			
U.S. Treasury securities	-1412.954	4357.825	5770.779			
Mortgage-backed securities (MBS)	-441.483	2265.963	2707.446			

Fed Policy-key variables	2024				Long Term
	2024	2025	2026	2027	
Fed funds	4.4	3.4	2.9	2.9	2.9
PCE inflation	2.3	2.1	2.0	2.0	2.0
Core inflation	2.6	2.2	2.0	2.0	
Unemployed	4.4	4.4	4.3	4.2	4.2
GDP	2.0	2.0	2.0	2.0	1.8
September 2024 median Fed forecasts					



November Fed funds futures are not a clean read on the odds as the meeting is during the month. Market odds favor a 25 bps cut.

Fed funds futures call Fed policy	
Current target: November 1 -- 5.00%	
Rate+0.17 Contract	Fed decision dates
4.540 Jan 2025	Nov 7, Dec 18*
4.415 Feb 2025	Adds Jan 29
Last trade, not settlement price	
* Not strictly true, Jan 2025 has Jan 29 Fed date, so 2 days could be a new interest rate	

Next up: October CPI inflation report Wednesday, November 13															
Monthly	2024						2023								
% Changes	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug
Core CPI inflation	0.3	0.3	0.2	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2
Core PCE inflation	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1	0.3	0.1	
Core PCE YOY	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4	3.7	3.8	
Core CPI YOY	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.3	

OTHER ECONOMIC NEWS

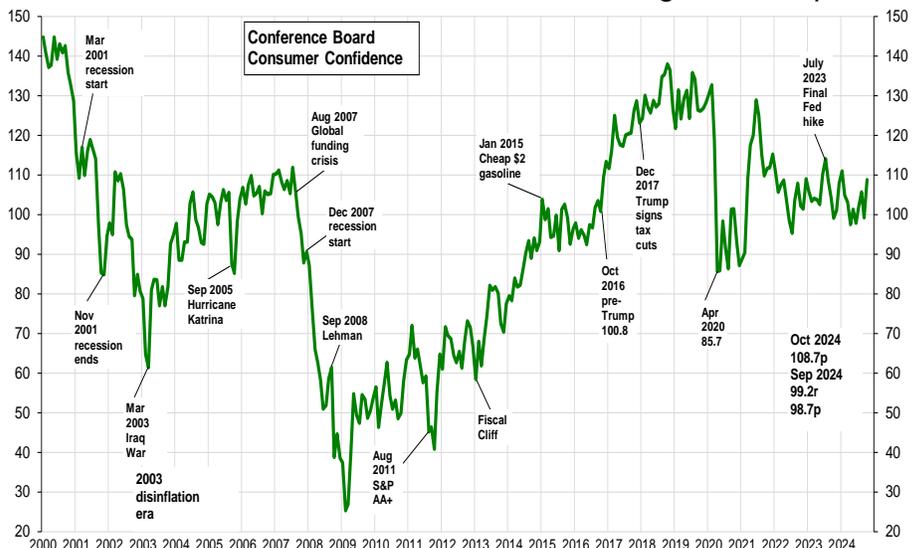
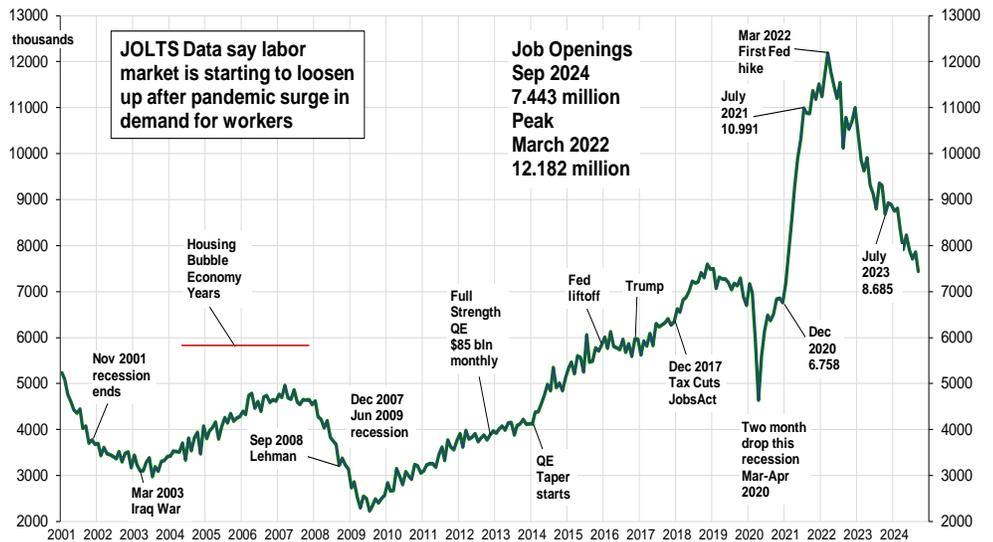
Job openings down, but more plentiful too (Tuesday)

Breaking economy news. The Jolts data from the BLS and the consumer confidence index telling different stories about the labor market. The stock market seemed to like the data so it must be good. The job openings at the end of September tumbled 418K to 7.443 million keeping in mind the September unemployed behind the 4.1% rate totals 6.834 million. Consumer confidence rebounded, rising 9.5 points to 108.7 in October.

Net, net, companies sharply reduced the number of workers they needed to hire at the end of the third quarter which may indicate the labor market is not as strong as believed, however, there were a couple of hurricanes in the South in September so the story of job market

weakening may well turn out to be a fairy tale as indeed nonfarm payroll employment soared by 254 thousand in September. Job openings fell 418K in September, and 325K were in the South which is also the biggest labor market nationally. There have been a lot of mixed signals from the labor market indicators of late especially with the volatile weekly jobless claims data rising at the start of October and then plunging. Stay tuned. Americans do not appear to be too worried about the future with the consumer confidence index jumping nearly 10 points to 108.7 in October. Consumers were much more optimistic about the labor market where 35.1% said jobs were plentiful versus 31.3% in September, and 16.8% said jobs were hard to get down from 18.6% in September. The labor market data are mixed but the latest survey of consumers in October suggests the plunge in job openings at the end of September may be a red herring in terms of the story painted about economic weakness.

One thing consumers can agree on is the stock market outlook where 51.4% see higher stock prices over the next year, the most since they started asking the question after 1987 when the stock market crashed. They also don't seem to care about the election next week, at least not as much as they did in October 2016 or October 2020. The government says job openings are down, but the public says work is more plentiful. We will find out for sure in the October payroll jobs report on Friday.



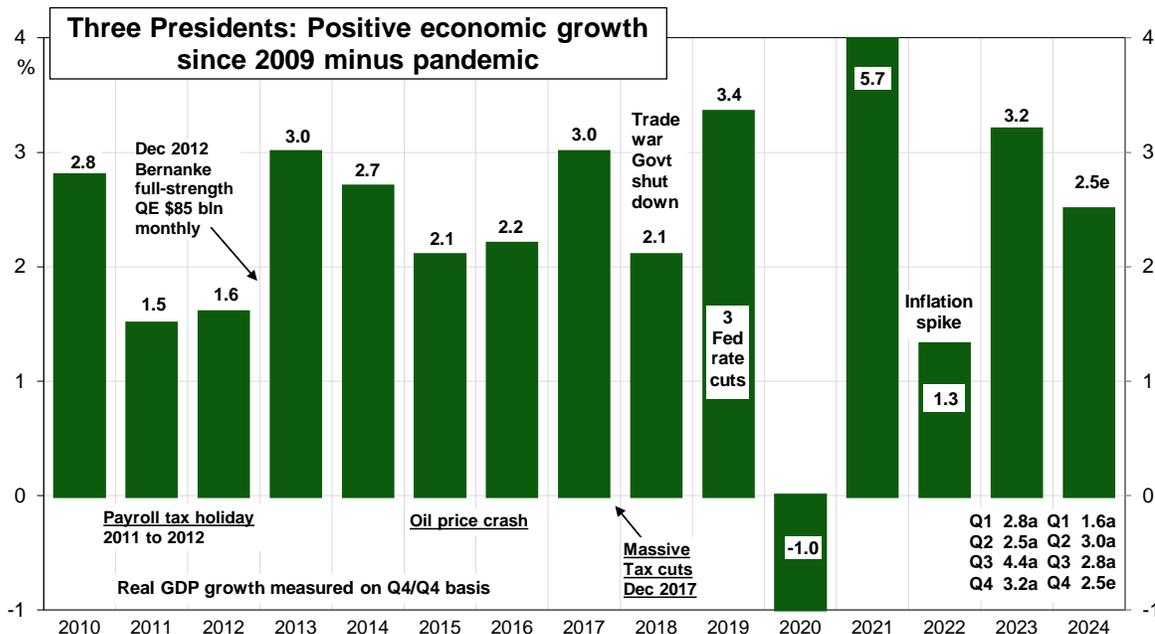
### Strongest economy in the world (Wednesday)

Breaking economy news. First look at real GDP growth Q3 2024 2.8% versus 3.0% in Q2 2024. Consumer spending 3.7% in Q3 2024 versus 2.8% in Q2 2024. There is a lot of talk out on the campaign trail about what is needed to fix the economy, but someone forgot to look at the economic data because consumer spending and business investment in new equipment is on fire. This is the strongest economy in the world right now,

Net, net, for the economy it is always domestic demand that is most important and right now the US consumer is buying everything that isn't nailed down as apparently they are not allowing the upcoming election to delay those trips to the mall. Uncertainty, what uncertainty? The economy now is stronger than it was before the pandemic and trying to convince people otherwise is just completely foolhardy. The economy by almost every measure is better than it was 4 years ago. And the outlook is for more of the same with growth the envy of the world. Per capita growth for an economy of this size with a population over 300 million is simply jaw dropping. Growth would be even faster if the US did not rely on imports and produced the goods here. Imports were a 1.5 percentage point drag on growth which means GDP growth would be over the top if we produced all those goods and services here. Stay tuned. Stick with policies that work and for now, whatever Washington is doing is the right thing because the economy looks stronger and better than ever. The US economy is the envy of the world. Bet on it.

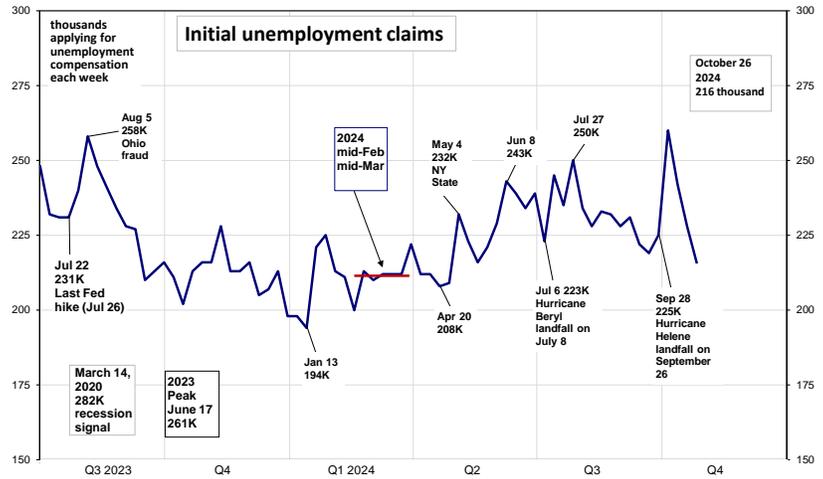
	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24p
<b>REAL GDP</b>	2.4	4.4	3.2	1.6	3.0	2.8
<b>REAL CONSUMPTION</b>	1.0	2.5	3.5	1.9	2.8	3.7
<b>CONSUMPTION</b>	0.7	1.7	2.3	1.3	1.9	2.5
Durables	0.0	0.3	0.2	-0.1	0.4	0.6
Nondurables	-0.1	0.4	0.5	-0.1	0.2	0.7
Services	0.7	1.0	1.6	1.6	1.3	1.2
<b>INVESTMENT</b>	1.4	1.8	0.2	0.6	1.5	0.1
Business Plant & Equipment and Intellectual Property	0.5	0.1	0.2	0.2	0.0	-0.1
Homes	0.6	-0.1	0.0	0.0	0.5	0.6
Inventories	0.2	0.2	0.3	0.4	0.0	0.0
Homes	0.2	0.3	0.1	0.5	-0.1	-0.2
Inventories	-0.1	1.3	-0.5	-0.5	1.1	-0.2
<b>EXPORTS</b>	-0.5	0.5	0.7	0.2	0.1	0.9
<b>IMPORTS</b>	0.4	-0.6	-0.6	-0.8	-1.0	-1.5
<b>GOVERNMENT</b>	0.5	0.9	0.6	0.3	0.5	0.9
Federal defense	0.0	0.2	-0.1	-0.1	0.2	0.5
Fed nondefense	-0.1	0.1	0.0	0.1	0.0	0.1
State and local	0.6	0.6	0.6	0.3	0.3	0.3

Below line: Percentage point contributions to Q3 2024 2.8% real GDP  
 Second estimate for Q3 is Wednesday, November 27



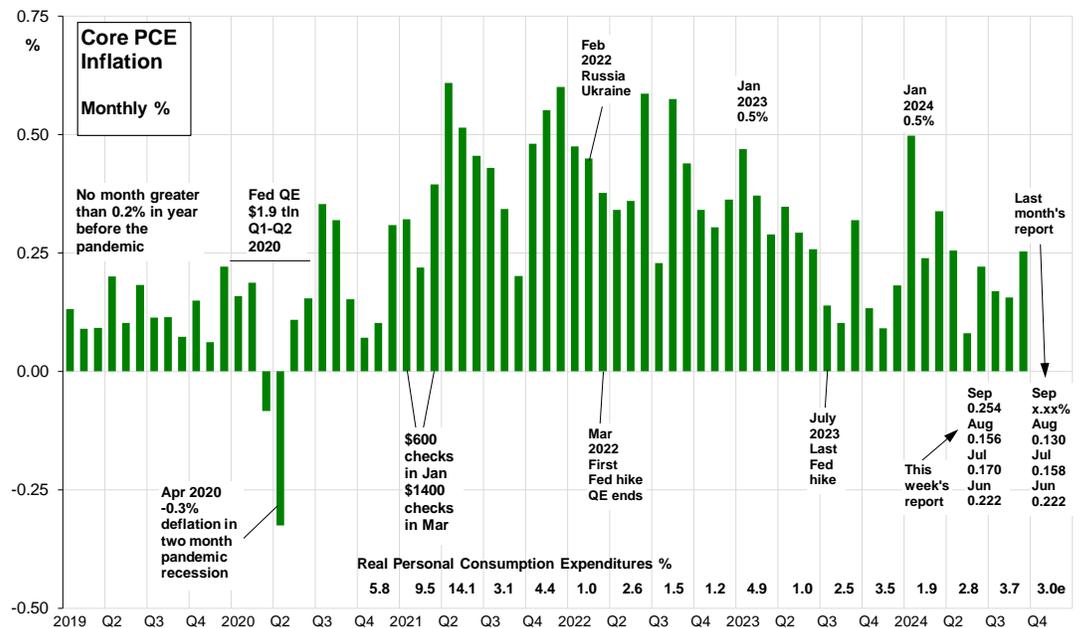
### Economy heating up (Thursday)

Breaking economy news. Weekly jobless claims fell 12K to 216K in the October 26 week so the labor market is not deteriorating, the recent 260K peak in the October 5 week notwithstanding. The personal income report shows a strong finish to 3.7% Q3 2024 real consumption expenditures in yesterday's 2.8% real GDP report because consumer spending is already up 1.2% in the fourth quarter based on pure momentum with no monthly data yet of course for October, November, and December. Core PCE inflation remains stuck at 2.7% year-on-year every month of the third quarter, and a long way from reaching the Fed's 2.0% target to say nothing of the fact that core CPI inflation year-year is way up at 3.3% as reported a couple of weeks ago for the month of September. Core PCE inflation was 0.3% (barely 0.254) in September after 0.2% readings in July and August.



Net, net, the economy is not just doing well, it is heating up with job layoffs diving, core consumer inflation moving higher, and real consumer spending finishing the quarter with a bang, all of which makes one wonder if Fed officials would be wise to cut interest rates again next week if they are truly data dependent. This is not a fabled soft landing, economic growth is literally taking off again. The October monthly employment report is supposed to slow with the Boeing strike and a couple of hurricanes expected to depress job creation, but the timeliest of economic indicators, the weekly unemployment claims data, suggest the economy is weathering the storms and companies are not doing any serious belt-tightening and laying off workers because they sense a downturn is coming.

So much for caution and uncertainty from the national elections ahead, the economy is not slowing down, it is picking up. The economic outlook looks like a bright one regardless of who takes the White House and Congress in the elections next week.



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