

OBSERVATIONS

- Markets were quiet last week until Friday when they moved up sharply with the S&P 500 gaining +1.5%—closing just shy of its mid-July record high—and small caps (Russell 2000) gaining +3.6% for the week, while the yield on a 10-year Treasury was steady falling only -8 basis points to end the week at 3.80%.¹
- The BLS issued its preliminary revision to the jobs figures from April-2023 to March-2024 last week with the release of the latest Quarterly Census on Employment and Wages (QCEW) report. This report covers over 50 million businesses nationally and indicates that -818k fewer jobs were created over that 12-month period, which equates to about -68k less jobs created per month than initially reported.¹ (see Chart of the Week)
- Architectural Billings Index—a leading indicator of non-residential construction—increased in July to 48.2 from June's 46.4 figure, but any figure below 50 denotes that over half of all architectural firms are seeing a decline in billing activity.¹
- Initial unemployment claims increased by 4k last week to reach 232k total new claims, which was in line with expectations. Over the past eight weeks initial claims are on par with last year during the same eight-week summer period.¹
- Existing home sales increased by +1.3% month-over-month (MoM) in July to 3.95 million units (annualized rate) but remain down -2.5% compared to sales in July-2023.¹
- New home sales beat expectations and increased in July to 739k (annualized rate), which was a +10.6% MoM increase compared to June. Compared to last year, new home sales were up +5.6% year-over-year.¹

EXPECTATIONS

- The release of the minutes from the Fed's July meetings showed that a "vast majority" of Fed officials noted that if current trends in easing inflation continued it would be "appropriate to ease policy at the next meeting" in September.¹
- Similarly, last Friday, Fed Chairman, Jerome Powell, used his speech at the Jackson Hole conference of central bankers to clearly signal that a Fed cut in September is likely and that he has gained confidence that inflation is moving sustainably towards the Fed's long-term inflation target of 2%.²
- Vice President Kamala Harris formally accepted the Democratic Party nomination and broadly outlined several policy initiatives that have bearing on the US economy including programs to assist first-time homebuyers, select tax hikes, measures to blunt price gouging, and an expansion of a child-tax credit. The details of these policies—as well as their ability to pass Congress should Harris win in November—are likely to become clearer over the coming weeks as well as their projected impact to US debt and deficit dynamics.³

ONE MORE THOUGHT: Coincident (Real-Time) Indicators of Economic Strength¹

The sell-off of equity markets that occurred in late July and early August was attributed, at least in part, to the notion that economic growth and job creation had sputtered. Fears mounted that a slew of softer than expected economic figures were signaling that the Fed had kept rates too high for too long and that the US might not escape this hiking cycle without slipping into a recession. However, while there has been some weakening of select economic indicators, other data points continue to suggest the US economy is stable and fears of a near-term recession look overdone. For instance, broad measures of travel and leisure spending look fine. Weekly data on TSA checkpoint

¹ Bloomberg LP 8/23/2024

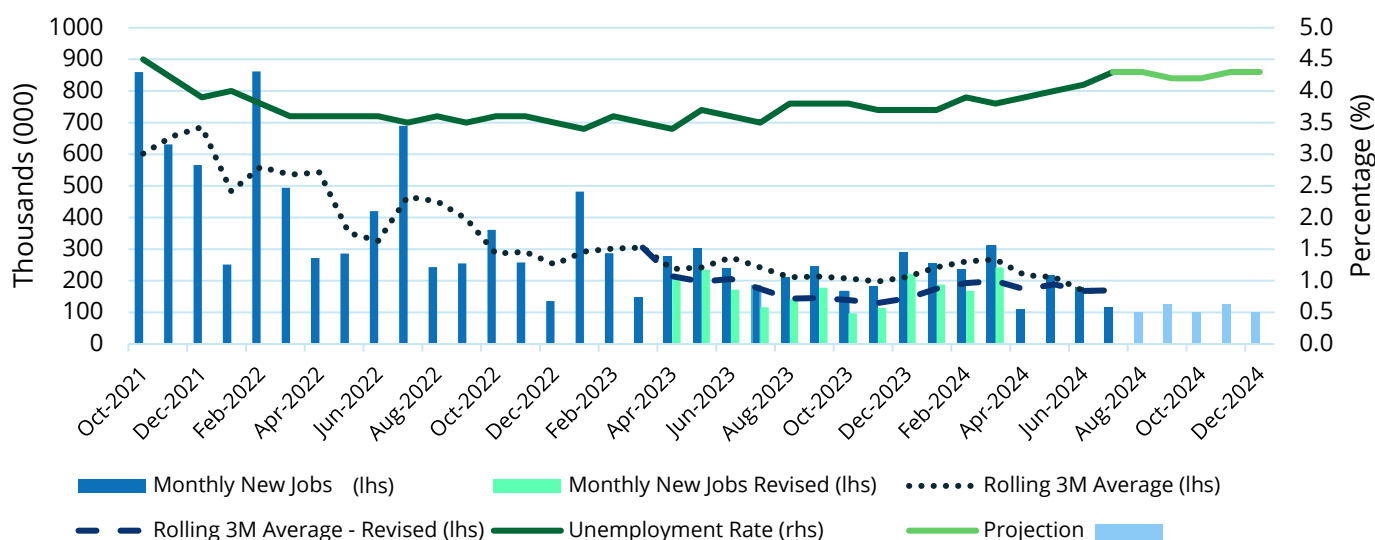
² <https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm>

³ https://www.wsj.com/politics/policy/how-kamala-harris-would-govern-aefc6150?mod=hp_lead_pos9

volume is at record highs and hotel occupancy rates show no signs of weakness and are generally on par with last year's activity. Similarly, data on corporate bankruptcies seems to be improving rather than deteriorating. Overall corporate spreads remain below their long run averages suggesting bond markets are not overly concerned, at present, about corporate insolvency. The unfortunate reality seems to be that our older rules of thumb regarding forward looking indicators of a potential recession—such as the inverted yield curve, the Conference Boards' Leading Indicators, or even the Sahm Rule—may not be that relevant in the aftermath of the Covid-period's disruption to global supply chains and labor markets. In terms of the labor market, downward revisions to the monthly payroll numbers based on QCEW data is normal—it has occurred in seven of the past 10 years—and given the response rate to monthly jobs surveys has fallen in recent years post-Covid it seemed likely that this year's preliminary revision numbers were going to be larger than in the past. Nonetheless, while it showed that the US economy has created fewer jobs than previously thought it still shows widespread job creation over the past year. Similarly, weekly initial unemployment claims data—a coincident (not leading) indicator of economic weakness—show no clear trend towards a weakening labor market. Weekly economic indicators rarely can forecast a recession, but they are a reasonable barometer if you are presently experiencing a contracting economy and, so far, they are not even flashing yellow.

CHART OF THE WEEK

US Job Creation Revised Lower



Source: Clearstead, BLS 8/23/2024; Preliminary revision based on initial QCEW data; Projections assume an approximate decline of approximately -25k jobs per month before leveling off ≈100k level.

Aneet Deshpande, CFA
Chief Investment Officer

Dan Meges
Chief Economist & Head of Global Equity

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