Ropes Wealth Reviews Humbling Tech Earnings Reports, Hiring, and Another Rate Hike

Investors were both elevated and then deflated by economic, geopolitical, and earnings headlines this week as we started the month of February. Poor earnings reports from Apple, Amazon, and Google parent Alphabet were met by a hot jobs report showing big gains in hiring in the leisure and hospitality sectors and the lowest unemployment rate in 35 years. The Fed raised rates by 0.25% and threatened more increases are on the way. Oh, and Punxsutawney Phil predicted six more weeks of winter ahead of us.

On the earnings front, Amazon had strong sales growth but weaker profit, which was attributed mostly to their stake in electric-truck maker Rivian but also from the Amazon web services unit which is supposed to be the more stable and growing market segment for the online retailing giant. Alphabet also missed on earnings and revenue due to the continued slowdown in advertising, while Apple missed on earnings and sales due to poor sales of iPhone, Mac, and their wearables segment. In fact, Apple reported their first quarterly revenue decline in four years. For its part, Meta (formerly Facebook) bucked the trend with better revenue, though still declining sales, thanks to cost cuts. They also announced a massive stock buyback, which is becoming a theme these days as a record $132 billion of buybacks were reported in January even as companies face a new 1% tax on share repurchases this year.

On the employment front, U.S. hiring surged in January as nonfarm payrolls rose by 517k, far surpassing the 188k gain expected and marking the strongest monthly increase in jobs since July. December payrolls were also revised higher from a 223k gain to a 260k increase. The unemployment rate unexpectedly fell from 3.5% to 3.4% in January, the lowest level since 1969. Hiring was broad-based across sectors, led by leisure and hospitality, professional and business services, and healthcare. Government employment increased by the most since July, which reflected the return of University of California workers after the end of a strike.

These figures highlight the resilience of the job market despite rising borrowing costs, a pullback in consumer demand and an overall uncertain economic outlook. Demand for workers continues to outpace supply, threatening to keep wage growth strong and fan inflation further.

That’s been a key frustration for the Fed, outlined by Chair Jerome Powell on Wednesday after the central bank slowed its pace of interest-rate hikes to 25 basis points, taking the upper bound of the target range from 4.50% to 4.75%. While acknowledging inflation has come off peak levels, monetary policy makers remain committed to a further rise in rates to reinstate price stability. In their statement, the FOMC said *“The committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time.”*

Notably, stock markets rallied after the Fed’s decision, and Chair Powell’s press conference, despite the message interest rates will continue rising. Investors felt Powell’s emphasis on tighter conditions signaled the Fed is closer to the end than the beginning of interest rate hikes, and could be set to declare victory. He also did not take the opportunity to crush recent stock market advances, when asked by reporters if he was worried about the stock market rally creating easier financial conditions that could hamper his inflation fight. He simply stated: *“Our focus is not on short-term moves, but on sustained changes”* to financial conditions.

Some believe the Fed is more focused on easing wage gains than a decline in hiring, and to that end, today’s jobs

showed average hourly earnings rose +0.3% from December and are up +4.4% from a year earlier. However, that does represent an easing from the prior month. At the same time, the average workweek increased to 34.7 hours, the highest since March. However, other measures have shown wage growth moderating, like the employment cost index and unit labor costs out earlier this week.

In summary, the Fed seems to be trying to thread a needle by pulling off a soft landing, in which they quell inflation without putting millions of people out of work. It seems reasonable they might achieve that goal, and for now markets believe after last year's stunning declines that a lot of the risk we face is reflected in stock prices. We concede though that all bets are off if other systematic risks we know about—Russia's continued aggression against Ukraine, Congress and the White House wrangle the debt ceiling deadline down to the wire, or China escalates activity in Taiwan—take a wrong turn. For this reason, and as always, we emphasize maintaining a store of liquidity to manage your short- and intermediate needs for cash flow, taking advantage of higher interest rates now creating better returns on liquidity, and staying committed but balanced in your long-term investment plan across a range of markets and asset classes.

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