Ropes Wealth Rates March Jobs Report

Employment in the U.S. continues to be strong, as we learned this morning with a data release from the Bureau of Labor Statistics. Payroll gains totaled a solid 236,000 in March, and there was an upward revision in February payrolls from 311,000 to 326,000. The unemployment rate fell to 3.5%, while average hourly earnings climbed just 4.2% from a year ago, below forecast and the slowest since June 2021. Hiring was concentrated in a handful of sectors like leisure and hospitality as well as healthcare, while retail and professional services jobs went on the decline. The report was a mixed bag in terms of what it will mean for the Federal Reserve, as a decline in the unemployment and still firm monthly payroll gains was matched by a modest softening in wage inflation.

The Fed may be encouraged they are causing a slowdown when they consider the February JOLTS report (Job Openings and Labor Turnover) released earlier this week which provided the first real piece of evidence that labor market conditions were loosening, even before the banking turmoil and broader market concerns of March. Total job openings tumbled from 10.563 million in January to 9.931 million in February. An unusually large increase in construction openings was more than offset by broad declines for other industries. Among the largest, professional and business services shed 278k openings; private health care lost 150k; transportation and warehousing fell 145k; and hotels and restaurants posted 125k fewer positions. This monthly decline in openings pulled the ratio of openings to unemployed workers down from 1.86 to 1.67.

In other economic news, the Institute of Supply Management (ISM)'s survey of manufacturing activity fell from 47.7 to 46.3, a new low since May 2020 (50 is the dividing line between expansion and contraction for this index). Within this report, new orders worsened unexpectedly, while the employment reading conditions dropped to a new post-pandemic low. The only positive was a drop in the prices paid index showing inflation cooling, though it is hard to say how long that will last after OPEC+'s recent announcement that it plans to cut roughly 1.2mm barrels of daily oil production through the end of the year. That figure also excludes the impact of Russia extending current daily cuts of 500k daily barrels through the end of the year. In total, an estimated 3.7m barrels, or roughly 3% of the world's oil will be taken offline, which caused crude oil prices to trade back above $80 a barrel for the first time since January.

Higher interest rates are not only cooling down demand for goods, but it seems they may be cooling down demand for services as well. The ISM survey of service sector activity expanded in March for the third consecutive month, but the index fell nearly four points with all the main subcomponents declining. The report noted, "a pullback in the rate of growth for the services sector, attributed mainly to (1) a cooling off in the new orders growth rate, (2) an employment environment that varies by industry and (3) continued improvements in capacity and logistics, a positive impact on supplier performance. The majority of respondents report a positive outlook on business conditions."

A last tidbit of economic data before your weekend is the news that while mortgage rates fell for the fourth straight week, but that did not entice homeowners to refinance or buyers to purchase a home. Applications to purchase a home declined for the first time in 4 weeks and are down 35% from a year ago. Similarly, applications to refi decreased for the first time in a month and are 59% lower than the same week one year ago. The volume for purchase applications remains near decade lows and may remain soft given not only low housing inventory, but also elevated borrowing costs. According to a statement by the Mortgage Bankers Association (MBA), "spring has arrived, but the housing market is missing the customary burst in listings and purchase activity that typically mark the season."

And so the question of the hour remains, will there or won't there be a recession? And if yes, how bad will it be? We see the risk of recession as real but the shape of it as shallow and short-lived. We are watching closely for any contagion caused by the banking crisis a few weeks ago and bracing for the battle over the debt ceiling still to come. We expect the Fed is very close to the end of their hiking cycle but do not anticipate them cutting interest rates until next year. While that all sounds a bit ominous, keep in mind markets priced a lot of these risks and the expectation of a recession in 2022's trading. While past performance is no guarantee of future results, equities tend to rally when the Fed ends its tightening cycle, inflation decelerates, and interest rates fall—all factors currently in play or just about to be. Assuming the Fed doesn't overtighten and take the economy into a severe recession, S&P 500 earnings should remain solid around $215 (currently $187). If anything, the economy's better-than-expected start this year gives us more confidence in the upside potential of those numbers. When we finally get to the recession, sentiment should turn more positive – as markets anticipate coming out of it. In other words, hang in there and stay focused on the endurance of markets and your portfolio and yourself. Happy Spring!

Thank you as always for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

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