Summary

Economic data for the week included improvement in ISM non-manufacturing sentiment, ADP private employment, and jobless claims. However, the employment situation report for September came in short of expectations.

U.S. equity markets gained last week, in contrast to a negative September, while foreign regions ended mixed. Bonds lost ground globally as interest rates rose, in keeping with persistent inflation concerns. Commodities gained several percent, as crude oil prices reached a multi-year high upon strong demand and lack of available supply.

Economic Notes

(+) The **ISM Services/Non-Manufacturing Index** for September rose by 0.2 of a point to 61.9, which ran counter to an expected minor decline to 59.2. Under the hood, new orders and general business activity rose several points, further into expansion (rates into the mid-60s). Prices paid rose by several points also, remaining historically high. Employment and supplier deliveries fell by a fraction of a point each, but remained expansionary. This survey has remained close to summer record levels. As with manufacturing sentiment, it seems demand is showing robust recovery; supply continues to be the hold-up.

(+) The **ADP private employment** report for September showed a gain of 568k positions, which exceeded the 430k median forecast expected. Services jobs rose by 466k, with half being in the recovering leisure/hospitality area. Goods-producing jobs gained by 102k, and showed broad strength by industry. Interestingly, services employment is back at 95% of its pre-Covid level, with manufacturing and construction at 97% and 100%, respectively. This positive report helped the narrative of a well-anticipated labor recovery, but also made the case for the Fed pulling back on their accommodative stance.

(+) **Initial jobless claims** for the Oct. 2 ending week fell by -38k to 326k, which was lower than the 348k expected by consensus. **Continuing claims** for the Sep. 25 week fell by -97k to 2.714 mil., under the median forecast of 2.766 mil. With national extended unemployment benefits now having expired, claims are starting to fall further, as many economists expected.

(-) The well-anticipated September employment situation report disappointed, with job numbers coming in well short of expectations, although other metrics improved. While the demand for labor continues to ramp up, the willingness of workers to apply for available positions continues to be a headwind, for a variety of reasons (largely pandemic- and demographic-related). While this report put a question mark around the pace of the labor recovery, markets weren't as concerned as it perhaps fell below the 'decent' type of report Fed Chair Powell was looking for as an indicator of it being time to taper.

Nonfarm payrolls rose by a meager 194k jobs for the month, falling short of consensus calling for a gain of around 500k. However, July and August payrolls were revised higher by a total of 169k. Under the hood, jobs in leisure/hospitality rose by 74k (but still down nearly -10% from pre-pandemic), professional/business services by 60k, retail by 56k, and transportation/warehousing by 47k. Gains were also seen in manufacturing (26k) and construction (22k). On the negative side, the headline number was brought down by declines in education overall by -330k (state/local government education of -161k) as well as healthcare. The education numbers were a bit mysterious, due to the usual ramp-up in Sept. back-to-school hiring. Per the BLS, overall employment has risen by 17.4 mil. since the Apr. 2020 trough, but remains down -5.0 mil. (or 3.3%) from the Feb. 2020 pre-Covid high—so there is further room to go.

The **unemployment rate**, on the other hand, declined -0.4% to 4.8%, further than the minimal change to 5.1% expected. The U-6 underemployment rate similarly improved by -0.3% to 8.8%. Interestingly, the labor force participation rate was little changed, but the household survey showed a gain of 526k, however, which contradicted the weaker nonfarm payroll measure. Participation has been a source of debate among the economic community, with Covid bringing on a surge in retirements, in addition child care and schooling issues, medical reluctance to return to work, as well as an obviously wide gap between work that can be done virtually versus what needs to be done physically.

Average weekly earnings rose by 0.6% to $30.85, which brought the year-over-year gain to 4.6%. (Notably, wages in the leisure/hospitality segment have jumped 14%, although that pace has fallen back more recently.) The **average workweek length** ticked up by 0.2 to 34.8 hours.

Market Notes

Period ending 10/8/2021	1 Week (%)	YTD (%)
DJIA	1.27	15.17
S&P 500	0.83	18.23
NASDAQ	0.10	13.70
Russell 2000	-0.37	13.89
MSCI-EAFE	0.29	7.84
MSCI-EM	0.85	-0.92
BBgBarc U.S. Aggregate	-0.78	-2.05

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2020	0.09	0.13	0.36	0.93	1.65
10/1/2021	0.04	0.27	0.93	1.48	2.04
10/8/2021	0.05	0.32	1.05	1.61	2.16

U.S. stocks moved higher last week, resulting in a bounce off the recent -5% minor correction beginning in September. Congress reached a deal to extend the debt ceiling from mid-October to early December, which markets cheered, but perhaps just prolonged the inevitable political showdown by a few more months. Inflation has persisted as a concern, echoed by several Fed members in their speeches, which may have helped again push interest rates higher.

By sector, energy stocks gained 5%, followed by financials and industrials. On the negative side, communications and health care experienced declines on the week. Real estate also fell back, in keeping with higher interest rates. Company earnings for Q3 will be released beginning this coming week with the usual large banks leading the way. Per FactSet, year-over-year earnings growth for Q3 is expected to be 28%, which would be the third highest pace since 2010 (but, of course, reduced from Q2's trough-to-peak 91% pace). Then again, 2021 has shown a tendency of higher-than-average upward revisions.

Foreign stocks were mixed last week, with gains in the U.K. and emerging markets, while stocks in Japan declined, as government forecasts of growth were pared back. Influences were largely the same as in the U.S., with improving growth offset by persistent inflation risks and supply chain disruptions, such the important car manufacturing industry in Germany. The Reserve Bank of New Zealand jumped on the train of hiking rates, by 0.25% to 0.50% last week, as did the National Bank of Poland, by 0.40% to 0.50%. Foreign central banks, with a more focused mandate on inflation and monetary stability only (not jobs) have started to discuss inflation concerns more meaningfully as of late.

U.S. bonds were pummeled again last week, as interest rates continued to creep higher—and the 10-year treasury again reaching the 1.6% mark. Investment-grade corporates fared a bit worse than treasuries and high yield, while bank loans ended the week as the only bond group providing positive returns (per their usefulness as a 'bond hedge'). The dollar was little changed last week, with foreign bonds all losing ground as a result of rising rates alone.

Commodities rose several percent last week, with gains in energy and industrial metals offsetting a decline in agriculture. The price of crude oil rose by nearly 5% to just above $79/barrel, while natural gas prices settled back down by -1%. Energy markets are experiencing a bout of extreme volatility, particularly abroad. The OPEC+ group decided to increase production slowly, while the U.S. has pondered tapping into strategic petroleum reserves—done during periods of extreme supply tightness and price pain on consumers. Prices for natural gas in Europe have risen far above those in the U.S., with supply disruptions and higher-than-expected demand as the primary causes. (Europe is reliant on Russia for a sizable amount of its natural gas supplies, which obviously creates some geopolitical drama between the two regions. This gives Russia sizeable leverage on issues they care about, such as political influence in Ukraine, for example.) Unlike crude oil, which can be more easily stored and transported, natural gas is more closely tied to existing pipeline infrastructure, which makes transitions between different supply sources less feasible. One unfortunate irony is that high prices for petroleum, supply problems, or further restrictions on gas transmission for climate reasons can drive higher use of coal, which is abundant and cheap—albeit not climate-friendly.

Have a good week.

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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, 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.