ROPES WEALTH ADVISORS

***Ropes Wealth Assesses Job Market & Banking Sector Risk***

As hoped, the February jobs data announced this morning showed still-strong results but some overall easing in the labor imbalance. Following January's 500,000+ increase, February total nonfarm payrolls increased 311,000 versus expectations for a 225,000 gain, the 11th consecutive month of job gains exceeding expectations. Government payrolls expanded 46,000 and January numbers were also increased due to gains in education jobs. The private sector added 265,000 jobs, though in this case, January's numbers were cut back by-57,000 on revisions. February job gains were broad-based, with leisure (+105k), health care and social assistance (+74k), retail (+50k), and construction (+24k) sectors demonstrating resilient growth. Manufacturing (-4k), transportation (-25k), and information technology (-25k) saw payroll declines in this most recent report.

The unemployment rate rose from 3.43% to 3.57% despite 177,000 more people reporting as employed as participation increased by an encouraging 419,000. The labor force has now added 1.724m participants over the last three months, the strongest three-month run (outside of the pandemic recovery) since 2000. Total participation also increased, up from 62.4% to a cycle-high 62.5%, still below the pre-pandemic 63.3% as it remains weighed down by the exodus of senior laborers early in the pandemic. Related to wage inflation, average hourly earnings growth slowed to 0.2% month-over-month, the slowest rate in twelve months; however, wages are still up 4.6% year-over-year.

With the March Fed decision still looming, the revisions to the January report along with improvement in the labor imbalance at least opens the door to the Fed staying on the path of smaller 25 basis point increases in rates. Maybe especially so given the other stress that has unfolded in this week's news around Silicon Valley Bank (SVB). As widely reported, SVB which primarily served the tech industry, announced it was raising capital to cushion against losses its bank subsidiary was realizing on liquidation of the lion's share of its investment portfolio. The company saw its credit rating downgraded and its stock price plunge by a record 60%+ in response to its plans to shore up its liquidity position. As of press time, the share sale plan failed and regulators have closed the doors after a brief attempt to find a suitor for the company. With SVB entering FDIC receivership the contagion to other regional banks like First Republic has waned, for now, but they will no doubt spend a busy weekend attempting to reassure markets they are on solid footing.

Fed Chairman Jay Powell testified before Congress this week and took a markedly hawkish stance. Indicating rates were likely to rise even higher than the 5.00-5.55% range suggested by recent Fed commentary, Powell also noted that a return to larger 50 basis point hikes may be appropriate given the surprisingly robust condition of the labor market and stubbornly elevated level of prices. When officials in Washington pushed back on Powell for the impact on consumers and businesses, Powell was clear that the intention is not to destroy jobs (although that will likely occur), but to rebalance the disconnect between labor supply and labor demand, the gap of which is currently driving higher wage costs and by extension resulting in the ominous wage price spiral. Under this scenario, workers demand higher wages as businesses charge higher prices forcing consumers to seek even higher compensation and so on and so on.

Clearly now policymakers will need to weigh the implications of its aggressive tightening on a financial system that's showing signs of stress with the failure of SVB.

Market stress this week took on another level of complexity. When financial market stability is in question, that is always a cause for concern. We are watching developments closely here but believe SVB had unique characteristics as a specialty lender for the venture tech industry and given their approach to deposit management. However, following more stringent regulations post-2008, most banks are well capitalized and liquidized in such a way that they are not vulnerable in this moment. We are not taking anything for granted, and always want to remind clients of the FDIC limits on deposits over $250,000 for individuals and $500,000 for joint accounts. Excess amounts should be reviewed and considered with your advisor.

Thank you as always 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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