
***Ropes Wealth Reflects on the Strong Jobs Report and Shaky Markets***

As we honor the contributions of laborers to the developments and achievements of the U.S. this Labor Day weekend, how appropriate that we received today yet another strong employment report showing the workforce engine of the U.S. is alive and well.

Indeed, nonfarm payrolls increased 315,000 in August, and while the unemployment rate rose to a six-month high of 3.7%, its first increase since January, it was because the labor force participation rate pushed higher. Though the 315,000 new jobs print did mark a slowdown from July's 526,000 advance, the three-month average jobs gain of 378,000 demonstrates an employment market still in expansion. Retail, education, healthcare, and business services sectors showed the strongest hiring in August, while hospitality, leisure, and construction job growth cooled, likely reflecting shifts in spending and demand due to the elevated inflation picture.

Notably, the unemployment rate rebounded from a 53-year low of 3.46% to 3.65% as participation jumped, particularly from females. The number of people reported as being in the labor force jumped 786k, the largest increase since January. This included strong gains in key age cohorts: 25-34 year olds +287k, 35-44 year olds +172k, and 45-54 year olds +278k. The labor force participation rate increased from 62.1% to 62.4%, while those ages 25–54 (so-called "prime-aged" by the Bureau of Labor Statistics) jumped from 82.4% to 82.8%. Interestingly, the bulk of the increase in participation came from females with participation up from 76.4% to 77.2%, the highest rate since 2000, while male participation only increased 0.2% to 88.6%. Overall, it is clear that solid wage growth and high inflation are driving people to look for work.

However, on a negative note, the number of persons employed part-time for economic reasons increased another 225k, now up 528k over the past two months and the number of long-term unemployed increased 70k. This combination brought the underemployment rate up from 6.7% to 7.0%.

While a persistent mismatch between labor supply and demand has driven businesses to bid up wages, the report showed some signs that the two are becoming more aligned. Average hourly earnings rose just +0.3% from the prior month, though still up +5.2% from a year earlier.

Despite moderating job growth, the still-solid employment gain points to a healthy appetite for labor amid high inflation, rising interest rates, and an uncertain economic outlook. Such demand, along with repeated pay raises, continues to underpin consumer spending. From the Fed's perspective, this morning's report reinforces the Committee's assessment of a still-solid labor market, while moving towards the intended *"softening"* conditions necessary to rein in inflation. In our view, it likely does not change the outlook for a 75-basis point increase in interest rates at the upcoming September 21 Fed meeting. That would take a meaningful change in inflation reported in August, and we still caution clients to not fight the Fed's course here.

As we review market action over these last few weeks, which has been decidedly negative, we recognize the uneasiness we all feel as we enter the fall and a historically challenging period for stocks. We urge you to take the long view and recognize there are some tailwinds in the pipeline: easing energy prices, strong labor market, personal balance sheets strong and bolstered by still rising home prices, and operating margin pressures for corporations perhaps close to peaking. There are headwinds, of course, but should there be any sign of sustainable easing in inflation, a cooling of tensions with China, a break in the horrific war still raging between

Ukraine and Russia, and a pandemic that moves ever more to the background, we suspect markets would find some relief and a return of focus to fundamentals. While those fundamentals are showing some signs of wear and tear, current prices reflect the operating challenges management teams face more or less, and as that recognition grows, so too should signs of stabilization.

Of course, we will be dealing with the legacy effects of this challenging time for years to come: We will have to reimagine supply chains, get serious about energy infrastructure with an interim and long-term plan, develop a real priority and investment in healthcare (physical and mental health) responses, and address the gaps and disparities that exist in our world. It was sobering to learn the news this week from the National Assessment of Educational Progress exam — known as "the nation's report card" — that the math and reading scores of 9-year-olds nationwide took the largest dip since 1990 during the pandemic period. Without a doubt, we have a lot of work to do, as a nation and as a world, to get back on track. We will. We must. As we enter the long weekend and you take time to celebrate the Labor Day holiday with your families and friends, please know that your Ropes Wealth team wishes you the very best today and always and thanks you for your trust and relationship with us.

Thank you for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.



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