Summary

On a holiday-shortened week, economic data included deceleration in some economic indicators, but not to the point of a feared slowdown as of yet. These included weaker, but still-strong showings from ISM services and JOLTs job openings, as well as a decent June employment report.

U.S. equity markets gained ground last week, offsetting declines in foreign markets, which are faced with deeper near-term energy struggles. Bonds fell back as interest rates rose broadly, upon lack of slowing needed to justify lower recessionary yields. Commodities continued to fall back from highs, notably in crude oil and natural gas.

Economic Notes

(0) Minutes from the June **FOMC meeting** reiterated that the committee would be 'well positioned' to evaluate policy and need for further tightening later this year, when the fed funds rate is expected to reach its long-term peak level. In keeping with expectations, this represents a continued front-loading of rate hikes this summer and fall, and some tapering off from that pace around year-end. Inflation remains a paramount concern of the committee, being described as 'much too high' (and a primary focus of Fed member speeches on their normal circuit—in attempts to reiterate their seriousness of inflation reduction above all else). Interestingly, participants referenced that inflation lasting too long and becoming further 'entrenched' further threatens the committee's credibility with the public. Also, there appeared to be 'little evidence' to support supply chain easing, with China and Ukraine remaining factors of upward pressure and ongoing risk.

(0) The **ISM services/non-manufacturing index** for June declined by -0.6 of a point to 55.3, but above the 54.0 level expected by consensus. The composition showed an increase in business activity, but a drop in new orders—with both remaining in expansion. Employment, however, fell by nearly -3 points down into contraction. Supplier deliveries ticked up and prices paid fell back, both remaining at high levels, and continuing to see challenges from supply bottlenecks.

(-/0) The **JOLTs job openings** index for May fell by -427k to 11.254 mil, above the median forecast calling for an even 11.000 mil. Under the hood, professional/business services openings declined by -325k and manufacturing by -208k. The job openings rate fell back by -0.3% to 6.9%, while the hiring rate was unchanged at 4.3%. Layoffs were also flat at 0.9%, while the quits rate fell by -0.1% but remained at a high 2.8% level. Overall, the fast pace of job openings appears to be cooling, which could mop up some of the slack of economic slowing, as there has been a shortage of needed workers anyway. Regardless, the gap between labor supply and demand remains at historically wide levels in the post-WWII era.

(0) **Initial jobless claims** for the Jul. 2 ending week rose by 4k to 235k, above expectations calling for 230k. **Continuing claims** for the Jun. 25 week rose by 51k to 1.375 mil., above the 1.328 mil. expected by consensus. Initial claims rose the most in CA, MI, and NY. The initial claims number was the highest weekly total since mid-January, along with announcements of hiring freezes and outright job cuts from some higher-profile employers in banking, technology, and crypto. However, levels still remain very low compared to history.

(+) The employment situation report for June came in better than expected, on par with recent months and showing few indications of slowing in most segments.

Nonfarm payrolls rose by 372k, nearly matching May's pace, and beating the consensus expectation of 235k. The April payroll number was revised down by -68k, with a minor -6k revision lower for May. For June, job gains were seen in two-thirds of industries, most notably in professional/business services (74k), leisure and hospitality (67k, two-thirds of which were in bars/restaurants), and education/health care (96k). Manufacturing jobs rose by 29k, and have now returned to Feb. 2020 levels. On the negative side, government payrolls fell by -13k, continuing several months of declines.

The **unemployment rate** was unchanged at 3.6%, for the fourth straight month, in keeping with expectations. The household survey component showed a decline of -315k, but a rise of 131k on a payroll-adjusted measure. The U-6 measure of underemployment fell -0.4% to 6.7%, which was actually the lowest reading since that measure's inception in the early 1990s. The labor force participation rate remains below the Feb. 2020 level, while the number of persons employed part time for economic reasons has fallen below pre-pandemic levels. Interestingly, the number of persons not in the labor force who want a job (but aren't actively looking) was unchanged at 5.7 mil., which remains above the Feb. 2020 benchmark of roughly 5.0 mil. This and other indicators suggest that, in addition to high levels of job openings, there remains a contingent of potential workers not seeking employment.

Average hourly earnings rose 0.3%, bringing the year-over-year earnings growth rate to 5.1%. The **average workweek length** was unchanged at 34.5 hours in June. Wage growth remains higher than average, but less than CPI, signifying negative growth in real wages.

Market Notes

Period ending 7/8/2022	**1 Week (%)**	**YTD (%)**
DJIA	0.82	-12.84
S&P 500	1.98	-17.52
NASDAQ	4.58	-25.33
Russell 2000	2.43	-20.66
MSCI-EAFE	0.97	-19.40
MSCI-EM	0.94	-17.50
Bloomberg U.S. Aggregate	-0.87	-10.59

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2021	0.06	0.73	1.26	1.52	1.90
7/1/2022	1.73	2.84	2.88	2.88	3.11
7/8/2022	1.98	3.12	3.13	3.09	3.27

U.S. stocks fared positively last week, with sentiment improving around the ability for the economy to potentially avoid a recession. Decent economic releases, or at least data not deteriorating, were the catalysts for the improved mood. However, this seems to be a week-to-week affair. By sector, 'growth' areas consumer discretionary, technology, and communications all saw gains over 3% on the week. Utility stocks fell back by -3% with higher interest rates, while energy and materials stocks also declined in keeping with the recent pullback in physical commodities. Real estate lost just under a percent on the week, with sentiment tied to yields and potential impacts on commercial and residential.

Foreign stocks were mixed to lower last week, with small gains in emerging markets and Japan offset by weakness in Europe. Results were held back by weaker growth, higher inflation, as well as a strong U.S. dollar, which rose nearly 2% on the week. Specifically, fears of a potential European energy shortage that would no doubt tip the continent into recession weighed on risk-taking sentiment, although lower valuations have incorporated this.

U.S. bonds fell back last week, as interest rates ticked upward, perhaps in keeping with the hawkish Fed minutes. However, high yield and bank loans fared positively on the better news for risk assets. Foreign bonds were strongly negative due to the strength in the dollar, in both developed and emerging markets.

Commodities fell back overall last week, as gains in agriculture were weighed down by declines in energy and metals. The price of crude oil fell back by -3% to just under $105/barrel. Rising concerns over the impact of a global recession on oil demand especially weighed on prices earlier in the week, with private estimates starting to vary widely (from as much as $140 in a bullish supply-shock scenario to as low as $65 under a demand-destroyed recession, for example). While lower prices decrease input costs for transportation and production of goods, and pull down inflation readings (both arguably good outcomes), they also threaten the strength of energy company profits and commodity strategy momentum. Unfortunately, you can't have both.

Commodities had corrected by as much as -20% since a peak June 9, with rising recession fears appearing to surpass fears of continued high inflation for now—although tight supply conditions continue to plague a variety of goods, including energy, grains, and metals. Unfortunately, the natural gas situation in Europe has gone from bad to worse with the shutdown of the Nord Stream 1 pipeline from Russia, presumably for summer maintenance from Jul. 11-21, but there are worries about whether it will be turned back on again, for political reasons. Russia has already decreased flows, with Europe looking for way to fill gas storage facilities as much as possible. Roughly 40% of the EU's gas comes from Russia, so the supply is critical to ensuring adequate summer cooling needs as well as enough supply to handle winter heating. In the worst case, rationing has been discussed as an option, which would prioritize energy flows to residential homes, but causing manufacturing activity to take a back seat—with obvious negative implications on economic activity.

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.