
***Ropes Wealth Provides the Lowdown on the Latest Labor Market Report***

How fitting that as we enter the long Labor Day weekend we get another solid jobs report to consider. The U.S. economy added 187,000 nonfarm payrolls in August despite some expected-to-be-temporary drags, beating expectations for 170,000 payrolls. Manufacturing jobs increased by 36,000, the largest gain in seven months. Private service sector payrolls increased 143,000 despite the trucking company Yellow's bankruptcy and strike activity in Hollywood. Education and health services was once again the primary driver of payroll growth, driven by an increase in health care and social assistance jobs.

Balancing that good news was the disappointment that the prior two months' jobs reports were revised down by 110,000 jobs, bringing the three-month average for payroll growth to 150,000, the weakest gain of the post-pandemic cycle. In addition, the unemployment rate unexpectedly rose from 3.5% to 3.8% in August, marking its highest level since February 2022. Notably, there was an increase in the labor force participation rate, which ticked up from 62.6% to 62.8% in August and contributed to the uptick in the overall rate of unemployment. Wages are moderating but still remain sticky, with average hourly earnings up by 0.2% in August, and trending at a +4.3% growth rate year-over-year. It was also newsworthy this week that the Labor Department's Job Openings and Labor Turnover Summary (JOLTS) for July showed the lowest number of job openings since March 2021.

In other mixed news, the Conference Board reported an unexpected decline in its Consumer Confidence Index to 106.1 in August from a downwardly revised 114 in July. Some responses to the Conference Board's survey "showed that consumers were once again preoccupied with rising prices in general, and for groceries and gasoline in particular," the statement said. "The pullback in consumer confidence was evident across all age groups—and most notable among consumers with household incomes of $100,000 or more."

Second quarter GDP was revised down from 2.4% to 2.1%, with some revisions on inventory investment as well as business spending on equipment and intellectual property products. All in all, though, the economy has retained its resilient clip of expansion. On the inflation front, the Personal Consumption Expenditure (PCE) index rose 0.2% in July from the month before, unchanged from June's pace and in line with what analysts were expecting. The core rate, which excludes food and energy prices, rose at the same rate. On an annual basis, that means inflation is growing 3.3% for the headline and 4.2% for the core rate. Recall that the PCE is the Federal Reserve's preferred measure of inflation. These readings are still out of the comfort zone for the Fed, but they are improving, and doing so amidst a backdrop of still robust household spending that has not skipped a beat.

August was a bit of a roller coaster for equity markets as investors digested earnings reports, as well as concerns about inflation, interest rates, and resurgent Treasury yields. At one point, the S&P 500 was down as much -5.5% from its late July peak, though it has since recovered as some sources of potential concern have evolved. However, the PCE data add to a run of recent numbers, including weaker-than-expected jobs and consumer confidence data earlier this week, suggesting the economy is coming off the boil after the historical surge in inflation last summer. With that, investors are growing increasingly confident the Fed's inflation-busting campaign of interest rate hikes may be coming to an end.

And what happens then? By all signals from the Fed, a quick pivot to interest rate cuts is highly unlikely. So what will be the market's catalyst to leg higher? As news coverage of surging COVID cases multiply, hurricanes and fires cause challenge and heartbreak in communities from Florida to Hawaii, and a theater of the absurd is starting its first act in election politics, it is safe to say we will have to rely on good old fashioned corporate earnings to drive returns. Some argue that the next leg up for the market will be supported by laggards (i.e. non tech companies) leading in the second half of the year. That may be a tall order right now given that some of those companies are generally more cyclical, with lower pricing power, high interest rate sensitivity, and significant dependency on consumer resilience for success. Therefore, we continue to urge a balanced approach and long-term thinking in your allocation, and a healthy dose of short-term bonds and liquidity in your pocket as we face down the months ahead.

Best wishes for a wonderful Labor Day weekend with your families and friends. Thank you as always for your interest in our investment commentary. Please let your RWA team know if you have any questions or concerns. If you would like to speak personally with a member of our team at any time, please click **here**.



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