

OBSERVATIONS

- In a volatile week, the S&P 500 rallied +5.7% last Monday and Tuesday, the best two day stretch for the index since April 6-7 of 2020, but then fell steeply on Friday and ended the week only +1.5%.¹
- Most recent JOLTS (Job Openings and Labor Turnover Summary) showed job openings declined by -1.1 million jobs to 10.1 million available jobs. That decline stands as the largest month-over-month decline since April 2020. The most significant declines in job availability were in health care (-236,000), other services (-183,000), and retail trade (-143,000).²
- ISM Manufacturing PMI index registered 50.9 in September down from August's 52.8 reading but still signaling expansion—any index value over 50 denotes net growth—in the US manufacturing sector.¹
- The ISM Services PMI index dropped slightly from August but registered a 56.7 reading in September suggesting strong growth in the US service sector.¹ The ISM services PMI is at odds with IHS-Markit Services PMI which has shown a deterioration in the US services sector over the past three months and it is signaling a slight contraction in the sector. The IHS-Market Services PMI is based on a larger survey—400 firms vs the ISM's survey of 300 firms—but excludes services associated with agriculture, mining, utilities, and construction sectors.³
- Construction spending slowed down in August from July—largely due to a drop off in single-family home construction—but for the first 8-months of the year, construction spending was 10.9% greater than the first eight-months of 2021.¹
- OPEC countries and Russia agreed last week to cut production of oil by up to 2 million barrels per day amid slumping demand and slowing growth in order to boost prices.⁴ Oil (WTI Crude) increased from \$80 per barrel to \$92 per barrel during the course of the week.

EXPECTATIONS

- Micron announced plans to invest \$100 billion over the next 20+ years in a megafab facility in New York state. The investment is expected to generate 50,000 new jobs and comes on the heels of the recently passed bipartisan CHIPS and Science Act.⁵
- As we head into the kick-off of Q3 earnings season, the number of companies issuing positive guidance for Q3 increased to 41 from the Q2 figure of 31. The 41 instances of positive guidance are above both the 5-year average (39) and 10-year average (32). However, the number of firms issuing negative guidance for Q3, 65 instances, decreased from Q2, which had 72 instances of negative guidance. However, 61 firms issuing negative guidance is above the 5-year average (58 instances), and just below the 10-year average of 62 instances of negative quarterly guidance.⁶

ONE MORE THOUGHT: Labor Market to Soften, But Remain Tight in Q4-2022⁷

The US labor market remains very tight. In the latest jobs report last Friday, the US economy created over 260,000 jobs in September. The unemployment rate ticked lower to 3.5%, and average hourly wages increased 5.0% year-

¹ Bloomberg LP

² <https://www.bls.gov/news.release/jolts.nr0.htm>, Bloomberg LP

³ <https://ihsmarkit.com/research-analysis/sp-global-and-ism-service-sector-surveys-compared.html>

⁴ https://www.wsj.com/articles/opeac-agrees-to-biggest-oil-production-cut-since-start-of-pandemic-11664978144?mod=Searchresults_pos5&page=1

⁵ <https://www.micron.com/ny/fact-sheet>

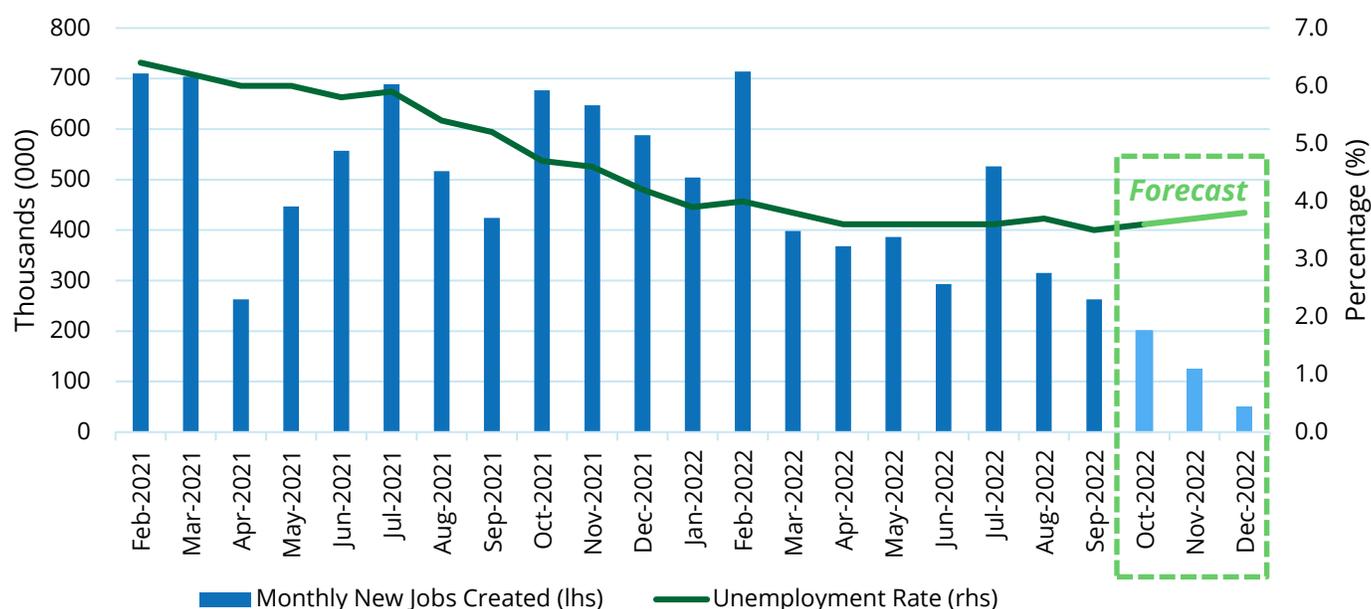
⁶ <https://insight.factset.com/more-sp-500-companies-issuing-positive-eps-guidance-for-q3-compared-to-past-two-quarters>

⁷ <https://www.bls.gov/news.release/empst.nr0.htm>

over-year. Given this strong jobs report and the number of open job listings—over 10 million listings in August—one might expect the labor force participation rate to increase, which would indicate that discouraged workers have dusted off their resumé and are again looking for work. But actually, the opposite has occurred—labor force participation actually fell by -0.1% last month. For the past several months, the labor force of prime working age adults—those ages 25 to 55—has returned to its pre-Covid norms and teenage labor force participation is actually higher than before the pandemic. However, workforce participation for those over 55 years of age is still about 5% below its pre-pandemic norm. The Covid pandemic likely accelerated some retirements and lingering anxiety related to the pandemic may have permanently lowered this older cohorts willingness to participate in the formal jobs market. Monetary policy works with a lag to slow the economy, and we expect that job creation will begin to ebb in the final months of 2022 (see Chart of the Week), but US labor market may be structurally tighter than in pre-Covid times because many older workers may have permanently left the labor market.

CHART OF THE WEEK

US Labor Market Remains Tight in Q4



Source: Clearstead, Bloomberg LP, St. Louis Federal Reserve, 10/7/2022

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