The Weekly Market Update – 6/10/24: Jobs Surge In May But Unemployment Up To 4.0%

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,346.99	1.32%	1.76%	12.10%	27.92%	5,354.03	0.1%
Dow Jones Industrial Average	38,798.99	0.29%	-2.53%	2.94%	17.90%	40,003.59	3.1%
NASDAQ Composite	17,133.13	2.38%	4.60%	14.13%	32.45%	17,187.90	0.3%
Russell 2000	2,026.55	-2.10%	-4.61%	-0.03%	15.83%	2,442.74	20.5%
MSCI EAFE (USD)	2,368.97	0.56%	0.94%	5.94%	16.02%	2,398.71	1.3%
MSCI Emerging Markets (USD)	1,073.14	2.30%	3.15%	4.83%	11.96%	1,444.93	34.6%
Bloomberg Commodity Index	101.82	-1.14%	2.34%	3.22%	3.93%	237.95	133.7%
Barclays U.S. Aggregate Bond	89.57	0.32%	-1.02%	-2.32%	-0.80%	112.07	25.1%

Source: FactSet

The May U.S. employment report reflected more new jobs than expected, but other data was mixed. Following the release, the S&P 500 equity index was relatively flat (-0.1%) on the day but held on to solid gains (+1.3%) for the week (ended 6/7/24). However, the Equal Weight S&P 500 (which, in our view, represents the average stock in the index) dropped -0.8% over the 5-day period, its third consecutive weekly decline. This underscored that solid S&P 500 gains in 2024 are largely driven by a small group of highly valued companies. As of 6/7/24, the 2024 year-to-date (YTD) price return of the S&P 500 was +12.1%, while the Equal Weight index return was +4.0%. According to the Bureau of Labor Statistics (BLS), May nonfarm payrolls (jobs) increased +272 thousand (K), well above the +180K FactSet consensus estimate. This was above April's new jobs growth of +165K, which had missed estimates, and also beat the 1Q24 average monthly jobs gain of +267K. New jobs were led by health care (+68K), government (+43K), and leisure/hospitality (+42K), but most industry groups also showed increases. The jobs release pushed back on other recent reports suggesting labor headwinds (BLS reported a month-to-month decrease in job openings and the Department of Labor showed a week-to-week increase in new unemployment claims), but the May report itself included other mixed data. The BLS relies on two jobs surveys to compile its monthly report: monthly jobs and wage growth numbers come from the wider Establishment survey, while the unemployment rate is compiled from the Household survey, which is smaller, but includes more jobs categories (including those self-employed). That survey showed that the unemployment rate hit 4.0%, the first time at that level since January 2022 (28 months). That survey also showed a jobs decrease in May of -408K, which was completely at odds with, and below, the Establishment survey number. The two surveys frequently diverge on a monthly basis but, over time, are directionally similar. The weaker Establishment number suggests that the labor market is worse than many believe, but another potential reason is that the stronger Household number more accurately reflects immigrants (both legal and illegal) that have entered the work force. In our view, both explanations are likely to some extent, exacerbating the difference. We believe that immigration at the southern border has likely added to the jobs data over the past 12+ months.

The jobs report also showed an uptick in wage growth, contributing to an immediate surge in interest rates. Wages (as measured by average weekly earnings) increased +4.1% in May (Y/Y) and +0.4% from levels in April (M/M). The M/M trend was the highest since January, and if the trend continues for a few months, could drive wage headwinds for companies and pressure inflation. The U.S. 2-year Treasury yield (TY) moved to 4.88% (6/7/24) from 4.73% the prior day, and the U.S. 10-year TY also moved +15 basis points to 4.44%. Since the start of April, the 2-year TY yield has ranged from 4.73% to 5.03%, and we believe reflects market expectations for Federal Reserve Bank (Fed) interest rate policy. The Fed's current target for the overnight fed funds rate is 5.25% to 5.50%.

We expect no change to Fed interest rate policy this week but look forward to updated economic projections. The Fed concludes its fourth 2024 policy committee meeting this week, and is expected to make no changes to the current 5.25% to 5.50% fed funds target. But they may offer discussion of what is needed to implement the first rate cut (some combination of slowing jobs growth and lower inflation) and will also update their own projections. The most recent projections (March) reflected 2024 U.S. economic growth of +2.1% and a year-end fed funds rate of 4.6%. We believe that the fed funds estimate is likely to move higher, reflecting current rates.

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The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

U.S. economic growth: Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. The most recent GDP report can be found at www.bea.gov. GDP data is reported quarterly by the Bureau of Economic Analysis.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. Y/Y is year-over-year and M/M is month-over-month.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is here. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work. Wage growth is measured by average hourly earnings (AHE). Wages include overtime and late shift work, but excludes benefits.