Summary

Economic data for the week included weaker ISM manufacturing and non-manufacturing results, while the employment situation report came in just above expectations, despite some slowing under the surface.

Equities were mixed globally, with flattish results in the U.S. and Europe seeing gains. Bonds fared well as weaker economic data pulled down treasury yields. Commodities rose upon early week news of oil production cuts, boosting prices in the energy space.

Economic Notes

(-) The **ISM manufacturing index** for March fell by -1.4 points to 46.3, beyond the smaller decline to 47.5 expected. This reversed a 1-month reversal of minor strengthening in February, and kept the index in contraction. Only one-third of industries reported growth in the month. Production gained a half-point, but remained in contraction, while new orders and employment fell deeper into contraction, as did supplier deliveries. Prices paid fell by -2 points just under 50, noting contraction as well, and reflected recent disinflationary forces moving into the manufacturing space (which is a positive in this case). Order backlogs also fell, which is often seen as a negative as it implies lower demand (as it does here as well), but after years of pandemic supply chain hassles, it's been seen a bit more positively. Based on qualitative comments in the report, it didn't appear concerns in the banking system were being experienced or exacerbating the pullback in sentiment at this point, beyond slowing already happening. Aside from the signal for broader economic activity, ISM manufacturing remains a key marker for pre-recessionary trend changes in equity markets.

(-/0) The **ISM services/non-manufacturing index** in March fell by -3.9 points to 51.2, a bit below the expected 54.4, but remaining expansionary nonetheless. Within the report, business activity, new orders, and employment all fell by at least a few points but remained in expansion. Supplier deliveries fell by -2 points further into contraction, while prices paid fell to the lowest level in nearly 3 years (but remained in expansion). The stronger pace of non-manufacturing sentiment relative to manufacturing sentiment is reflective of the current environment, where consumers have gravitated from goods to services.

(-/0) **Construction spending** fell by -0.1% in February, relative to expectations of no change, although several prior months were revised higher by up to a half percent each. Private nonresidential spending rose by 0.7% as the sole positive driver, with private residential falling by -0.6%—in keeping with continued insufficient activity in homebuilding. This index is quoted in nominal terms; while cost inflation was flat on the month, it made a strong contribution over the past year.

(-) The government **JOLTS** job openings report for February came in at 9.931 mil., down -632k from the prior month, and under 10 mil. for the first time in two years. The strongest declines were in business/professional services (-278k), health care/social services (-150k), and transportation/warehousing/utilities (-145k); gains were most substantial in construction (129k). The job openings rate fell by -0.4% to 6.0%, while the hiring rate was down a tenth to 4.0%. On the separation side, the layoff rate fell a tenth to 1.0%, while the quits rate rose a tenth to 2.6%. This data continues to indicate a strong—albeit slowing—labor market. Job openings are the easiest lever for companies to pull back on, relative to more difficult layoff decisions. Anecdotally, some companies appear less interested in layoffs relative to normal cycles due to the difficulty in finding skilled labor. To put this into context, last year's data showed over two vacancies per each unemployed person, while now that's just fallen to 1.7 vacancies per seeker. (This ratio has vacillated between 0.0 and 1.0 over the past 20 years, depending on where we are in the economic cycle.) Job openings have fallen by 2-3 mil. from peak levels, which is actually the largest decline in the series' history, recession notwithstanding.

(0/-) The **ADP private employment** report showed a gain of 145k for March, well below last month's pace and the 210k expected. Services jobs rose 75k, led by continued gains in leisure/hospitality as well as trade/transportation/utilities. Goods-producing jobs rose 70k, with 53k in construction and similar gains in natural resources/mining. On the other hand, manufacturing jobs fell by -30k, along with declines in financial activities and professional/business services. Anecdotal commentary noted that employers have been pulling back on hiring relative to the pace of the past year, as well as seeing deceleration in wage growth.

(0) **Initial jobless claims** for the Apr. 1 ending week were down -18k to 228k, although the prior week's claims number was revised up by a substantial 48k. Continuing claims for the Mar. 25 week came in at 1.823 mil., up 6k from the prior week, which was also revised up by 128k. Those huge revisions were based on the annual update to the series' seasonal factors. Very large distortions during the early pandemic, three years ago now in early 2020, caused some obvious odd and dramatic behavior in seasonal adjustments, which are normally more predictable. This makes the new data a bit more difficult to interpret for now until things 'settle'. On an unadjusted basis, initial claims came in at 207k for the Apr. 1 week, down -8% from the prior week, which continues to show a stable (low) level of claims activity.

(0) The March employment situation report showed decent gains, albeit less than in prior months, and just a shade below expectations. **Nonfarm payrolls** came in at 236k, just over the 230k expected, which included revisions in both directions for the prior two months. By segment, leisure/hospitality continued to recover, adding 72k jobs (50k of which in restaurants/bars), although at a decelerated pace relative to the last six months, and sector jobs remain below pre-pandemic levels. Gains were also seen in government (47k), professional/business services (39k), and health care (34k). On the other hand, declines were seen in retail (-15k), while segments such as construction (-9k) and manufacturing were little changed, and perhaps negatively affected by weather. Industry breadth deteriorated beneath the surface, showing subtle slowing in labor markets.

The **unemployment rate** declined a tenth to 3.5%, compared to no change expected. The U-6 underemployment rate also fell a tenth to 6.7%, as expected by consensus. Household employment in this measure rose by 577k. The labor force participation rate has continued to tick higher, but remains about -0.7% below pre-pandemic.

Average hourly earnings rose by 0.3%, on par with expectations. This brought the year-over-year increase down nearly a half-percent from last month's pace to 4.2%, as was the annualized 3-mo. pace down to 3.2%—both reflecting easing in inflationary pressures. **Average weekly hours** also fell a tenth to 34.4, also indicating slowing in labor needs.

Market Notes

Period ending 4/7/2023	1 Week %	YTD %
DJIA	0.69	1.62
S&P 500	-0.06	7.43
NASDAQ	-1.08	15.79
Russell 2000	-2.65	0.02
MSCI-EAFE	0.47	8.97
MSCI-EM	-0.27	3.68
Bloomberg U.S. Aggregate	1.12	4.11

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2022	4.42	4.41	3.99	3.88	3.97
3/31/2023	4.85	4.06	3.60	3.48	3.67
4/7/2023	4.95	3.97	3.49	3.39	3.61

U.S. stocks began the quarter positively, but fell back a bit Tues. with JPMorgan CEO Jamie Dimon noting that the banking crises was not over and negative 'repercussions' would be felt for years to come, and the President of the Cleveland Fed expected rates to get to over 5% and 'stay there'. Both comments appeared to sour sentiment a bit. Otherwise, conditions were mixed with economic data coming in a bit below expectations. By sector, defensive health care and utilities saw gains over 3%, followed by energy with higher oil prices; the largest declines were seen in industrials and consumer discretionary. Reporting on Q1 earnings results will start in coming weeks, but expectations remain mixed. We don't tend to see a recession without a decline in corporate earnings, but sharp earnings declines haven't been priced in (beyond the -5% or so year-over-year drop for Q4-2022/Q1-2023).

In foreign markets, the U.K. and Europe saw gains, as fears of a wider banking crisis seemed to abate, while Japan and the emerging markets declined. In fact, industrial production in Germany unexpectedly rose, as did manufacturing orders, showing signs of economic life. Inflation also continued to decelerate. The Reserve Bank of Australia kept cash rates steady at 3.60%, pausing to reassess slowing economic conditions. This was taken as a sign of possible similar actions by other banks, including the U.K, which hinted that they may be nearing an end.

Bond prices saw gains, as headline economic data continued to deteriorate, causing yields to drop across the middle and longer end of the yield curve. High yield corporates were the only area to see declines. Foreign bonds saw a similar pattern, while also boosted by a half-percent decline in the dollar.

Commodities ended the week generally higher, with energy leading the way, and mixed results in metals—industrial metals down and gold up. Crude oil prices rose nearly 7% on the week to just under $81/barrel; however, natural gas prices fell back by nearly -10% again due to weather forecasts for April looking warmer. Markets early in the week were surprised by the OPEC+ production cut of over 1 mil. barrels/day to sustain prices, 'realigning' markets. Often, political movements lie behind the scenes, such as the assumption that the U.S. decision to not refill the Strategic Petroleum Reserve at lower oil price levels upset Saudi Arabia, when relations between the two nations have become more tenuous. Overall, in many commodities, concerns about slower economic growth continue to dominate, as opposed to supply shocks.

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.