

Market Update

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This week in the markets...

Last Friday, October 4th, the US Bureau of Labor Statistics reported that job growth surged in September, blowing past expectations of 150,000 jobs to 254,000 jobs created. "We had a bounce-back now in September from what were relatively sluggish numbers in July and August," Brian Bethune, economist and professor at Boston College, told CNN. "So, it looks like we're still on track. The economy is expanding and we have a very high probability of achieving a soft landing (of reining in high inflation without triggering a recession)." (*Wallace, 2024*)

That's certainly the view of two of Wall Street's top strategists — Morgan Stanley's Michael Wilson and Goldman Sachs's David Kostin — who have turned more optimistic about US stocks on signs of a robust labor market, economic resilience and lower interest rates. David Kostin upgraded his 12-month target for the benchmark to 6,300 points from 6,000, implying gains of about 10% from current levels (*Goodman, 2024*).

Meanwhile (on the not so sunny side), bond markets are beginning to consider the "no landing" scenario - a situation where the US economy keeps growing, inflation reignites and the Federal Reserve has little room to cut interest rates. Data showing the fastest job growth in six months, a surprising drop in US unemployment and higher wages sent Treasury yields surging and had investors furiously reversing course on bets for a larger-than-normal half-point interest-rate reduction as soon as next month. George Catrambone, head of fixed income, DWS Americas said, "What could happen is the Fed either delivers no more rate cuts, or actually finds itself having to raise rates again." (*Xie & Mackenzie, 2024*)

	10/06/2023	1/1/2024	10/07/2024	12 MO ROR	YTD ROR
DOW	33,407.58	37,566.22	41,954.24	24.85%	11.32%
S&P 500	4,308.50	4,745.2	5,695.94	31.37%	19.42%
NASDAQ	13,431.34	14,873.7	17,923.90	32.92%	19.40%



My own take is that the Bureau of Labor Statistics numbers should maybe be taken with a grain of salt. Remember that last year the BLS overstated job growth in 2023 by over 55k jobs per month. By March of 2024 that number grew to over 68,000 per month leading to an overestimate of job creation of over 818,000 jobs from March 2023 to March 2024. That would indicate 28% of all jobs from March 2023 to March 2024 weren't really there, which is nearly one-third of the job growth last year.



"The official U.S. employment reports chronically overstated how many jobs were created each month in 2023, potentially misleading Wall Street, the Federal Reserve and Washington lawmakers about the true strength of the economy. From January to October, the government initially overestimated job growth in nine of the 10 months. Eventually the employment gains were reduced by an average of 55,000 a month, an unusually large change" (*Bartash, 2024*).

So, if you reduced the spectacular September numbers by 1/3 guess what you get: about 160k jobs, which is more than the 150k expected but not nearly the paradigm shifting numbers delivered last week.

Stocks Slip



There was less certainty for stock markets on Monday, where optimism about the US economy is being tempered by tensions in the Middle East. US futures lost ground throughout the European morning, with contracts on the S&P 500 shedding 0.6% and Nasdaq 100 futures falling 0.8%. Oil, another key barometer of geopolitical risk, swung from losses to gains (*Goodman, 2024*).

Yen Reversal

The Japanese Yen carry trade again appeared on the horizon last week, as data shows hedge funds turned bullish on the yen just before dovish comments by Japan's new prime minister and the robust US jobs report helped spark the worst week for Japan's currency since 2009. The yen tumbled 4.4% against the dollar last week, as the jobs surprise and Shigeru Ishiba's commentary spurred a rethink on the currency's path. Investors including some hedge funds have begun reloading short yen bets in risky carry trades, reflecting bearish sentiment on the currency (*Goodman, 2024*).

U.S. Treasury Bond Yields

as of 10.07.2024

US1MO	4.81%
US3MO	4.73
US6MO	4.45
US1Y	4.24
US2Y	3.93
US3Y	3.90
US5Y	3.81
US10Y	3.98
US30Y	4.26



Sources:

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