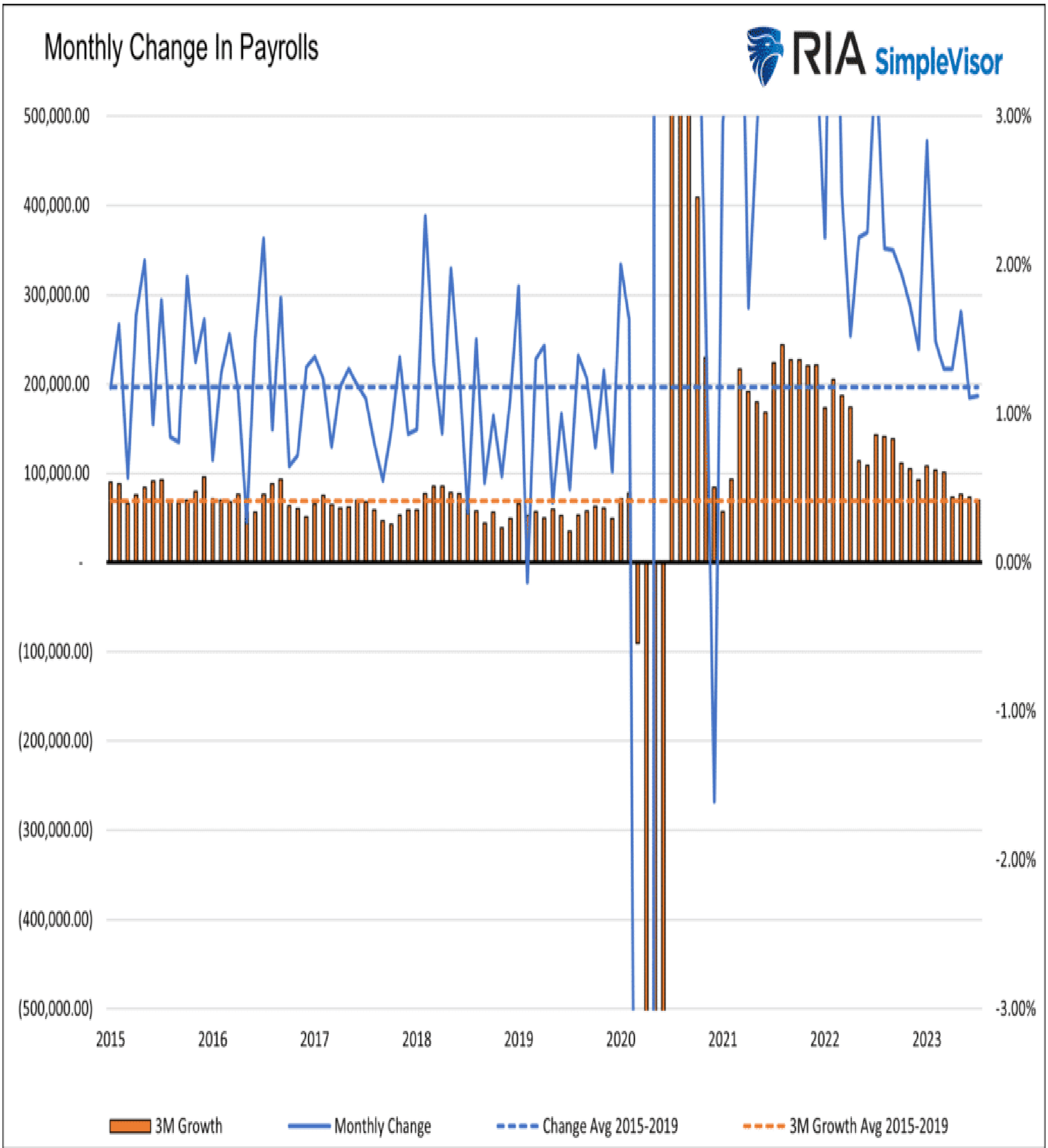
The Employment Report Shows Normalizing Job Growth

The BLS employment report showed that job growth has finally normalized to pre-pandemic levels. Per the employment report, 187k new jobs were added, slightly below the 200k expectation. Such is the lowest monthly job growth since December 2020. The unemployment rate ticked down from 3.6% to 3.5%. Hourly wages were up slightly, but hours worked offset it falling by a tenth of a percent. Revisions to the employment report reduced job growth by 25k for May and 24k for June. Interestingly, every payroll release this year has been revised lower. As we share in the Tweet of the Day, that is the longest streak since the Financial Crisis.

The graph below charts the monthly change in payroll growth and the 3-month average growth rate of payrolls. The dotted lines show the average rate for both data from the pre-pandemic 2015-2019 time frame. Per the latest employment report, job growth is now back to average. Now the bigger question is whether employment growth will level out around the average or continue to trend lower. Based on this week?s JOLTs data and recent weekly jobless claims data, we do not suspect the trend will decline. That said, the ISM service sector employment survey is hovering just above contractionary levels at 50.7. Service sector jobs have been driving the growth in the labor market.


Monthly Change In Payrolls
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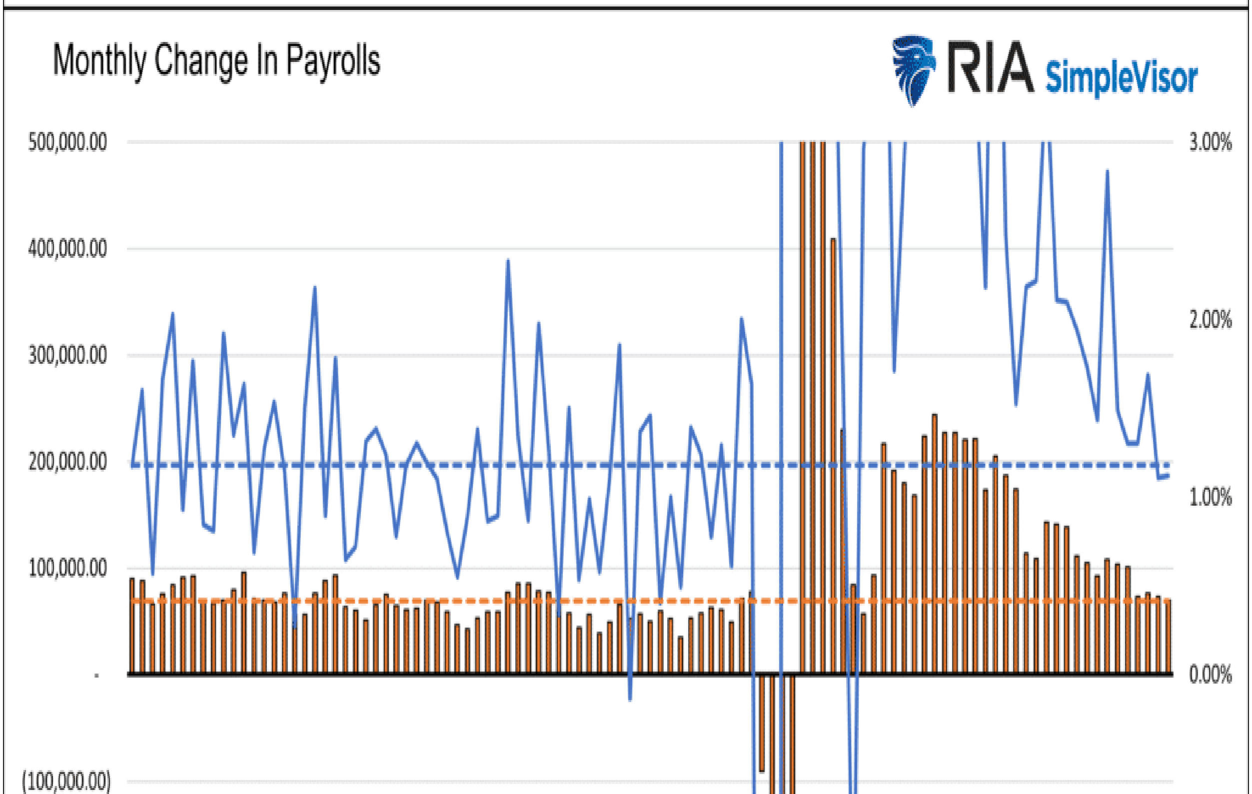
2017
2018
2019
2020
2021
2022
2023
3M Growth
Monthly Change
Change Avg 2015-2019
3M Growth Avg 2015-2019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(100,000.00)
3.00%
2.00%
1.00%
0.00%

What To Watch Today

Earnings

Time	Symbol	Company Name	Market Cap ▾	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	KKR	KKR & Co. Inc.	$51,012,037,031	Jun/2023	$0.58	5	8/02/2022	$0.64
	PLTR	Palantir Technologies Inc.	$39,636,104,004	Jun/2023	$0.01	7	8/08/2022	($0.09)
	OKE	ONEOK, Inc.	$29,513,357,231	Jun/2023	$1	7	8/08/2022	$0.92
	BNTX	BioNTech SE	$25,702,009,886	Jun/2023	($0.75)	6	8/08/2022	$7.31
	CTRA	Coterra Energy Inc.	$20,981,454,498	Jun/2023	$0.36	9	8/02/2022	$1.32
	IFF	International Flavors & Fragrances, Inc.	$20,448,123,257	Jun/2023	$1.10	7	8/08/2022	$1.54
	TSN	Tyson Foods, Inc.	$20,010,213,582	Jun/2023	$0.34	3	8/08/2022	$1.94
	SWKS	Skyworks Solutions, Inc.	$17,360,596,421	Jun/2023	$1.43	9	8/04/2022	$2.12
	CE	Celanese Corporation	$13,534,291,068	Jun/2023	$2.46	9	7/28/2022	$4.99
	LCID	Lucid Group, Inc.	$12,637,968,506	Jun/2023	($0.35)	2	8/03/2022	($0.33)
	VTRS	Viatris Inc.	$12,529,863,332	Jun/2023	$0.71	4	8/08/2022	$0.88
	ACM	AECOM	$12,067,874,513	Jun/2023	$0.95	3	8/08/2022	$0.86
	PARAA	Paramount Global	$11,975,623,174	Jun/2023		3	N/A	$0.64
	WTRG	Essential Utilities, Inc.	$10,802,546,696	Jun/2023	$0.34	2	8/03/2022	$0.31
	HSIC	Henry Schein, Inc.	$10,258,860,748	Jun/2023	$1.25	9	8/02/2022	$1.16
	PARA	Paramount Global	$9,831,998,615	Jun/2023	($0.01)	7	8/04/2022	$0.64
	SWAV	ShockWave Medical, Inc.	$9,185,121,194	Jun/2023	$0.86	6	8/08/2022	$0.68
	PRI	Primerica, Inc.	$7,853,842,328	Jun/2023	$3.79	5	8/08/2022	$2.86
	FIVN	Five9, Inc.	$5,827,929,609	Jun/2023	($0.35)	10	7/28/2022	($0.29)

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Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
MONDAY, AUGUST 7						
15:30	USD 3-Month Bill Auction		-	-	-	5.28%
15:30	USD 6-Month Bill Auction		-	-	-	5.27%
19:00	USD Consumer Credit Change(Jun)		-	-	$11B	$7.24B

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Market Trading Update

This past week?s debt downgrade by Fitch sent the media into a tizzy. However, it was just the catalyst needed to start the correction we discussed over the last few weeks. As *noted two weeks ago:*

> *?We must remember that market advances can only go so far before an eventual correction occurs. My best guess is that if the markets are to reach all-time highs this year,* ***we will likely have a correction to reset some of the more extreme overbought conditions, as shown below. Any pullback to the 50-DMA is likely a good entry point to increase exposure on a better risk/reward basis.?***

As noted, that correction started this past week. There are several important points in the chart below.

1. *The negative divergence of the MACD and RSI was a warning sign of an impending correction. All that was needed was a catalyst to spook buyers: the debt downgrade.*
2. *There was a significant uptick in the volatility index for the first time since May. (**As discussed in ?Complacency?**)*
3. *Moving average support levels are important indicators of the potential depth of the correction.*

TradingView

On Friday, the market rallied to and failed at the 20-DMA. That technical failure of resistance potentially puts the 50-DMA as the next target of the correction. With the Relative Strength Index (RSI) not oversold and the MACD indicator on a *?sell signal,?* continuing the correction this week would be unsurprising.

As discussed over the last few weeks, a 3-5% correction should be expected and is normal within any given market year. However, a 10% correction to the 200-DMA is also not out of the question and is also entirely normal. With both bullish price momentum and elevated investor sentiment, this correction process remains a buying opportunity for higher asset prices into year-end.

The Week Ahead

With second-quarter earnings mainly behind us, this week?s focus will be inflation and the Fed. Thursday, CPI is expected to show a 0.2% increase in the monthly inflation rate and a slight increase in the annual rate to 3.3%. Core inflation is expected to stay flat at +4.8%. PPI is expected to show 0.7% annual inflation. The Fed will pay close attention to these reports as they contemplate what to do at their next meeting.

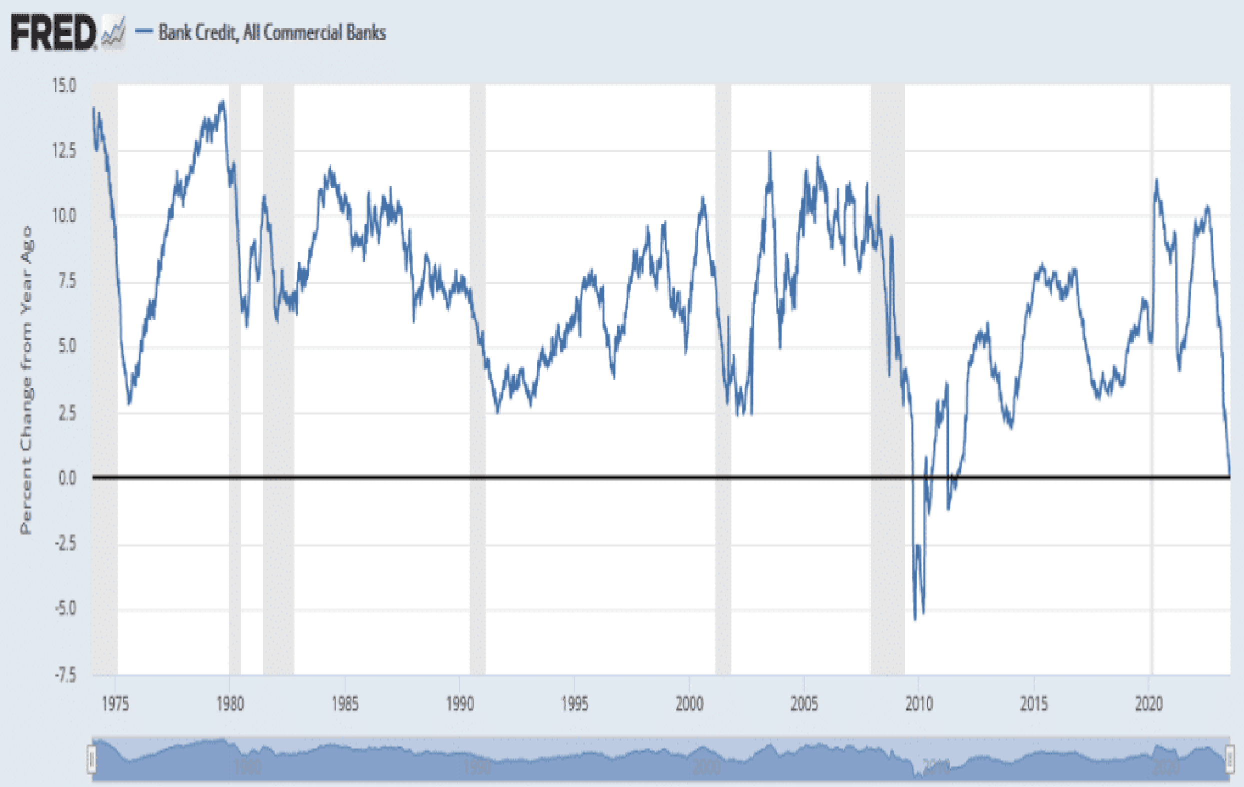
With the Fed?s annual Jackson Hole Summit coming in late August, we must start paying attention to any leaks from Fed members that may provide hints about changes in their policies or the economic outlooks used to arrive at policy. Additionally, it will be interesting to hear if the recent surge in interest rates is swaying their views. The recent trends in employment and higher long-term interest rates should provide a little comfort that Fed Funds can stay at the current level.

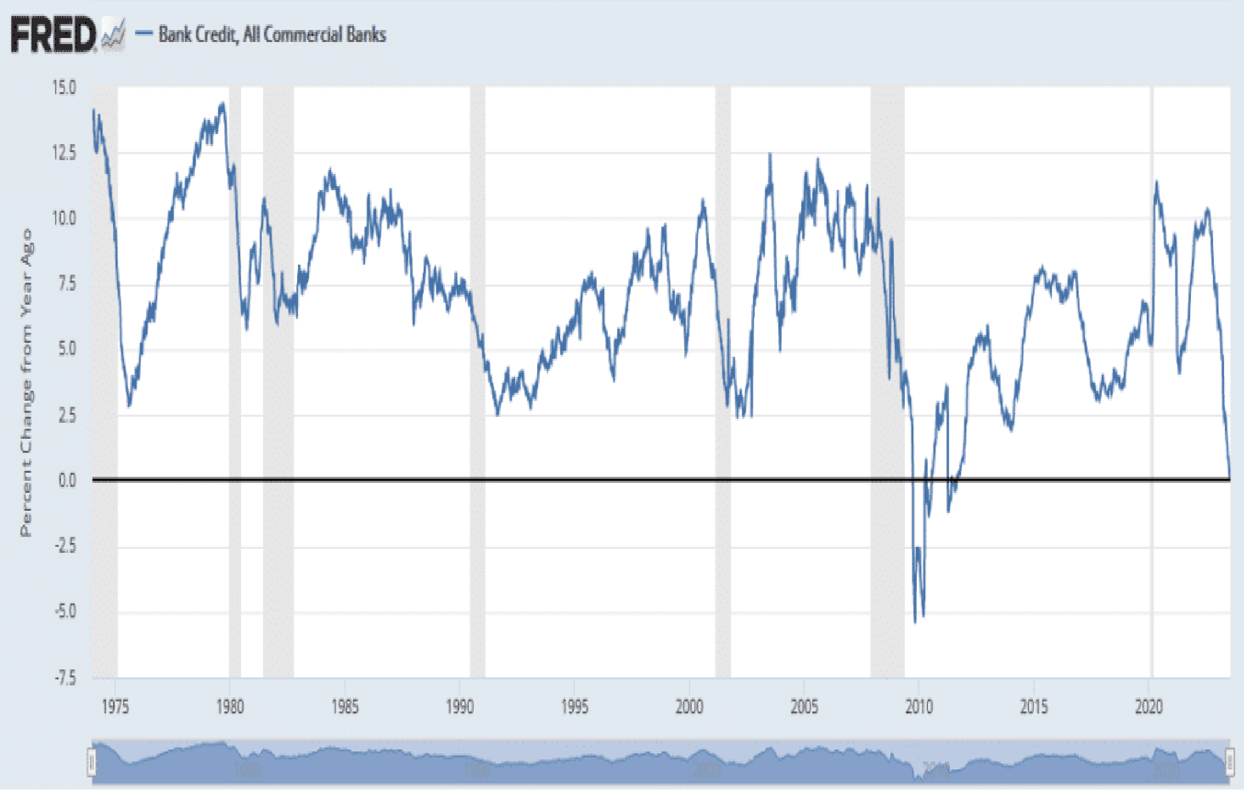
No Chance Of A Soft Landing, Says Rosenberg

In a recent MarketWatch article, No Chance We Are Having A Soft Landing, David Rosenberg explains why a recession is inevitable. The article opens with the following quote:

> *?Recessions are like an odorless gas. They sneak up on you.?*

He elaborates that there is ?*no chance we?re having a soft landing*,? given the amount and speed of monetary tightening of the last 15 months. He notes that bank credit has been contracting, and banks are adding cash assets, not loans, to their balance sheets. As we have mentioned, negative debt growth is a significant headwind to economic growth. The graph below shows that bank credit growth has only shrunk twice since 1975. The first was during the 2008 financial crisis, and the second is now.





Regarding the timing of a potential recession, Rosenberg states:

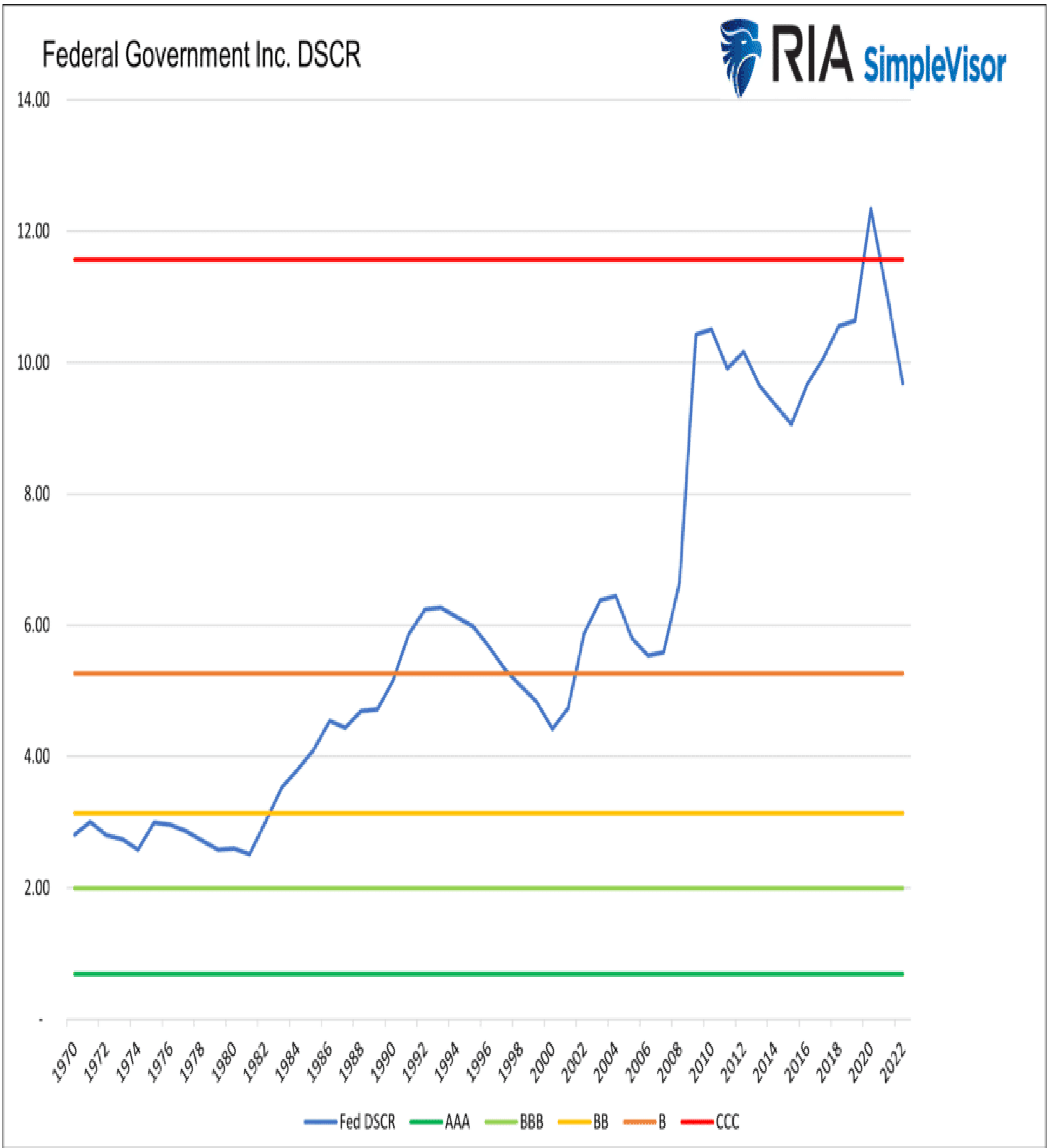
> *I wasn?t talking about a recession happening in 2022. Everybody knows there?s a lag of between six [and] 18 months. The recession may not start until next year. It could start this coming quarter. There?s evidence that recession may have already started, if you look at real GDI [gross domestic income] instead of real GDP, and look at the index of aggregate hours worked instead of just nonfarm payroll. People are trying to fit the macro narrative into what?s been happening in the stock market. The stock market doesn?t always tell you what?s happening with the economy.*

Re-Rating The Government

?*The rating downgrade of the United States reflects the expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to ?AA? and ?AAA-rated* peers over the last two decades,? -Fitch.

When Fitch says ?*governance relative to AA and AAA-rated peers*,? they refer to other nations. Not surprisingly, most other large developed countries, i.e., peers, have similar debt struggles and poor fiscal governance. Ergo, the AA- credit rating may be appropriate on a relative basis. However, what if we compare the credit rating to that of a company?

When Fitch assesses debt for a company, they use the debt service coverage ratio (DSCR), among other measures. DSCR compares the amount of debt to its corporate cash flows. DSCR tells us how easily a company can pay off its debt. The government?s DSCR is just under 10. In other words, the debt load is ten times the annual tax receipts. The horizontal lines are NYU Stern School estimates of the appropriate credit rating based on DSCR for non-financial corporations. **As shown, the government?s DSCR would land it firmly in junk bond territory between a B and CCC rating!**



Federal Government Inc. DSCR
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Fed DSCR
AAA
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Federal Government Inc. DSCR
RIA SimpleVisor
14.00
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Tweet of the Day

Kantro
@MichaelKantro

6th consecutive month of negative Nonfarm Payroll revisions (bottom panel). That's occurred twice before: in 2H 2007 and 1H 2002. #hopE

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2023/08/07

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