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Weekly Market Commentary
June 6th, 2022

Still Working: Labor Market Remains a Source of Optimism

The labor market has been the cylinder of the economic engine that continues to fire, even as the Fed applies the brakes to address ongoing inflation pressures. The economy is slowing, to be sure, and the cyclical dashboard contains a few flashing yellow lights, reflecting the impacts of rising consumer prices, higher interest rates, ongoing supply-chain bottlenecks, and slightly tighter financial conditions.

Here are three takeaways from last week's employment report:

1. Healthy job growth supports a reasonably favorable outlook for the consumer.

- The economy added 390,000 jobs in May, exceeding consensus expectations of 322,000. The largest gains were in the leisure & hospitality industry (+84,000) while other notable areas of strength were business services, construction and manufacturing.

2. Unemployment rate not heralding a coming recession.

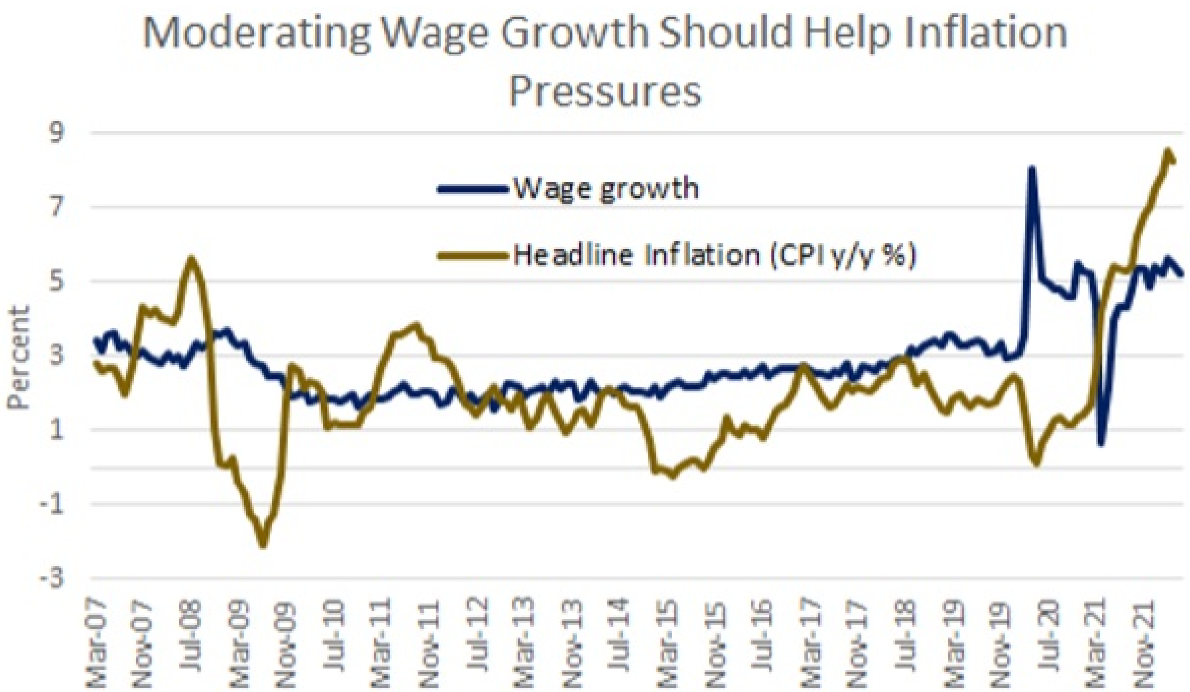
- The unemployment rate held steady at 3.6% in May, the best rate since the pandemic and just a shade above a half-century low. Low unemployment is obviously helpful to consumer spending (by way of supporting both incomes and confidence), but no recession in the last 50 years (excluding the pandemic) has begun with an unemployment rate below 4% (the average was 5.5% and the lowest was 4.3% at the onset of the 2001 recession). Moreover, as the table below shows, there has consistently been an increase in total unemployment of greater than 14% over a year or more before recent recessions. This is no guarantee that the current environment will follow that exact script – particularly given the more aggressive approach from the Fed right now. But it does show that economic downturns tend to emerge after unemployment experiences a persistent deterioration.

3. Wage gains will keep the Fed on its path of upcoming rate hikes.

- While healthy job growth and low unemployment headlined the May employment report, the latest read on wages was equally important to the market narrative. Average hourly earnings were up 5.2% over the prior year, which tells two stories:
    1. Wage growth remains sufficiently robust to lift household income and spending, supporting the prospects for further economic growth.
    2. Wage growth remains sufficiently robust to support ongoing inflation, supporting the prospects of further rate hikes.

- Wage growth ran between 2%-2.5% for most of the prior economic expansion (2009-2020), peaking at 3.5% in 2019, so current wage gains above 5% provide a favorable tailwind for consumers. On top of income gains, U.S. households are sitting on a savings cushion that can also support increased spending ahead (spending accounts for 70% of GDP). The personal savings rate (as a % of disposable income) has fallen to 4.4%, down sharply from recent highs and below the long-term average. However, the last time inflation was near its current reading (the early 1980s), the savings rate was north of 10%, which signaled consumer caution at the time because the economy was contracting. This won't continue indefinitely, but a temporary reduction in the savings rate can bridge the gap as inflation moderates, offering some support to the case that the economy can avoid recession. U.S. households are still sitting on more than $2 trillion in accumulated savings. This won't be fully drawn down, but it offers a sizable spending cushion for consumers to help navigate current economic headwinds.

At the same time, wage growth is down from its recent peak of 5.6%, having now moderated for two straight months.



Source: Bloomberg (What do the lines represent?)

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK	YTD
Dow Jones Industrial Average	32,900	-0.9%	-9.5%
S&P 500 Index	4,109	-1.2%	-13.8%
NASDAQ	12,013	-1.0%	-23.2%
MSCI EAFE *	2,032	-3.1%	-15.6%
10-yr Treasury Yield	2.94%	0.2%	1.4%
Oil ($/bbl)	$120.27	4.5%	59.9%
Bonds	$102.77	-1.3%	-9.0%

Source: Factset. 06/03/2022. Bonds represented by the iShares Core U.S. Aggregate Bond ETF. Past performance does not guarantee future results. * 4-day performance ending on Thursday.

The U.S. adds 390,000 jobs in May and shows the economy is still at cruising speed

The U.S. added a stronger-than-expected 390,000 new jobs in May, signaling the labor market and broader economy are still going strong despite some fraying around the edges.

Economists polled by The Wall Street Journal had forecast a smaller increase of 328,000 new jobs after reports leading up to the government's employment survey had hinted at slower hiring.

The increase in employment was the smallest in 13 months and breaks a string of 12 straight gains of at least 400,000 or more. Yet economists say employment growth was bound to slow as the U.S. recovered most of the jobs lost during the pandemic.

The unemployment rate was unchanged at 3.6%, the government said Friday, and remained just a tick above the pre-pandemic low.

The size of the labor grew by 330,000 in May, nudging the so-called participation rate up to 62.3% from 62.2%. The share of the working-age population who either have jobs or are looking for one is still below pre-pandemic levels, however.

Households are now spending an estimated $5,000 a year on gasoline

According to Yardeni Research, U.S. households are now spending the equivalent of $5,000 a year on gasoline, up from $2,800 a year ago.

In March, the annual rate of gasoline spending was at $3,800, Yardeni noted. During the week of May 16, the national retail price for gasoline reached a record $4.59 per gallon, the firm said.

"No wonder that the Consumer Sentiment Index is so depressed. The wonder is that retail sales have been so surprisingly strong during April and May," Yardeni said in a note.

Yardeni said consumers' inflation-adjusted incomes are barely growing, but they have accumulated a lot of savings, and they are charging more on credit cards.

But Yardeni said don't bet against the U.S. consumer: "When we are happy, we spend money. When we are depressed, we spend even more money!"

Retail sales data for April, released Tuesday, was surprisingly strong. On a year-over-year basis, retail sales rose 8.2% for the month.

Gasoline sales actually declined in April from March, as prices temporarily fell before ramping up to record levels in May. Spending on gasoline in April surged almost 37% from a year ago, according to Commerce Department data.

The price of gasoline was $3.04 per gallon a year ago, according to AAA. This week, the average price rose above $4 a gallon in all 50 states, according to AAA data.

The national average Wednesday was $4.57 per gallon, according to the AAA website.

Earnings Highlights This Week

Lululemon: Lululemon expects the momentum in its business to continue in spite of broader economic headwinds. The athletic apparel retailer posted earnings and revenue that topped Wall Street's expectations.

Microsoft: Last week, Microsoft cut its earnings and revenue guidance for the fiscal fourth quarter, saying it lowered its revenue guidance as a result of unfavorable foreign exchange rate movement.

GameStop: GameStop reported its fiscal first-quarter earnings after the bell on Wednesday. GameStop has said it plans to launch a non-fungible token (NFT) marketplace by the end of the second quarter.

Salesforce: Salesforce earnings beat expectations on the top and bottom lines. Management raised its earnings forecast for the full fiscal year but reduced its guidance for revenue. The Dow Jones Industrial Average component changed its legal name to Salesforce Inc. from Salesforce.com Inc. in the quarter.

Victoria's Secret: Victoria's Secret reported a fiscal first-quarter profit that topped Wall Street expectations, but warned that the retail environment will continue to be challenging. The company noted sales in the years-ago period got a bump from the federal stimulus money people sent. For the most recent quarter, Victoria's Secret reported strength in its bras and beauty businesses as its international segment recovered from heavy Covid restrictions.

News and Notes

The Great Resignation Has Now Become The Great Resistance

Companies and employees are having a battle of wills on returning to the office.

Unemployment is falling while rages are rising. Companies are struggling to attract and retain talent. In fact, there are two job openings for every unemployed American, the highest level on record since 2001.

64% of workers surveyed by ADP said they would consider looking for a new job if required to return to the office full time, with younger people (18 to 24 years old) being the most reluctant (71%) to return to work. However, 8 out of 10 remote workers in a 2020 survey have admitted to slacking off during working hours.

Companies are encouraged to show employees a reason for coming in. Employees need to see the benefit of coming into the office, and no they aren't going to commute two hours a day for free lunch or a donut, or a Lizzo concert (nice try Google).

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