CLAYTON WEALTH PARTNERS 40 YEARS

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MONTHLY MARKET PERSPECTIVE

Employment: What Lies Beneath

By James M. Walden, CFA

Despite the highest inflation in 40 years and the most aggressive Fed rate-hiking campaign in decades, 2023 turned out to be a surprisingly resilient year for the economy and financial markets. Not only was there no recession, but the GDP growth of 3.1% in 2023 marked an acceleration from 2022. For that, we can thank free-spending U.S. consumers, who benefited from a strong labor market and spent down pandemic-era savings.

The question remains, “Has the Fed been successful in engineering a soft landing and averting a recession?” We think the answer depends largely on what happens with employment in 2024.

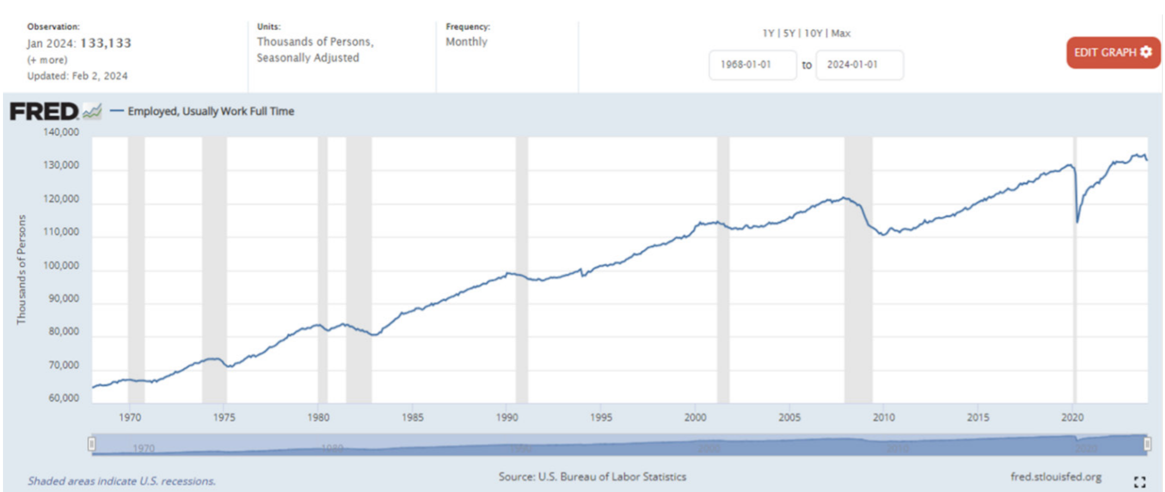
On the surface, it appears that we’re off to a good start. In January, the headline was that the economy added 353,000 jobs, the highest in 12 months.

DASHBOARD

- Business Cycle (red)
- Valuation (red)
- Trend (green)

But beneath the surface lie some worrisome trends. From the perspective of workers, fewer employees are voluntarily quitting their jobs. There has been a meaningful increase in the number of people employed part time because they can’t find full-time work or their hours got cut. Both are trending in a fashion seen during previous recessions. And growth in the number of people employed full time has stalled, a pattern also seen in earlier recessions. (See the exhibit.)

Exhibit: Growth in the Number of People Employed Full Time Has Stalled



Source: Bureau of Labor Statistics, Federal Bank of St. Louis, Clayton Wealth Partners.

Some employment trends from the perspective of employers are troubling, too. The job hiring rate, the number of temporary-help workers, and the average hours worked each week by frontline workers are all declining at rates observed in prior recessionary periods.

In our opinion, for the Fed to stick to the soft landing, we will need to see those trends turn positive again while other employment data remain benign, among other criteria.

Bullish

- The Fed has made good progress in reducing inflation.
- The services sector of the U.S. has remained strong.
- The most attractive yields for fixed income and cash in years.
- Consumer and corporate balance generally remain healthy.

Bearish

- Slowing global economic growth with recession pressures mounting.
- Banks are tightening lending standards.
- Housing affordability remains at a decades-low.
- Leading indicators of unemployment are generally trending down.
- Delinquency rates on consumer loans are rising.
- Russia-Ukraine war, Israel-Hamas conflict, and other geopolitical concerns.
- China is experiencing a growth recession, with deflation fears growing.
- Federal debt and deficits have ballooned.

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As Partner and Chief Investment Officer, James Walden strives to maximize our clients' long-term, risk-adjusted portfolio returns. This includes determining strategic and tactical asset allocations, as well as specific investment analysis and prudent rebalancing. Jim is also a partner and management team member. His expertise includes advanced investment research and valuation, and he is passionate about his role in helping clients reach and exceed their financial goals.

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