CLAYTON WEALTH PARTNERS

40 YEARS

MAY 2024

MONTHLY MARKET PERSPECTIVE

What Are Initial Jobless Claims Telling Us?

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DASHBOARD

- Business Cycle
- Valuation
- Trend

Initial unemployment claims have historically been an effective leading indicator of broader economic trends. In fact, initial claims are one of the 10 components that make up the Conference Board's widely followed Leading Economic Index.

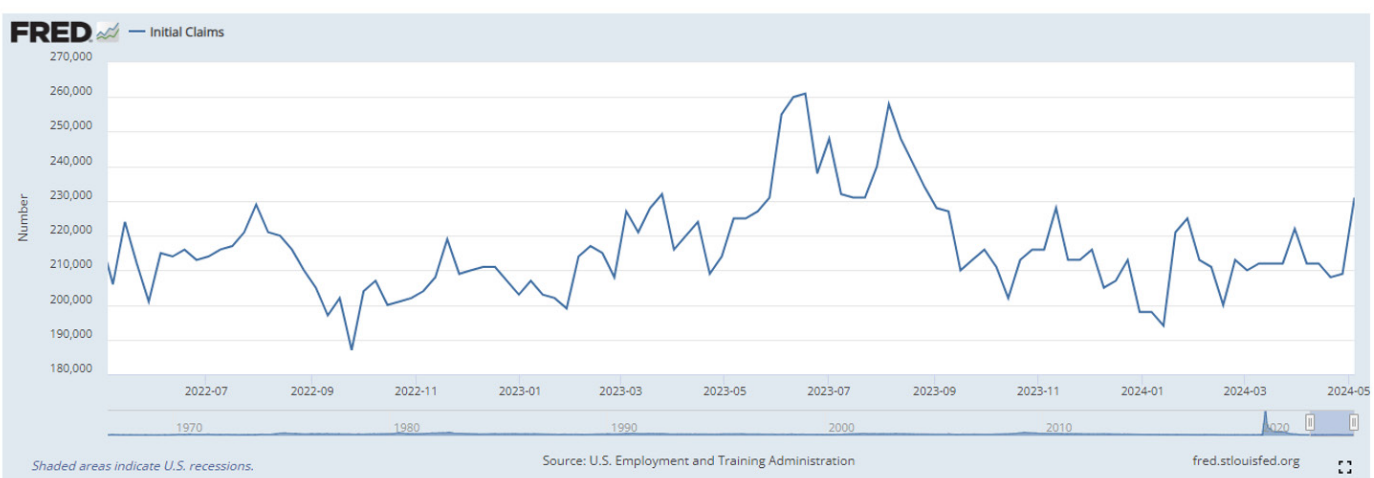
For most of the post-pandemic recovery, initial claims have largely oscillated in a benign range of 200,000 to 230,000 a week. This stands in stark contrast to warning signs flashing among a whole host of other leading indicators of employment trends.

What accounts for this discrepancy?

One possible explanation is that the worrisome trends found in the other employment data really aren't that bad. That's certainly possible. But the depth and breadth of softness we see in other employment data we track is too great to easily dismiss.

Another potential reason initial claims remain so low is that unemployment compensation might not offer as much benefit to individuals as other opportunities. For example, California offers recipients of unemployment benefits up to $450 a week. (Each state determines its own unemployment benefits.) That amount has been unadjusted since 2005, despite significant inflation in the past few years. In comparison, part-time or gig work (think Lyft or Uber drivers) might be a better financial option. (Certain restrictions on unemployment programs can preclude people from benefits if they have other work.)

Exhibit: Initial Claims for Unemployment Insurance (Weekly)



Source: U.S. Employment and Training Administration, retrieved from FRED, Federal Reserve Bank of St. Louis, Clayton Wealth Partners.

But it's worth continuing to pay attention to trends in initial claims. If they rise meaningfully, that will likely augur a corresponding rise in the unemployment rate and greater economic weakness. Of note, jobless claims jumped to a seasonally adjusted 231,000 for the week ended May 4, 2024. That's the highest level since August 2023 (see exhibit). Time will tell if this develops into a broader uptrend.

We continue to remain open to the possibility of the economy achieving the so-called "soft landing" (tame inflation and no recession). We also continue to believe it's too early to make that determination. With stocks offering little relative value, we remain cautious for now.

Bullish

- The Fed has made good progress in reducing inflation since 2022.
- The Fed appears poised to start cutting interest rates in 2024.
- 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 sheets 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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