

Good morning,

What's in this week's Report:

- What Does A Bad Labor Market Look Like and What Does It Mean for Markets?
- Weekly Market Preview: Do Stagflation Fears Rise Further?
- Weekly Economic Cheat Sheet: CPI on Wednesday, the Key Report This Week

Futures are slightly higher as markets bounce back from Friday's post-jobs report declines, with investors looking ahead to key inflation data this week.

Economically, data was mixed as Chinese and German exports (4.4% vs. (E) 5.5% and -0.6% vs. (E) 0.1% respectively) missed estimates, but German Industrial Production beat expectations (1.3% vs. (E) 1.0%).

Geopolitically, Japanese stocks rallied hard (more than 1%) as PM Ishiba resigned (although it wasn't a surprise).

This will be another important week because the PPI and CPI reports (Tuesday and Wednesday, respectively) will either increase stagflation concerns (negative for stocks/bonds) or further push back on them (positive for stocks and bonds). But, today should be mostly quiet as there are no notable economic reports nor any Fed speakers.

Market	Level	Change	% Change
S&P 500 Futures	6,498.50	8.75	0.13%
U.S. Dollar (DXY)	97.70	-0.07	-0.07%
Gold	3,656.00	2.70	0.07%
WTI	63.24	1.37	2.21%
10 Year	4.086%	0.004	0.10%

Stocks

Last Week (Needed Context as We Start a New Week)

After a volatile start to the holiday-shortened week last Tuesday, stocks steadied and proceeded to rally to fresh record highs ahead of the August jobs report, which missed estimates and saw stocks pull back into the weekend. The S&P 500 gained 0.37% on the week.

Volatility picked up to start the month as a rise in global bond yields, fueled by fiscal worries, pressured risk assets, including stocks, with tech leading the way lower. An as-expected ISM report contained upbeat details, which added upside pressure to yields and further weighed on stocks before NVDA shares began to recover after the tech behemoth denied rumors about unfilled orders with an official post on "X." The S&P 500 tracked tech higher and ended well off the worst levels of Tuesday, but still down 0.69%.

Stocks reversed course and rallied on Wednesday, with tech shares leading the way after GOOGL avoided the worst-case penalties/fines in an antitrust lawsuit. The ruling also allowed the company to retain its internet browser, Chrome. A rally in Treasuries (after the early week losses) on the back of a soft JOLTS release and a fresh AI deal being announced between GOOGL and AAPL helped the S&P 500 close up 0.51%.

The rally continued on Thursday as a larger-than-anticipated rise in initial weekly jobless claims and a disappointing August ADP report bolstered dovish bets for a Fed rate cut this month and offset “Fed Independence” worries stemming from the DOJ’s investigation of Fed Governor Cook. President Trump’s nominee to replace Kugler’s vacated seat on the Fed’s Board of Governors, Stephen Miran, fielded questions with ease during his Senate confirmation hearing, which added bullish momentum. The S&P 500 closed higher by 0.83% on Friday, ahead of the widely anticipated BLS report.

U.S. equity futures surged in pre-market trade Friday as the headline to the August jobs report whiffed estimates, while revisions to prior months revealed that non-farm payrolls actually declined by -13K in June (July was little changed, +2K to 79K), which saw September rate-cut odds jump to 100% with a 50-bps cut now being considered “in play.” After gapping up to fresh all-time highs at the open, the S&P 500 steadily declined over the course of the morning before newswires quieted and the index chopped sideways to end the day down 0.29%, near the middle of the session’s trading range.

What Does a Bad Labor Market Look Like and What Does It Mean for Markets?

Concern about the state of the labor market rose sharply last week as virtually all the labor market data, including Friday’s jobs report, pointed to a cooling of job growth. But while concerns are rising, it’s essential to realize that even with last week’s underwhelming data, the labor market remains broadly stable.

Jobless claims sub-250k, monthly job adds still positive, and JOLTS still around 7 million, imply a mostly healthy labor market. The concern is the trend, as most metrics indicate that while companies aren’t actively laying off workers, they are slowing hiring, which can be the first step toward layoffs. If the labor market rolls over, it would be substantially negative for the economy and markets, and given stretched valuations and general investor complacency, I want to 1) Identify levels that would signal trouble in the labor market and 2) Examine how a slowing labor market would impact markets.

Labor Market Levels That Indicate Trouble: Jobless Claims - First Level: 260k. A break of that level would imply a more than 20% jump from the lows around 210k-220k and imply real deterioration in the labor market. **Warning level: 300k.** A break above 300k on the four-week moving average would signal a labor market that’s likely contracting.

Unemployment Rate: Key level: > 4.5%. A move above 4.5% (so, 4.6% or higher) is consistent with labor market deterioration, and at that point, a move towards 5.0% is likely (which is consistent with economic slowdowns). **JOLTS: < 6.5 million.** During economic slowdowns, JOLTS drops towards 5.0 million. JOLTS haven’t been below 6.5 million in years, and a decline below that level implies that companies are slashing hiring and “hunkering down” on expenses (which will put a headwind on the economy).

How Would A Bad Labor Market Impact Markets? It would be substantially negative. Usually, a decline in the jobs market is a lagging economic indicator, as employers only slash jobs after the economy has already slowed. But I believe it’s more coincidental this time around (meaning, happening at the same time as the economy slows). Here’s why... Full employment has been the silver bullet to higher interest rates and tariff uncertainty. People are dealing with higher prices, and consumers are still spending because they have jobs. If layoffs occur en masse and those labor market indicators are hit, then consumer spending will sharply contract, making any economic slowdown much worse.

Bottom line, the labor market is not in bad shape; however, it is losing momentum, and this is something we need to watch closely. If the labor market goes, then so too will the economy (and that's a bearish game-changer for stocks).

Economic Data (What You Need to Know in Plain English)

Last Week

The labor market is absolutely cooling. That's the biggest takeaway from last week's data. While Friday's jobs report was the most significant piece of evidence to reinforce that point, it was also echoed by virtually all the employment data released last week.

Looking at the jobs report specifically, it was basically right at the lower end of our "Just Right" range, as there were 22k jobs added vs. (E) 75k, while the previous two months saw -21k revisions. The rest of the report was mainly in line or better than expectations as the Unemployment Rate hit 4.3%, while annual wage growth was lower than expected at 3.7% y/y. The underwhelming (but not horrible) jobs report largely echoes the other labor market data from last week, as jobless claims rose to 237k vs. (E) 230k, JOLTS dropped to a one-year low at 7018M vs. (E) 7.375M, and the ADP jobs report showed just 64k jobs added in August.

Here's what this means for markets... In the immediate term, a 25-bps rate cut in September is virtually guaranteed (barring a hot CPI reading this week), and more notably, it puts 75 bps of cuts on the table for this year. Hopes for more cuts were the reason stocks rallied initially on Friday, in a classic "bad data is good" reaction. Beyond the immediate term, the labor market data is not a disaster. When considered alongside other solid data from last week (more on that below), the overall message is that economic growth is slowing but not collapsing. As such, that's still consistent with a "soft landing" that should support stocks at these levels.

However, the margin of error on the economy is shrinking. Cooling labor markets (which we clearly have) can turn to contracting ones very quickly. If the labor market falters, then the rest of the data will follow, because one of the main reasons consumers have been able to absorb higher prices and continue spending (despite uncertainty) is that they are employed.

Bottom line, the jobs report is not a reason to get demonstrably more negative on the economic outlook, but it is a clear signal that solid growth is not a given, and that is a mismatch with current equity prices. It does not mean stocks will fall, but we must acknowledge that there is a greater chance of an economic slowdown than there was before (it's just not significant enough yet to require broad action in portfolios).

Examining the other data from last week, it was solid and suggested that overall economic growth remains robust. The Manufacturing PMI remained below 50 but rose slightly (48.7 vs. 48.6) and had solid details, as New Orders, the leading indicator in the report, rose to 51.4 from 47.1. Prices slipped from 64.8 to 63.7 (not a big move, but at least it's in the right direction).

The ISM Services PMI was even better, as the headline reading solidly beat estimates at 52.0 vs. (E) 50.5, while New Orders also jumped to 56.0 from 50.3. Regarding prices, like in the manufacturing PMI, they saw a small move in the right direction, declining to 69.2 from 69.9.

The major takeaway from last week's data is that growth is still generally solid, but risks are building in the labor market. If we see the labor market start to deteriorate meaningfully, then broader economic slowdown chances will rise, and that would be a serious negative for stocks.

Important Economic Data This Week

Focus turns back to inflation this week, and the most important economic report this week, by far, is Thursday's CPI report. Last month, CPI was "hot," and that caused yields to rise and eroded September rate-cut hopes. Since then, other inflation metrics have been tamer, and investors will be hoping for that, and while there's evidence of tariff-driven inflation, it's offset by other metrics. Last month, the headline CPI rose to 2.7%, but the Core CPI increased above 3.0% to 3.1%. If that increase continues in both indices, it'll increase concerns that tariffs are now boosting inflation.

If CPI runs "hot," it may not eliminate a September rate cut. Still, it will increase the likelihood that the Fed is "one and done" on rate cuts and that would be a negative for stocks because the market is banking on September being the start of a rate-cutting cycle, not a one-and-done cut to placate the White House (or any other reason).

The final notable report this week is Thursday's jobless claims, and given the recent inching higher of labor market concerns, any decline in jobless claims will be welcomed. However, even at 237k, that's still a low level (and not something that should raise too much job market anxiety).

Disclaimer: The Weekly Advisory Update is provided to clients on an informational basis only and is not intended to be considered investment advice or recommendations to buy or sell any security or a solicitation to buy or sell any security. Information contained in The Weekly Advisory Update is compiled from various sources and is not necessarily complete, and its accuracy is not guaranteed. Neither the information contained in The Weekly Advisory Update or any opinion expressed in The Weekly Advisory Update constitutes a solicitation for the purchase of any future or security referred to in the Newsletter. The Newsletter is strictly an informational publication and does not provide individual, customized investment or trading advice to its clients. CLIENTS SHOULD VERIFY ALL CLAIMS AND COMPLETE THEIR OWN RESEARCH AND CONSULT A REGISTERED FINANCIAL PROFESSIONAL BEFORE INVESTING IN ANY INVESTMENTS MENTIONED IN THE PUBLICATION. INVESTING IN SECURITIES, OPTIONS AND FUTURES IS SPECULATIVE AND CARRIES A HIGH DEGREE OF RISK, AND SUBSCRIBERS MAY LOSE MONEY TRADING AND INVESTING IN SUCH INVESTMENTS.

REPRESENTATIVES ARE REGISTERED THROUGH, AND SECURITIES ARE SOLD THROUGH NATIONWIDE PLANNING ASSOCIATES, INC., MEMBER FINRA/SIPC, LOCATED AT 32-16 BROADWAY, 2ND FLOOR, FAIR LAWN NJ 07410. INVESTMENT ADVISORY SERVICES ARE OFFERED THROUGH NPA ASSET MANAGEMENT, LLC. INSURANCE SOLD THROUGH LICENSED NPA INSURANCE AGENCY, INC. NON-DEPOSIT INVESTMENT PRODUCTS ARE NOT FEDERALLY INSURED, INVOLVE INVESTMENT RISK, MAY LOSE VALUE, AND ARE NOT OBLIGATIONS OF OR GUARANTEED BY THE BROKER/DEALER. NATIONWIDE PLANNING ASSOCIATES, INC. IS A REGISTERED BROKER/DEALER.



Richard Rose AIF®
917-597-7432
rrose@nationwideplanning.com