Monday October 9, 2023

SUMMARY-

I. Jobs data surprises to the upside.

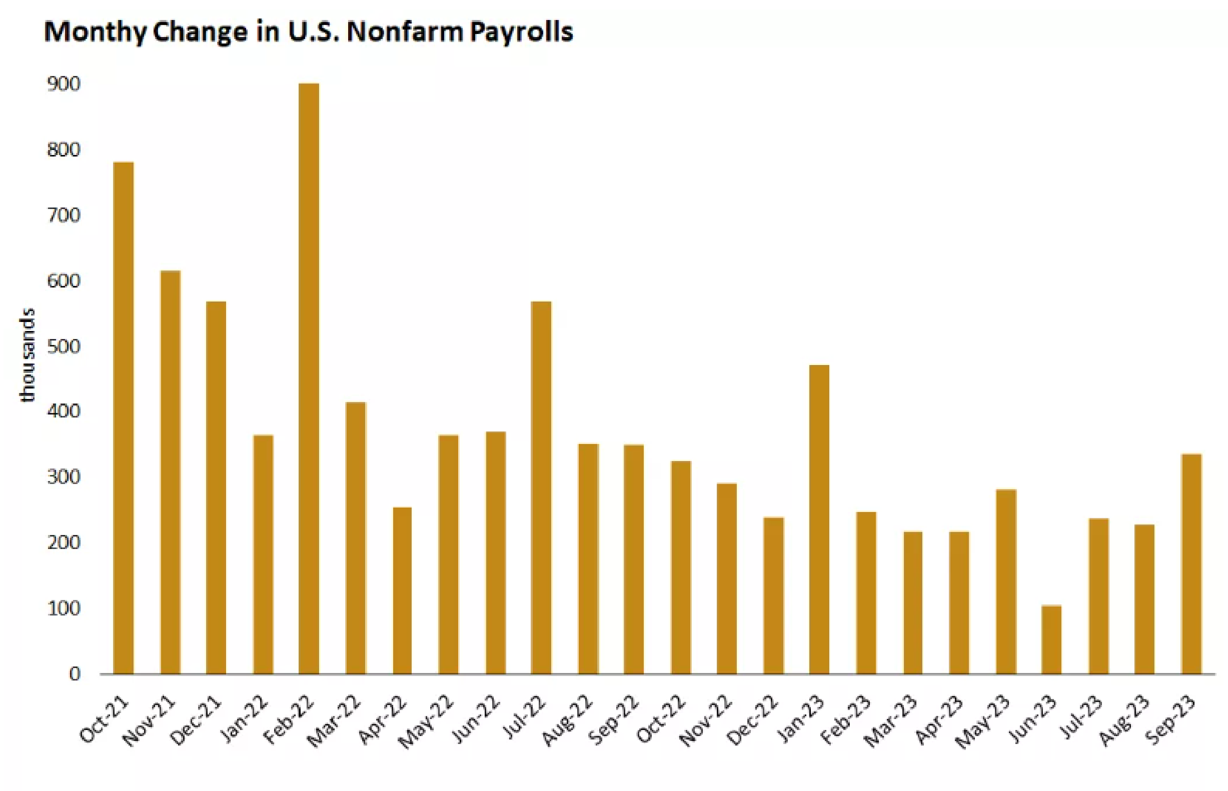
II. Declining wage growth could prompt Fed to remain on hold.

III. Interest rates may be peaking as equity correction could be near end.

IV. Surprise attack on Israel heightens anxiety regarding escalation.

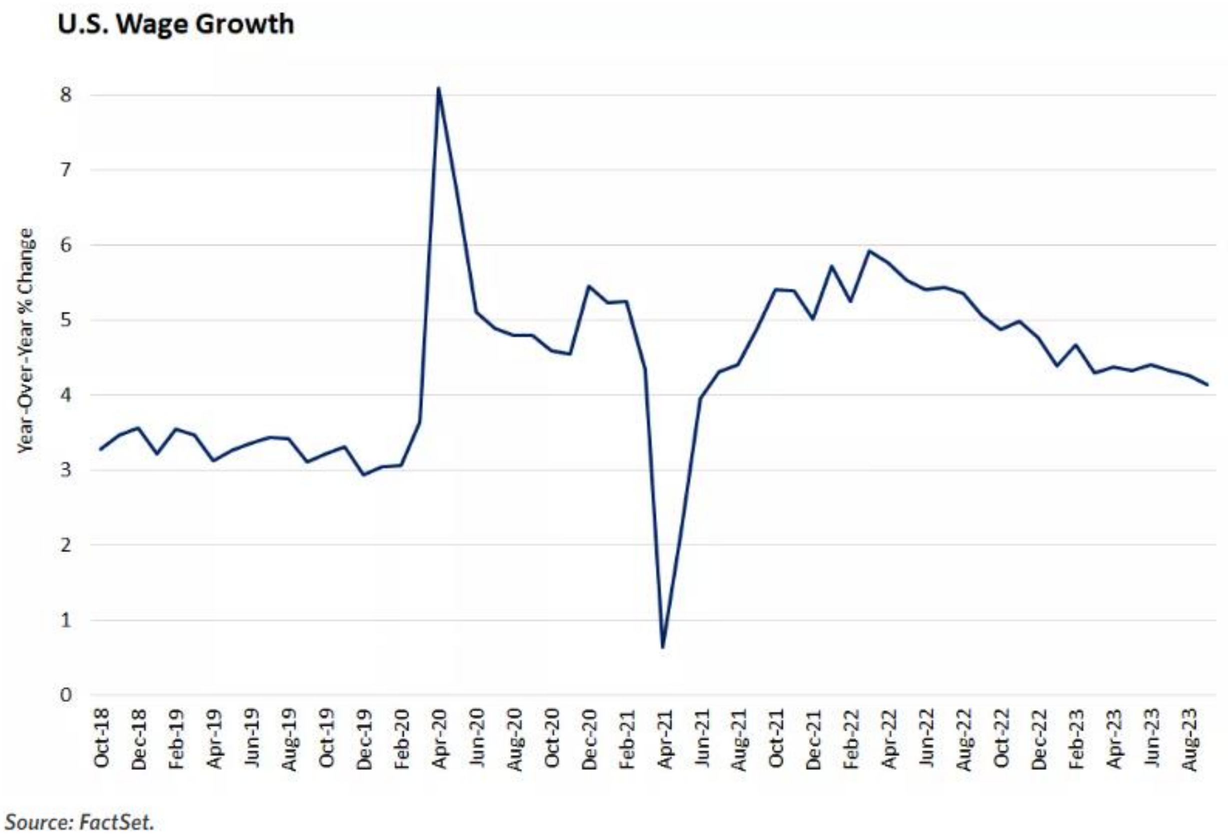
Good morning:

Last week's September jobs report initially drove markets further into correction territory before bargain hunters stepped in and sparked a strong oversold rally that enabled growth stock averages to recover all of their earlier losses and finish the week in positive territory. By Friday's close, the S&P 500 added 0.5% and the tech-heavy NASDAQ gained 1.6% while the Dow lost 0.3%. In its best result since January, the economy added 336,000 new jobs in September, well above the consensus estimate and a noticeable acceleration from the prior 3-month average of 190,000. The unemployment rate remained steady at 3.8%.

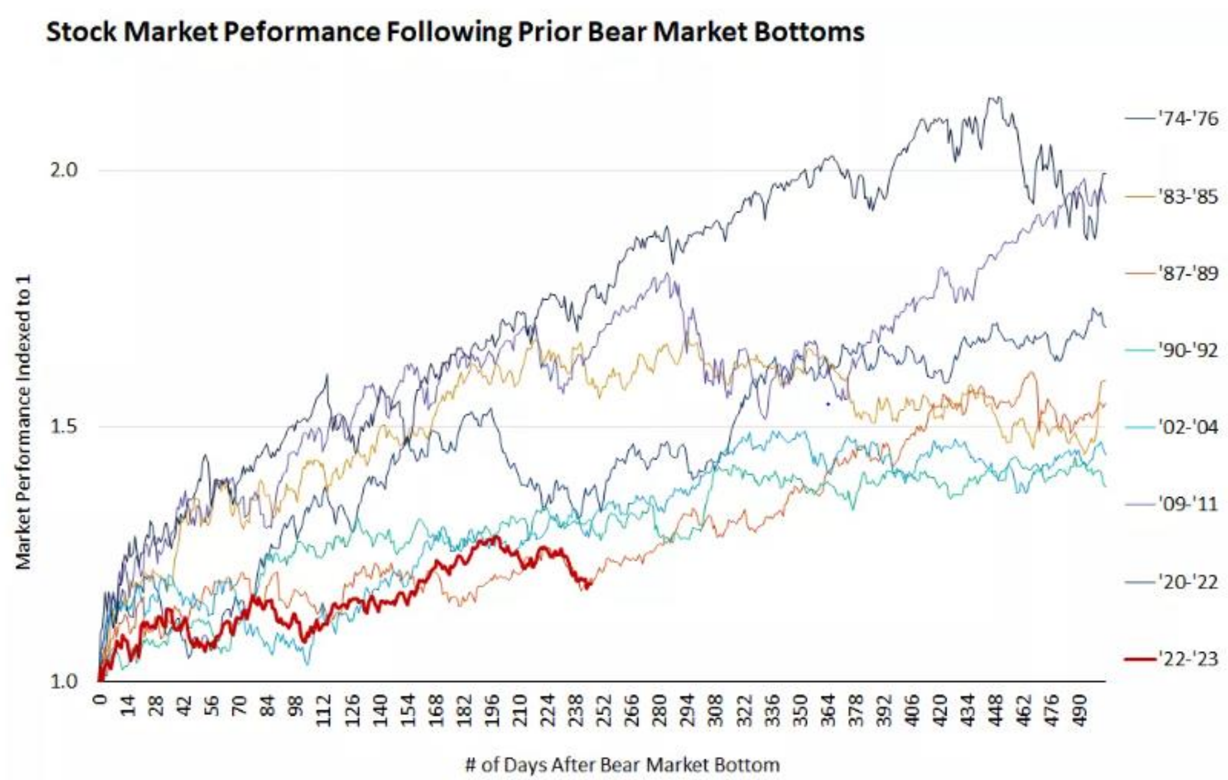


Source: FactSet.

While the labor report shows the ongoing resiliency of the U.S. economy and bolsters the prospect of continued strong consumer spending, it also adds to the Fed's list of inflationary concerns as they approach their final FOMC meeting in about three weeks. Hopefully, the Fed will choose to focus on the primary non-inflationary aspect of the jobs data. Wage growth continues to moderate as it has for most of this year. As wage inflation is generally regarded as a key component to most inflationary environments, declining wage growth bodes well for the Fed to remain on hold, if not declare an end to this tightening cycle in near future.



Depending on whether Friday's rebound carries its momentum into this week, we may be seeing the end of this correction that was sparked by surging bond rates and the Fed's "higher for longer" rhetoric. Ultimately, we will be watching the combination of interest rates, economic data, and Q3 corporate earnings and guidance that will dictate market direction in the coming weeks. However, for what it's worth, the month of October was not only the low point of last year's bear market, but many of the other bear market lows of the past 50 years as well (1974, 1990, 2002, 2022), in addition to the famous "Black Monday" selloff in October of 1987. If inflation continues to moderate, bond yields stabilize, and earnings come in close to expectations, all of which are plausible, then equities could continue to recover ground between now and year end. As the chart below illustrates, the one-year point after a bear-market bottom has historically continued its upward direction for significantly more time.



Source: Bloomberg – Index: S&P500

In a potential attempt to thwart the significant peace negotiations between Saudi Arabia and Israel, the surprise and wide-ranging attacks on Israel over the weekend by Iranian-backed Hamas mark a tragic new catalyst to broader war and further bloodshed in the Middle East. As the repercussions unfold over the coming weeks and Israel forcefully responds to these actions and attempts to defend itself and reestablish its security, it is possible that things could escalate into an even wider conflict in the region. If this happens, markets will be watching any interruptions or potential impact in the price of oil, along with any other market-moving consequences.

During such periods of transitioning economic and fluid geopolitical situations, it is important for investors to expect heightened volatility and remain focused on their longer-term goals and investment objectives. Making large portfolio moves or major allocation decisions in reaction to periods of fear or uncertainty rarely prove successful in the long run.

Have a safe week.

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Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US