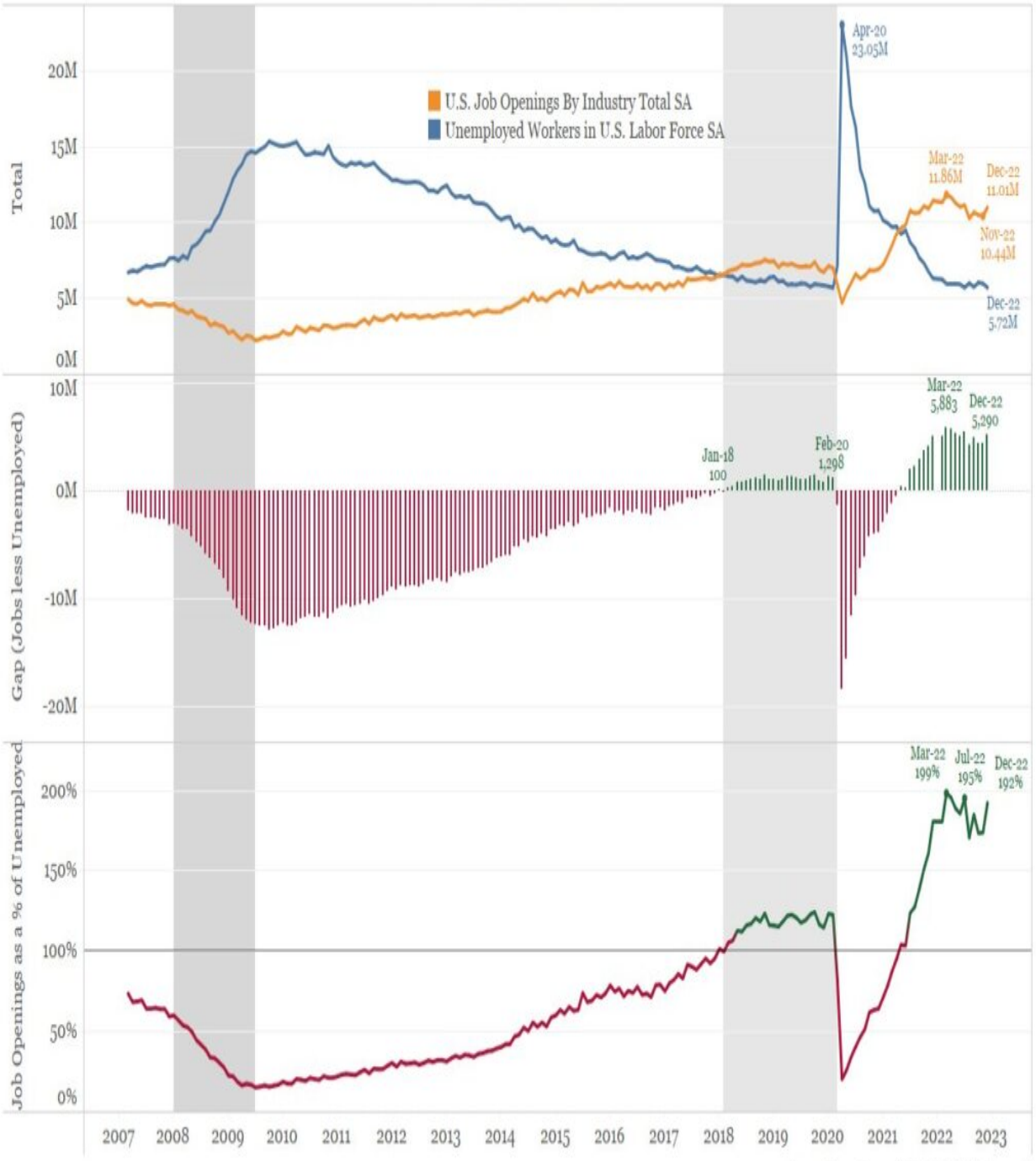
BLS Employment Preview - RIA

Heading into today?s BLS employment report, it?s worth summarizing other recent labor market data. Keep in mind, the BLS employment report and the jobs data we review below is of utmost importance to the Fed as they remain hawkish in fear of a price-wage spiral.

ADP shows a marked slow down in job growth. 106k jobs were added in January, down from 253k in December. Leisure and hospitality jobs added 95k jobs accounting for almost 100% of the gain. They do warn some of the weakness is weather related. Per ADP?s Chief Economist- ***?In January, we saw the impact of weather-related disruptions on employment during our reference week. Hiring was stronger during other weeks of the month, in line with the strength we saw late last year.?***

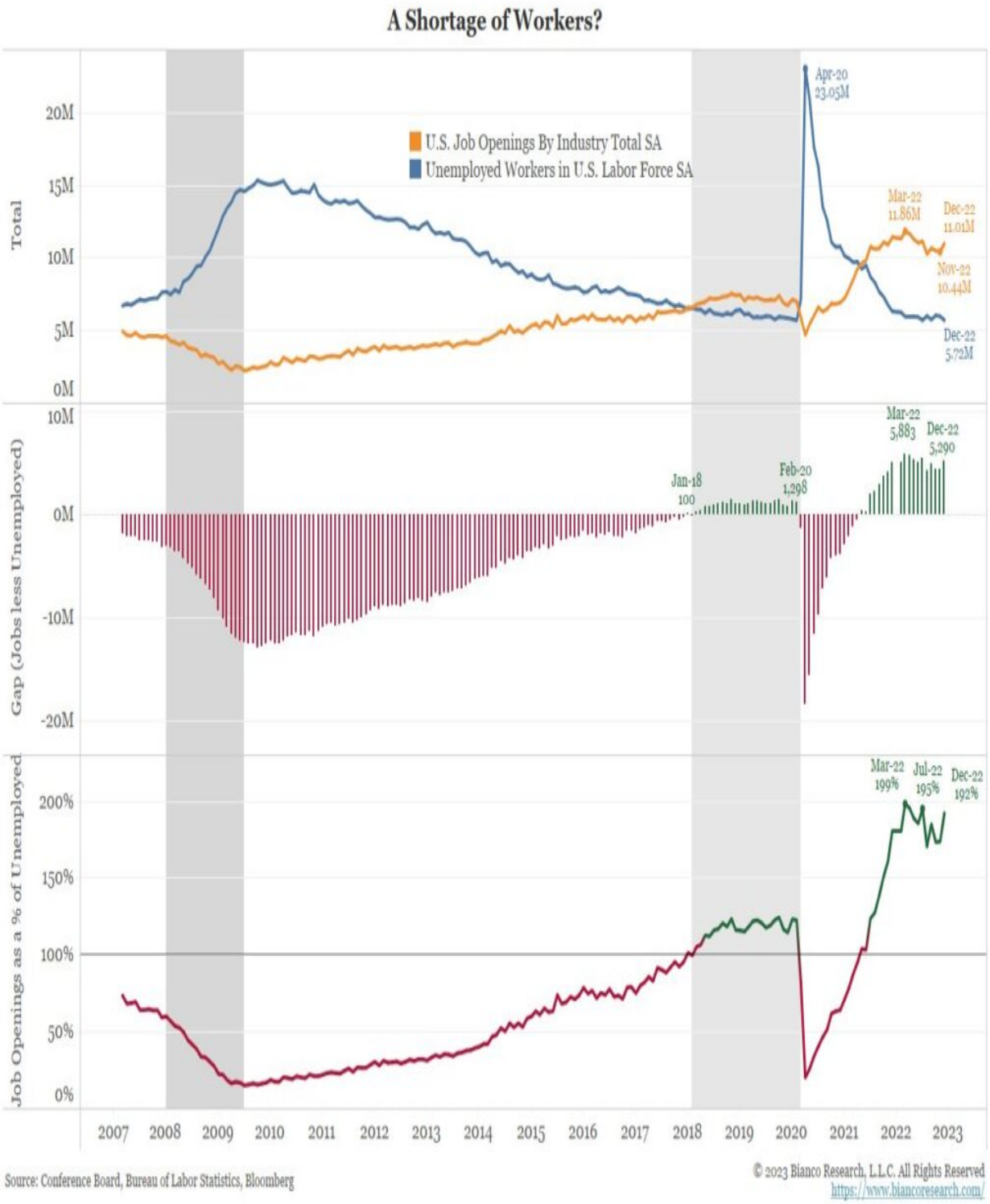
While ADP was weaker, JOLTs data was surprisingly strong. JOLTs is for December, unlike ADP and the BLS employment report, which cover January. The number of job openings rose by 572k to 11 million. Like the ADP report, leisure and hospitality jobs account for a large chunk of the openings. As shown below, the ratio of vacancies to unemployed workers rose to 1.92 from 1.74 in November and 1.81 a year ago. Lastly, the Employment Cost Index (ECI) confirmed a deceleration of wages. The 4% annualized wage growth over the last quarter is still above pre-covid levels, but it?s falling. In summary, there are some signs of weakness, but the data summarized above and recent initial jobless claims data do not lead us to believe the BLS employment report will be troublesome.

A Shortage of Workers?



Source: Conference Board, Bureau of Labor Statistics, Bloomberg

© 2023 Bianco Research, L.L.C. All Rights Reserved
https://www.biancoresearch.com/



What To Watch Today

Economy

- 8:30 a.m. ET: **Two-Month Payroll Net Revision**, January (-28,000 prior)
- 8:30 a.m. ET: **Change in Nonfarm Payrolls**, January (190,000 expected, 223,000 prior)
- 8:30 a.m. ET: **Change in Private Payrolls**, January (190,000 expected, 220,000 prior)
- 8:30 a.m. ET: **Change in Manufacturing Payrolls**, January (6,000 expected, 8,000 prior)
- 8:30 a.m. ET: **Unemployment Rate**, January (3.6% expected, 3.5% prior)

- 8:30 a.m. ET: **Average Hourly Earnings**, month-over-month, January (0.3% expected, 0.3% prior)
- 8:30 a.m. ET: **Average Hourly Earnings**, year-over-year, January (4.3% expected, 4.6% prior)
- 8:30 a.m. ET: **Average Weekly Hours All Employees**, January (34.4 expected, 34.3 prior)
- 8:30 a.m. ET: **Labor Force Participation Rate**, January (62.3% expected, 62.3% prior)
- 8:30 a.m. ET: **Underemployment Rate**, January (6.5% prior)
- 9:45 a.m. ET: **S&P Global U.S. Services PMI**, January Final (46.6 prior)
- 10:00 a.m. ET: **S&P Global U.S. Composite PMI**, January Final (46.6 prior)
- 10:00 a.m. ET: **ISM Services Index**, January (50.5 expected, 49.6 prior, revised to 49.2)

Earnings

	Company	Time	Estimate		Growth		Surprise
					Show only confirmed?		
CI	CIGNA Corp.	6:00 AM ET	$4.84	$45.79 B	0.2%		
BBU	Brookfield Business ...	BMO	$1.43	$3.15 B	-76.6%		
SAN	Banco Santander - C...	$0.14	$14.25 B	$0.13	$14.43 B	5.8%	7.7%
LYB	LyondellBasell Indust...	6:30 AM ET	$1.09	$10.73 B	-16.4%		
SSUMY	Sumitomo Corp	DMH	-	-	-		
SNY	Sanofi	BMO	$0.90	$11.85 B	3.7%		
REGN	Regeneron Pharmac...	6:30 AM ET	$8.18	$3.18 B	-35.8%		
RICOY	Ricoh Company, Ltd.	BMO	$0.19	$4.06 B	6.6%		
AON	AON Plc	6:00 AM ET	$3.67	$3.13 B	1.6%		
ASAZY	ASSA ABLOY AB	BMO	$0.16	$3.08 B	6.4%		
ZBH	Zimmer Biomet Holdi...	6:30 AM ET	$1.83	$1.76 B	-13.6%		
AVTR	Avantor, Inc.	6:05 AM ET	$0.30	$1.80 B	-5.6%		
CHD	Church & Dwight Co.,...	6:55 AM ET	$0.60	$1.40 B	2.3%		
BSAC	Banco Santander-Chi...	BMO	$0.34	$630.20 M	-53.2%		
ARCB	Arcbest Corp.	6:00 AM ET	$2.64	$1.25 B	5.5%		
BEPC	Brookfield Renewabl...	BMO	($0.15)	$1.21 B	10.9%		
BEP	Brookfield Renewabl...	6:50 AM ET	($0.04)	$1.06 B	-2.8%		
CBOE	Cboe Global Markets,...	7:30 AM ET	$1.77	$458.66 M	-47.1%		

	Company	Time	Estimate		Growth		Surprise
					Show only confirmed?		
CI	CIGNA Corp.	6:00 AM ET	$4.84	$45.79 B	0.2%		
BBU	Brookfield Business ...	BMO	$1.43	$3.15 B	-76.6%		
SAN	Banco Santander - C...	$0.14	$14.25 B	$0.13	$14.43 B	5.8%	7.7%
LYB	LyondellBasell Indust...	6:30 AM ET	$1.09	$10.73 B	-16.4%		
SSUMY	Sumitomo Corp	DMH	-	-	-		
SNY	Sanofi	BMO	$0.90	$11.85 B	3.7%		
REGN	Regeneron Pharmac...	6:30 AM ET	$8.18	$3.18 B	-35.8%		
RICOY	Ricoh Company, Ltd.	BMO	$0.19	$4.06 B	6.6%		
AON	AON Plc	6:00 AM ET	$3.67	$3.13 B	1.6%		
ASAZY	ASSA ABLOY AB	BMO	$0.16	$3.08 B	6.4%		
ZBH	Zimmer Biomet Holdi...	6:30 AM ET	$1.83	$1.76 B	-13.6%		
AVTR	Avantor, Inc.	6:05 AM ET	$0.30	$1.80 B	-5.6%		
CHD	Church & Dwight Co.,...	6:55 AM ET	$0.60	$1.40 B	2.3%		
BSAC	Banco Santander-Chi...	BMO	$0.34	$630.20 M	-53.2%		
ARCB	Arcbest Corp.	6:00 AM ET	$2.64	$1.25 B	5.5%		
BEPC	Brookfield Renewabl...	BMO	($0.15)	$1.21 B	10.9%		
BEP	Brookfield Renewabl...	6:50 AM ET	($0.04)	$1.06 B	-2.8%		
CBOE	Cboe Global Markets,...	7:30 AM ET	$1.77	$458.66 M	-47.1%		

Market Trading Update ? The Nasdaq

The Nasdaq has entered the bull market phase as the recent surge has pushed it clear of the 200-DMA and the downtrend from the January highs. While everyone had counted out the FANG stocks, we ***suggested at the market lows in early November;*** **s**uch was not likely the case.

Since then, the Nasdaq has had a spectacular run, with many FANG stocks and beaten-up technology far outpacing the rest of the market.

With the Nasdaq pushing well into 3-standard deviations above the 50-DMA, the MACD *?buy signal?* at more extreme levels, and the Williams %R Index (%R) near zero, all suggest the market is well due for a pullback. **Such a corrective phase should at least see a retest of the downtrend line and the 200-DMA.** If the market can work off some overbought conditions but not break technical support levels, such will be a good opportunity to increase technology/growth-related exposures.

The markets are well ahead of fundamentals currently, so be patient chasing markets here.



TradingView



More Warnings about the January Effect

In Thursday?s Commentary, we noted the flaws with the January effect. We also used 2001 as a reason for caution. Per our advice:

> *In 2001, the Nasdaq started the year with an 8% gain in January. By September, it was down 54% year to date. It rallied to close the year down 35%, resulting in a lot of pain for those following the January effect.*

In the table below, Morgan Stanley compares January 2001 to last January. In particular, they show how the 2000 laggards were the top performers in January 2001. Similarly, last years laggards led the way this January. As the title says, Morgan Stanley thinks January?s rally will not end well. Below the table, Morgan Stanley explains that it?s not just the performance of laggards that explains their bearishness. There are other similarities worth noting.

Exhibit 18: ...We Think a Similar Dynamic Will Happen This Time Around

	Prior Year Performance of Last Yr.'s Laggards	Jan. Performance of Last Yr.'s Laggards	Feb. Performance of Last Yr.'s Laggards
2001	-31%	17%	-15%
2023	-37%	15%	TBD

Source: FactSet, Morgan Stanley Research; data shown are averages across the bottom performing industry groups.

Exhibit 18: ...We Think a Similar Dynamic Will Happen This Time Around

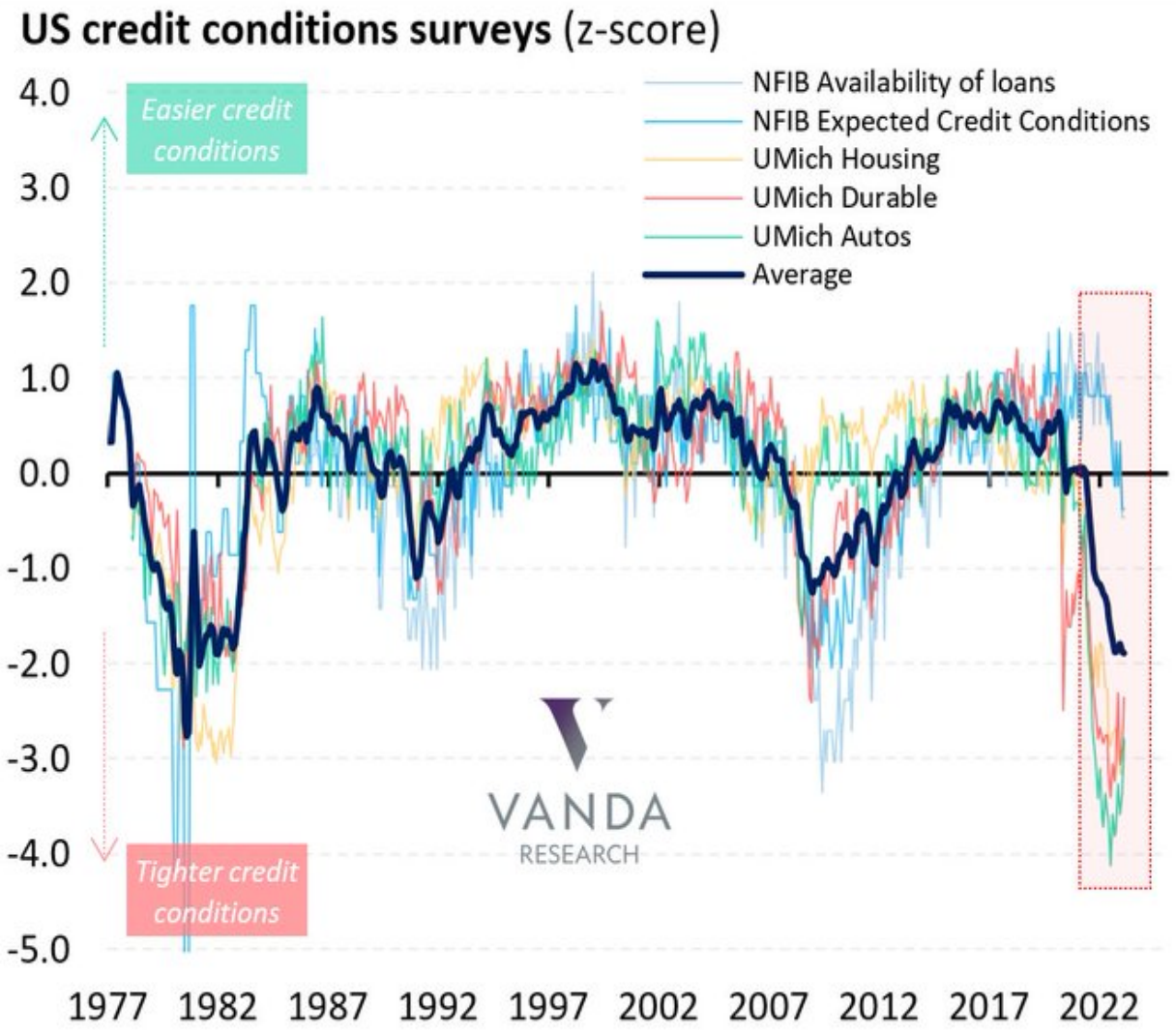
	Prior Year Performance of Last Yr.'s Laggards	Jan. Performance of Last Yr.'s Laggards	Feb. Performance of Last Yr.'s Laggards
2001	-31%	17%	-15%

2001. In January 2001, forward EPS was down ~4.5% from the peak (like it is today), the ISM Composite PMI was ~50 (like it is today), and the unemployment rate was still right around cycle lows (like it is today). As earnings season progressed, corporate news flow turned more negative, and layoff announcements ramped up. In February 2001, year-over-year forward EPS growth turned negative (as we expect it to in February of this year). What followed was a ~20% price drawdown through the end of March and a shallow labor cycle thereafter. While every cycle is different (composition of the Tech sector is very different today, inflation was lower, the Fed was cutting, 9-11 and corporate governance headwinds make the aftermath of that period different), we find value in this comparison.
2001. In January 2001, forward EPS was down ~4.5% from the peak (like it is today), the ISM Composite PMI was ~50 (like it is today), and the unemployment rate was still right around cycle lows (like it is today). As earnings season progressed, corporate news flow turned more negative, and layoff announcements ramped up. In February 2001, year-over-year forward EPS growth turned negative (as we expect it to in February of this year). What followed was a ~20% price drawdown through the end of March and a shallow labor cycle thereafter. While every cycle is different (composition of the Tech sector is very different today, inflation was lower, the Fed was cutting, 9-11 and corporate governance headwinds make the aftermath of that period different), we find value in this comparison.

Financial Conditions ? Another Opinion

Financial conditions, as defined by Powell, are generally easing. His definition of financial conditions heavily emphasizes stock prices, bond yields, and the dollar. As the graph below shows, Vanda Reserach thinks financial conditions are not easing. Their gauge thinks they are tightest since the late 1970s. The factors used for their gauge are things that truly matter to the real economy. If they are correct, the lagged effect of extremely tight financial conditions will result in a recession, and the Fed quickly pivoting to a much more accommodative stance.

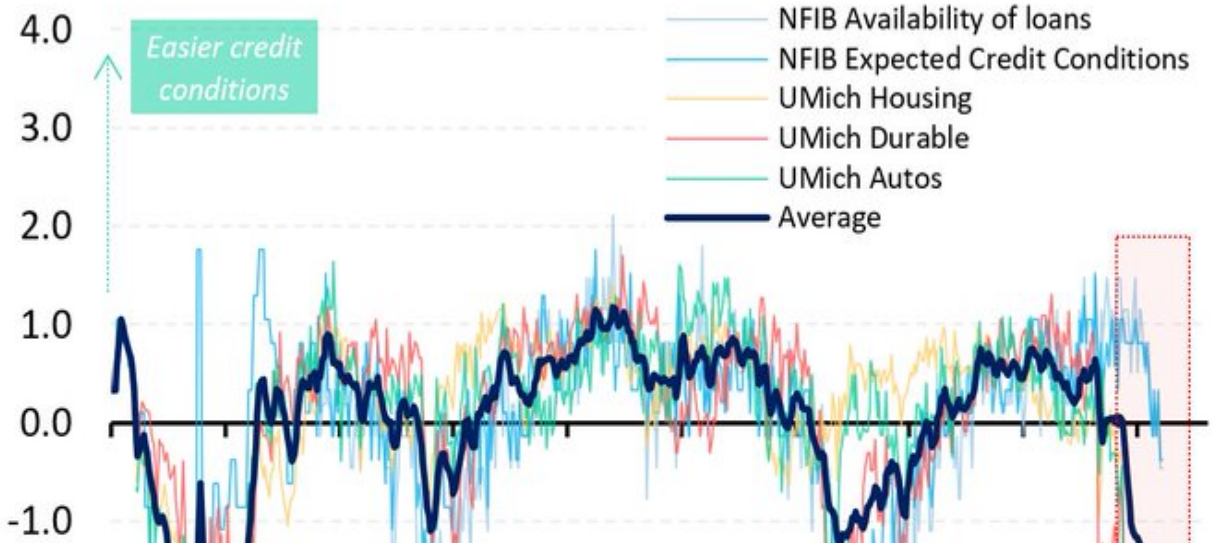
Chart 2C: US credit conditions don't suggest that things are significantly 'easing'… UMich surveys at cycle lows



*Jan '23 average assumes no change to NFIB; **UMich surveys are buying conditions for sector

Source: Bloomberg, Vanda

Chart 2C: US credit conditions don't suggest that things are significantly 'easing'… UMich surveys at cycle lows





Small Caps Vs. Large Caps Favor Goldilocks

Jeffrey Marcus from Turning Point Analytics (TPA) thinks the recent outperformance of small cap versus large cap stocks is another indicator that the market is betting on a soft landing, aka the Goldilocks scenario. If Jeff is right, small caps have a lot of ground they can potentially pick up versus large-cap stocks. Per Jeff:

> *The ratio of Small Caps versus Large Caps broke out of a steep 17-month downtrend in August and appears to have established a series of higher lows. Small Caps are the most vulnerable to an economic downturn and their outperformance is a reason for optimism.*

Ratio of Small Cap (IWM)/Large Cap (SPY)



Ratio of Small Cap (IWM)/Large Cap (SPY)



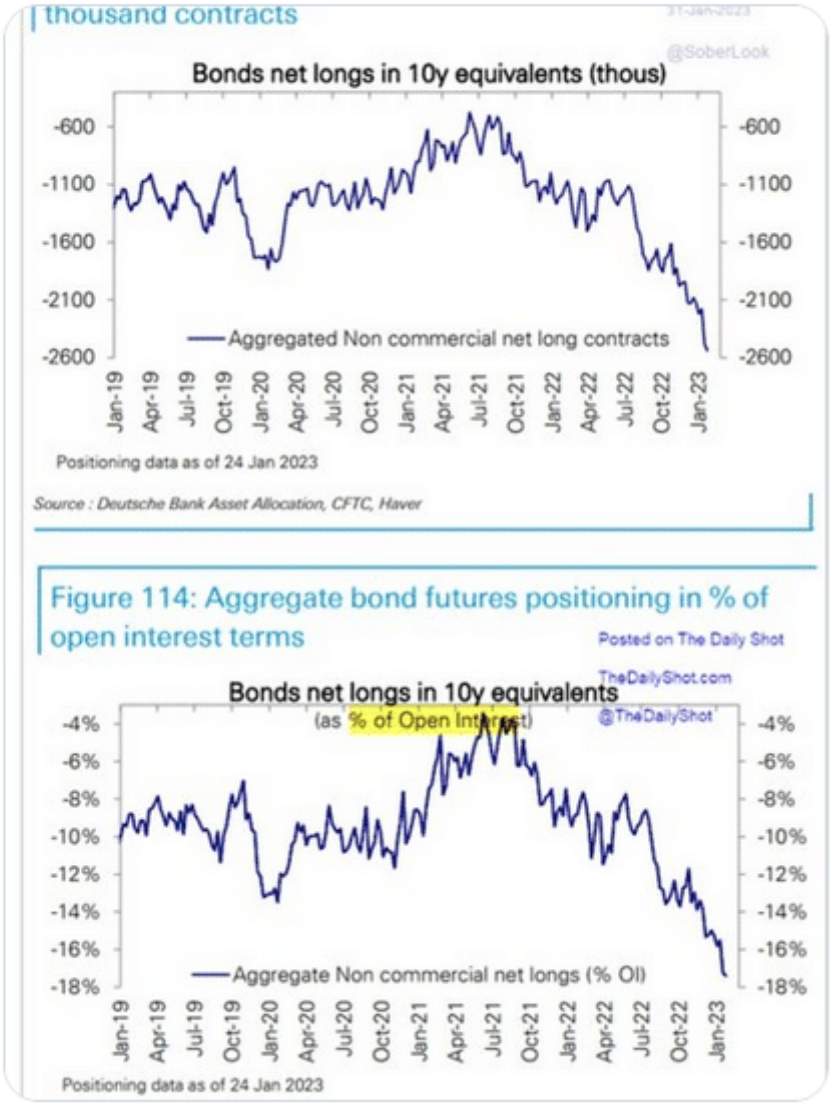
TPA is an add-on service available within SimpleVisor. Click HERE and check out the great research Jeff and TPA provide SimpleVisor subscribers.

Tweet of the Day



Tracy (𝒞𝒽𝒾) @chigrl · 1h

US Treasury futures positioning is extraordinarily bearish

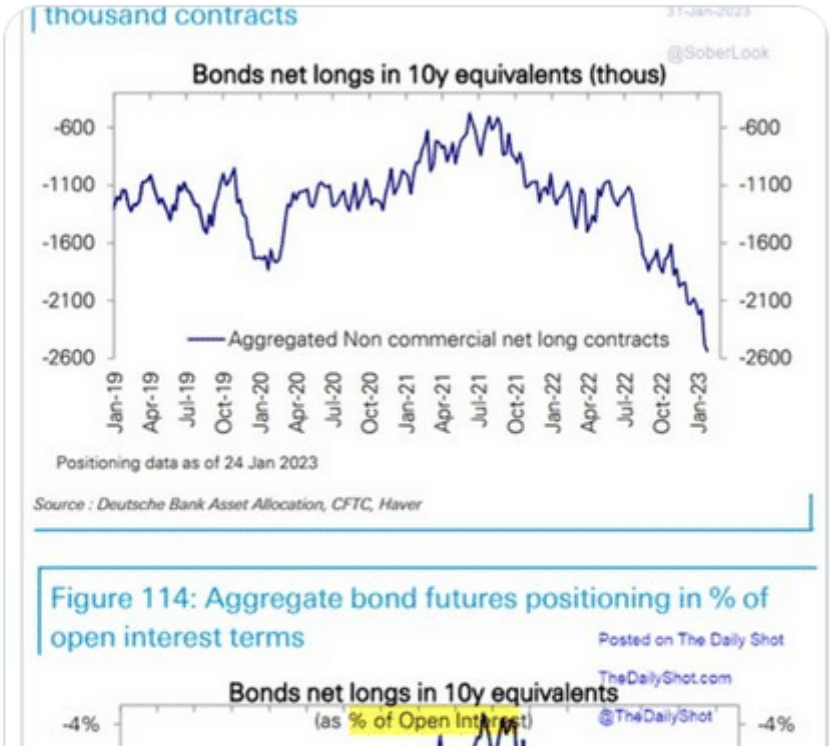


(((The Daily Shot)))



Tracy (𝒞𝒽𝒾) @chigrl · 1h

US Treasury futures positioning is extraordinarily bearish



***Please subscribe to the daily commentary* to receive these updates every morning before the opening bell.**

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.