Summary

Economic data for the week included ISM manufacturing improving into expansion, while ISM services/non-manufacturing slowed a bit, but remained in expansion as well. Nonfarm payrolls came in stronger than expected again, while job openings data has steadily flattened.

Equities fell back in the U.S. and most of the developed world, while emerging markets saw small gains. Bonds generally fell back as yields rose. Commodities fared well across the board, with strong gains in both energy and metals.

Economic Notes

(+) The **ISM manufacturing index** for March rose 2.5 points to 50.3, exceeding the median forecast of a less dramatic decline to 48.3—and back into expansionary territory for the first time since Oct. 2022. Within the report, gains of several points were seen in new orders and production (back into expansion), and employment (lessening the contraction toward neutral). Prices paid rose several points to around 56. Of the 18 industry groups, half showed expansion, while six still contracted, with commentary pointing to some softness in demand although showing more optimism for the coming quarter. This points to a possible trough in manufacturing activity having been already reached, with perhaps a new cycle starting anew. Data in months to come will provide more color on the magnitude of this path, which could solidify the soft landing scenario.

(-/0) The **ISM services/non-manufacturing index** for March declined by -1.2 points to 51.4, below the expected small gain to 52.8. While two-thirds of industries reported expansion, data within the total report was mixed, with business activity ticking up further into expansion at over 57, as did employment, which remained just below neutral. On the other hand, new orders fell by nearly -2 points, but stayed in the mid-50s. Prices paid fell by -5 points but also stayed in expansion. Interestingly, manufacturing data has improved, now into expansion, while services have fallen closer to neutral. On a forward-looking basis, the length of the economic expansion could hinge on these two respective paths.

(-) **Construction spending** fell -0.3% in February, similar to the pace of the prior month, but below the expected increase of 0.7%. Private residential spending gained 0.7%, offset by declines of around a percent for private non-residential, as well as public spending of both types. As construction costs fell back by several tenths, real spending was little changed.

(0) **Initial jobless claims** for the Mar. 30 ending week rose by 9k to 221k, above the 214k median forecast. On the other hand, continuing claims for the Mar. 23 week fell by -19k to 1.791 mil., below the expected level of 1.811 mil. Claims were mixed by state, with the largest states accounting for the largest movements, as expected, pointing to little overall statistical change.

(0) The government **JOLTS** job openings report for February showed a rise of 8k to 8.756 mil., just above the expected decline to 8.730 mil. By segment, gains were largest in financial (117k), government (55k), and leisure/hospitality (23k), while declines were greatest in information (-85k), trade/transports/hospitality (-65k), and private education/health services (-38k). The job openings rate was unchanged at 5.3%, while the hiring rate ticked up a tenth to 3.7%. On the departure side, the layoff rate ticked up a tenth to 1.1%, while the quits rate was unchanged at 2.2%. Based on relationships to nonfarm payrolls and other data, current JOLTS numbers have tempered from pandemic extremes, continuing a trend of decline but still pointing to an environment of full employment generally.

(+) The employment situation report for March came in stronger than expected, which continued to put a focus on how the Federal Reserve will position their message in an environment where labor continues to plug along at a decently robust rate. Overall, job growth was positive in 60% of private industries, in keeping with trends over the past six months. **Nonfarm payrolls** rose by 303k in March, exceeding February's decent 270k reading, as well as beating expectations calling for 212k. February gains were revised down by -5k, while gains in January were revised up by 27k. Job gains were strongest in health care (72k, services and hospitals), government (71k, mostly in local), leisure/hospitality (49k, finally returning to its pre-pandemic level), and construction (39k, mostly in specialty trade). Retail jobs were statistically little changed (up 18k, most of which being general merchandise retailers), which was also the case in most other major segments. Temporary employment, seen as a signal of marginal hiring need, continued to decline slightly, but at a more tempered rate than the prior month.

The **unemployment rate** declined by a tenth to 3.8%, despite expectations for no change, with a 498k gain in household employment. The U-6 underemployment rate was unchanged at 7.3%. The labor force participation rate moved up two-tenths to 62.7%, further than expectations, with contributions from immigration. **Average hourly earnings** rose by 0.3%, meeting expectations but a tenth faster than the prior month. Year-over-year, earnings remain up 4.1%, which is a few tenths slower than the prior month's pace, which is seen as positive decelerating force from an inflation standpoint. **Average manufacturing hours** rose a tenth to 34.4.

Market Notes

Period ending 4/5/2024	**1 Week %**	**YTD %**
DJIA	-2.23	3.77
S&P 500	-0.93	9.53
NASDAQ	-0.79	8.45
Russell 2000	-2.86	2.17
MSCI-EAFE	-1.35	4.36
MSCI-EM	0.28	2.65
Bloomberg U.S. Aggregate	-1.06	-1.83

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2023	5.40	4.23	3.84	3.88	4.03
3/29/2024	5.46	4.59	4.21	4.20	4.34
4/5/2024	5.43	4.73	4.38	4.39	4.54

U.S. stocks fell back last week, seeing more volatility than in the recent few months. By sector, energy stocks rose 4%, followed by communications up over a percent. The majority of other sectors lost ground, oddly led by normally defensive health care and consumer staples, down up to -3% each, with the former reacting to Medicare rates unchanged from the initial estimate. Real estate also fell -3%, hampered by higher long-term interest rates.

There was no shortage of catalysts for greater volatility, including an ISM manufacturing report improving, which pushed U.S. Treasury yields higher. Chair Powell's recent remarks at a mid-week speech were a bit dovish, which elevated hopes that interest rate cuts won't be too far down the pike. Then again, Minneapolis Fed President Kashkari opined that no cuts could be in order if inflation remains sticky. This rate uncertainty was joined by the release of a recent conversation between President Biden and Israel's Prime Minister Netanyahu, alluding to a greater probability of strikes against Iran—which was felt immediately in oil markets. This was not taken well in equities, either, causing a market reversal of nearly -2%. This just reiterates the market's current sensitivity to anything that could take the market off-track from the current 'soft landing' narrative. This included a growing concern that economic strength and sticky inflation numbers might keep interest rates indeed 'higher for longer.' The interest rate situation has continued to be perhaps the key driver of market sentiment so far this year, with one fear being that the current higher short-term rate (leading to higher cost of capital) will ultimately wear away at current corporate strength. It hasn't appeared to have happened yet, although 'lag' effects are well-known, and unpredictable. Earnings season for Q1 begins next week, which may take over investor interest for the time being.

Foreign stocks followed the U.S. lead, with declines in developed regions—Japan seeing the greatest declines. Forces were similar to those driving U.S. stocks in terms of timing of rate cuts, the Middle East, as well as improving economic data—which had been lagging to a greater degree in Europe. Emerging markets bucked the trend, with small gains in a variety of nations, including China, India, Brazil, and Mexico. In China, manufacturing PMI also ticked back above the expansionary 50 level, in addition to further expansion in services. Both of these boosted sentiment, as did hints that the Bank of China may provide additional stimulus measures to help achieve broader growth targets. In Turkey, unexpected wins from opposition party candidates in local elections boosted sentiment, resulting in market gains.

Bonds fell back last week along with rates ticking higher, particularly in the 2-year and longer segment of the yield curve. This appeared primarily due to the ISM manufacturing report improving, providing a general tailwind to U.S. economic growth. Due to the duration effects, U.S. Treasuries lagged by the greatest degree, while a credit spread buffer helped investment-grade, high yield, and floating rate bank loans to perform slightly better. Foreign bonds performed similarly on net, with little change in the value of the U.S. dollar during the week.

Commodities rose across the board last week, with sharp gains in energy, industrial metals and precious metals. Crude oil prices rose over 4% last week to $87/barrel, due to the Biden-Netanyahu conversation alluding to potential Middle East escalation, in addition to already-tight supplies, and an improving global demand picture. Strength in the gold market has continued, with the price continuing to rise this year to a record $2,300/oz. Gold is a unique commodity, as one of the assets with near-zero long-term correlations to most all other conventional assets and features unpredictable behavior. Recently, it has thrived from several ongoing geopolitical concerns (Ukraine, Gaza, Red Sea), global central bank restocking, Chinese retail buying, and likely even more so due to hopes for Fed rate cuts this year. Lower real rates improve the comparative of gold versus U.S. Treasury debt, as does the potential for falling rates to lower the value of the U.S. dollar (which has been especially strong for years).

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.