

## OBSERVATIONS

- After one of the slowest starts in twenty years, M&A sees a small flurry of activity in recent days as Newmont Mining announced the year's largest deal to date with a \$17bn deal to buy Australian miner Newcrest Mining. Meanwhile, storage company Public Storage made an unsolicited \$11bn bid for Life Storage.<sup>1</sup>
- Rising interest rates drove the US government's net interest payments to \$475 billion in 2022, a 35% increase over 2021 and a new nominal high. As a line item, interest expense would rank 5<sup>th</sup> in terms of expenditures behind Social Security, Medicare, Medicaid, and defense spending.<sup>2</sup>
- The Dodge Momentum Index—a leading indicator of commercial construction—weakened modestly in January after 10-straight months of gains and hitting a 20-year high last December. The index suggests that 2023 will be a strong year for non-residential construction.<sup>3</sup>
- Jobless claims rose to 196k from the prior week's reading of 183k. While initial jobless claims may tick higher in coming months the current reading of 196k ranks in the lowest 3% of all weekly claims recorded since 1967. Even more astounding is the 4-week moving average, meant to smooth the data, now sits at 189k which is in the top 1% of all observations. Meanwhile, weekly jobless claims data have averaged about 368k over the past sixty years, so the labor market has a way to go just to get back to "average."<sup>4</sup>
- The Japanese government named Kazuo Ueda, a former economics professor and Bank of Japan (BoJ) policy board member, as the new head of the BoJ. Largely seen as dovish in his orientation, Mr. Ueda recently advocated for staying the course in terms of the BoJ's ultra-loose monetary policy.<sup>4</sup>
- Nearly 70% of the S&P 500 firms have reported earnings and thus far only 69% have beaten their earning estimates, which is below the 5-year (77%) and 10-year (73%) average for earnings beats. Overall, Q4 earnings are expected to be -4.9% lower than Q4-2021, which is the first quarterly loss since Q3-2020.<sup>5</sup>

## EXPECTATIONS

- Stock buybacks announced so far this year set a record for the start of a year, triple the pace from 2022. In January alone, more than \$130 billion of buybacks were announced, buoyed by Chevron's \$75 billion share buyback announcement. Expectations for buybacks were muted given the new 1% excise tax imposed on stock repurchases as passed in the Inflation Reduction Act of 2022.<sup>1</sup>
- Fed Chair Powell's speech led nearly a half dozen Fed member speeches during last week. Powell again noted the disinflationary process had begun and "not at the cost of a strong labor market." Also noted was that services related inflation excluding food, energy, and housing—so called 'Supercore' Inflation—remains too high. Nearly all Fed speakers noted that more work was needed with regards to inflation.<sup>6</sup>

## ONE MORE THOUGHT: States could be an economic stabilizer<sup>7</sup>

State and local governments (SLGs) hold nearly \$137 billion in reserve funds thanks to pandemic related stimulus (part of which now ironically becomes the basis for the looming debt ceiling debates at the Federal level) and the

<sup>1</sup> Bloomberg LP

<sup>2</sup> <https://www.crfb.org/blogs/net-interest-payments-topped-475-billion-fy-2022>

<sup>3</sup> <https://www.construction.com/news/January-2023-Starts>

<sup>4</sup> <https://www.wsj.com/articles/japan-to-name-kazuo-ueda-backer-of-zero-rates-as-next-central-bank-head-c283f998>

<sup>5</sup> [https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight\\_021023.pdf](https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_021023.pdf)

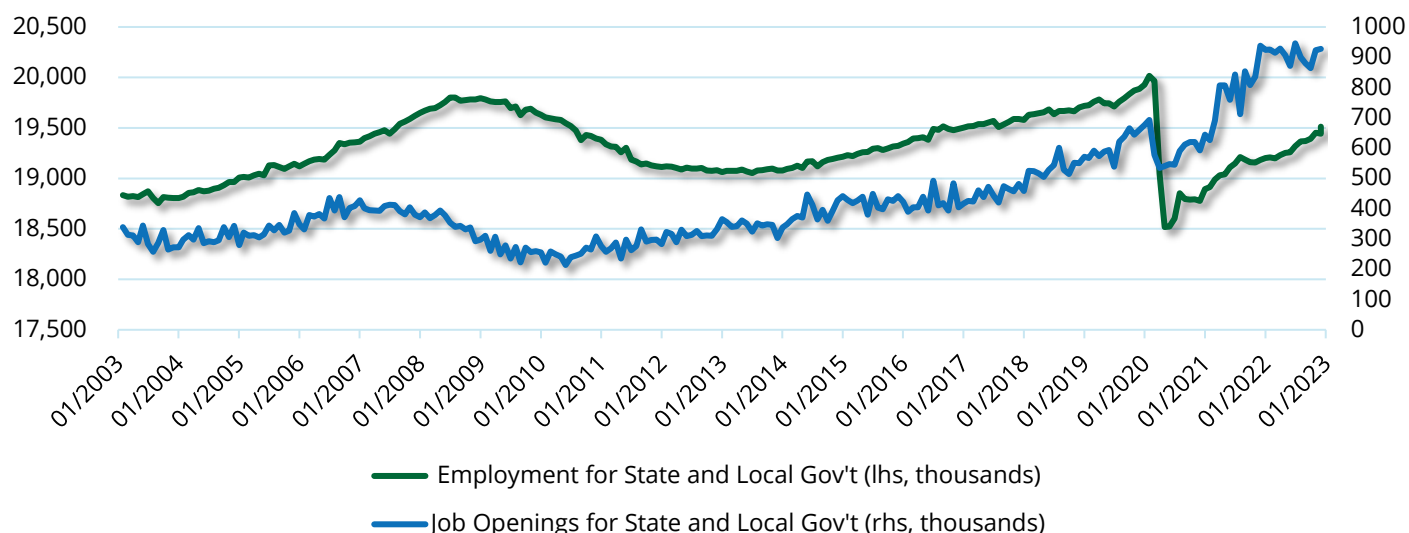
<sup>6</sup> <https://www.barrons.com/articles/fed-chair-jerome-powell-speech-talk-live-today-51675787406>

<sup>7</sup> [https://www.wsj.com/articles/states-are-flush-with-cash-which-could-soften-a-possible-recession-11675544984?mod=economy\\_lead\\_pos5](https://www.wsj.com/articles/states-are-flush-with-cash-which-could-soften-a-possible-recession-11675544984?mod=economy_lead_pos5)

post pandemic recovery. That figure is the highest on record (1988) and is likely to also help blunt the impact of an economic slowdown—should that come to pass in 2023. Since SLGs must balance budgets on a yearly basis, the reserves stand to help alleviate the need to cut workforce and spending during an economic downturn when tax revenues would normally be expected to decline. SLGs account for over 10% of total spending in the US, while they account for 13% of total payrolls—that is more than the manufacturing, construction, or retail sectors making these ‘rainy-day’ funds even more important for stabilizing SLGs. Clearly risks remain that expenditures or jobs could be slashed despite the significant reserves held by SLGs in the event of recession. Meanwhile, like the 60-year lows in unemployment (3.4%) recently registered for the broad economy, trends for SLG employment remain tight much like the rest of the labor market. SLG job openings are near peak at over 900k openings, while total employment for SLGs is -2.5% (or 505k jobs) below the pre pandemic peak. With seemingly little room for cuts in the workforce (even after accounting for job opening overstatement), combined with \$137 billion of reserves, stability can be expected from this sector of the economy, at least in 2023.

CHART OF THE WEEK

Employment at State and Local Governments



Source: Clearstead, Bloomberg LP, Employment data as of as of 1/31/2023, Job Opening data as of 12/31/2022 from the Job Opening and Labor Turnover Survey

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