

Week in review and ahead (vol.02)



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US equity markets retreated for the week as labor data came in well ahead of expectations and which pushed yields along the (maturity) curve higher. Volatility continues to be elevated as market participants are (attempting to) interpreting the impact of better macroeconomic data on interest rates as yields continue to increase across all maturities.

The S&P500 and the Dow were down 1.9% respectively for the week, while Nasdaq declined by 2.3%. Among the S&P, only the energy, healthcare and material sectors managed to post gains for the week, while all others declined lead by real estate, financials and tech. Equity markets were closed on Thursday to observe President Carter's funeral.

Market and Economic Chartbook | January 12, 2025

Job Openings and Quits

The number of job openings and quits per the Job Openings and Labor Turnover Survey (JOLTS)

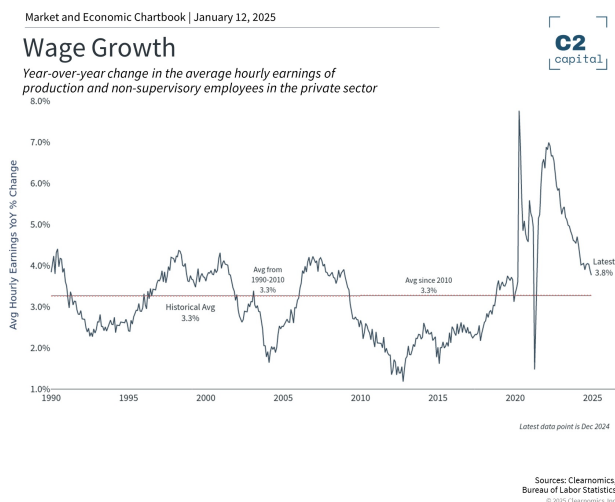


Tuesday saw the number of job openings in the US surprisingly exceed 8M once again vs 7.7M expected, and selling pressures began to mount as volatility increased. This was followed by stronger than anticipated ISM data for the US manufacturing and services sector for December (which is a good indicator for the US economy), but rates on prices paid in both sectors, the manufacturing sector and the services sector, were significantly higher than in November, with the former up by 2.2% and the latter up by 6.2%, indicating a faster rate of change for both and flashing signals that inflationary risks in the US are anything but tamed.

On Friday, the Bureau of Labor Statistics (BLS), reported much stronger than anticipated US job growth for December'24 (of 256,000 non-farm payrolls vs 153,000 expected) and that saw trading

in equities continue the trend and sentiment since Tuesday, specifically risk off (or selling of equity securities) as yields along all maturities rose, with the 30-year treasury yield reaching nearly 5% (which it did briefly back in October of 2023), levels not seen since pre-2008. With the unemployment rate improving slightly to 4.1% (from 4.2%), and yields rising, it appears that markets are reverting to a 'good (macroeconomic) news are bad news' mantra that overshadow most of last year until late Q2 or Q3 when the Fed began its pivot and a softening labor market appeared to emerge.

Less attention garnered by the market was the fact that labor cost growth for December'24, coming in at an annual rate of 3.8%, lower than expected, continued to moderate in 2024 (vs 4.3% in November), registering a rate below 4% for the first time since August'21. Equally ignored was a number of Fed FOMC participants speeches in which they continued to indicate that they felt that monetary policy in the US continues to be restrictive and may need to moderate towards the neutral rate, which they believe to be lower than current levels. Regardless, (the majority of) market participants' concern is that the Fed's stance may be wrong and that inflationary pressures will not permit further easing, and for the time being weighs on overall sentiment when trading equities.



This risk off sentiment may not persist for the mid-to long-term, however, should inflation pressures remain moderate, or, ideally, decline. Accordingly, markets will follow closely next weeks' report on CPI (retail inflation) and PPI (wholesale inflation), with month-over-month changes expected to decline marginally from November. Besides the initial jobless claims report on Thursday, the market will also get an update on the consumer with retail sales due to report on Thursday and the housing market with reports on building permits and housing starts slated to conclude the week.

Additionally, next week will kick off the earnings reporting season with many of the banks and financial companies slated to announce quarterly results.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at c2info@ccapital2.com.

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