Ropes Wealth Suggests Striking a Balance

In this week's onslaught of economic data and central bank news, there was such a mixed bag that everyone seems to be glad it is the weekend so we can have time to digest and regroup. I will parse it for you now, with full recognition that you might ask, like President Harry Truman once famously did, to be sent a one-armed economist, having tired of them saying, "on the one hand, this" and "on the other hand, that." But here goes.

The U.S. labor market added more jobs than expected in May, defying previous signs of a slowdown in the U.S. economy. Data from the Bureau of Labor Statistics released today showed the labor market added 272,000 nonfarm payrolls in May, well more than the 185,000 expected and way higher than the 165,000 jobs added in April. The healthcare, government and hospitality sectors were responsible for the gains. While the unemployment rate rose from 3.9% to 4% and the labor force participation rate dropped overall, those negatives were offset by the positive news that the labor force participation rate among prime-aged workers, ages 25-54, rose to 83.6%, its highest level in 22 years. On the inflation front, this report was less than ideal as wages rose by 0.4%, more than expected, and are advancing at a 4.1% annual rate. While good for workers, these increases are pressuring profit margins and making the Fed uneasy about potential changes to interest rates.

While today's jobs reports were unquestionably hot, other data this week was lukewarm at best. For example, the number of job openings, reported in the so-called JOLTS (Job Openings and Turnover Survey) report showed a return to pre-pandemic levels in a sign the labor market may be coming more into balance. We also had several reports showing notable slowdowns in manufacturing, durable goods ordering, and construction activity in May. On the latter, we are beginning to see a notable tail off in public sector spending as state and local governments, once flush with COVID dollars, have spent through those reserves. But offsetting that weakness were reports of strong and steady gains in service sector activity. No doubt the ongoing secular shift in our economic activity from manufacturing to services is underscored by these numbers and is perhaps why the volatility in manufacturing and construction activity has not been enough to push us into recession or anything close. The takeaway being that the service sector machine we have in the U.S. wins the day, as long as employment holds up and consumers have some money to spend.

Turning to the market, it was still all about Nvidia this week as CEO Jensen Huang delivered a keynote address in Taiwan at the Computex trade show. He was greeted like a rock star by throngs of cheering fans and had photographers hounding his every move. Dubbed the "Taylor Swift of Tech," Jensen wowed the crowd with his address and his vision for the company as "Jensanity" continues. Today, Nvidia shares are undergoing a 10-for-1 split, meaning each investor who owns Nvidia shares as of today's close will receive nine additional shares of the stock. Trading at the split-adjusted price begins Monday.

Next week, another rock star company perhaps now in more of its "greatest hits" era, Apple, begins the annual Worldwide Developers Conference. Though trade media are not expecting much in new hardware announcements, with the focus instead on software. Shares of Apple, which were burdened earlier this year by weak revenue growth and concerns the company might be falling behind in AI, have surged over the last month and now aren't far from all-time highs as investors wait breathlessly to hear about AI integration across its product line.

Market gains this week are being tested today as the jobs reports have investors waffling on when the Fed will cut rates. This week the Bank of Canada cut rates for the first time since March 2020, lowering its target rate 25bps

from 5.00% to 4.75%. The European Central Bank also joined the ranks of those initiating an ease in policy, reducing its deposit rate from 4.00% to 3.75%, the first reduction since September 2019. The reduction comes amid sluggish growth and encouraging signs of disinflation. Back in the U.S., the Fed continues to reiterate a message of "patience" while the market just can't help itself in trying to assert a timeline. As a result, bond yields have been all over the place in a matter of days, making it a prime opportunity for a savvy long-term investor to be ready to strike when back-ups in yields occur.

Putting jobs reports and "Jensanity" in perspective, it was eighty years ago this week that the Allied forces stormed the beaches of Normandy, France, during World War II on what would be known as D-Day. The roughly 160,000 Allied troops who landed in Nazi-occupied France on June 6, 1944, not only successfully executed the largest air, land, and sea invasion in history, they did so amid daunting obstacles, terrible bloodshed, and stakes that couldn't have been higher. This surprise invasion ultimately led to the liberation of Nazi-occupied Europe and the end of the war itself just over a year later. But victory was far from certain in the initial hours of that first day. We have come through so much as a world, and it is my true hope for you and all of us that we remember that our fears and worries should be balanced with hope and optimism in our future too.

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