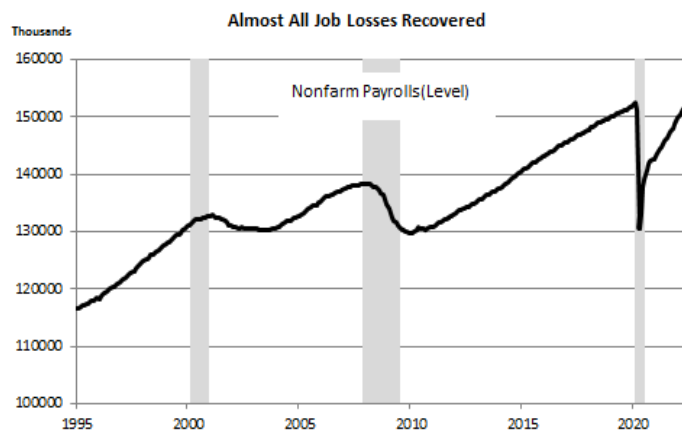


According to the National Heart, Lung, and Blood Institute (NIH), May is High Blood Pressure Education Month. If the heart-palpitating events of the past week are any indication, the Institute has its work cut out for it. It's hard to recall another week that generated as much drama or anxiety. That's particularly so for investors whose pulses received some extreme shocks from wild gyrations in the financial markets, including two consecutive days – Wednesday and Thursday – when stock prices ended at least 3 percent higher or lower, something that hasn't happened in more than two years. Market interest rates also moved sharply, but mostly in one direction – up, with the bellwether 10-year Treasury yield climbing decisively above the 3 percent threshold, ending the week at 3.14 percent, the highest since November 2018.

Ironically, there was little in the way of a surprise to stoke extreme churning in the markets. True, the week featured a key policy meeting and an all-important economic report. However, neither deviated from expectations, so the heightened volatility does not appear to be a product of a surprise shock. If anything, the Fed's policy meeting presented clear forward guidance, solidifying existing perceptions as to what moves will be forthcoming in the months ahead. As expected, the Fed raised its short-term rate target by a half percent, the first increase of more than a quarter-point in 22 years. It also promised to start shrinking its massive bond portfolio; beginning in June, the Fed will phase in reductions of its holdings of Treasury and mortgage-backed securities that will eventually total \$95 billion a month by September. At that pace, it would still be quite a while before the \$4.5 trillion of additional assets accumulated since the onset of the pandemic are completely unwound.

Importantly, Chair Powell noted that additional half-point increases in the federal funds rate are "on the table" for the June and July meetings. Increases would keep coming until the inflation genie is put back in the bottle. If there was one hiccup in the forward guidance, it was Powell's response to a question in which he noted that a 75 basis points increase in rates was not actively discussed. Since investors had feared the Fed might consider such an aggressive move going into the meeting, that denunciation produced a big sigh of relief and probably spurred the heady 3.0 percent gain in the S&P 500 index the day of the meeting. According to some analysts, Powell's comment may have been counterproductive since the market rally undercut the Fed's attempt to tighten financial conditions. Not to worry, as the next day, the gain was vaporized entirely when the index plunged by 3.6 percent.

That said, the clear forward guidance presented at the policy meeting did little to squelch the heightened uncertainty underpinning market volatility. Nor did the key jobs report released on Friday provide more clarity on inflation or whether it will embolden the Fed to become more or less aggressive in the months ahead. As noted, the report produced little in the way of surprise. The economy created 428 thousand net new jobs in April, which was spot on with the consensus forecast and further confirms that the labor market remains red-hot. The April increase duplicated the impressive 428 thousand jobs gained in March, resulting in a slight slowing – but still formidable – 523 thousand average increase over the past three months. With the April increase, the economy has recovered all but 1.2 million of the 22.3 million jobs lost at the height of the pandemic in 2020.

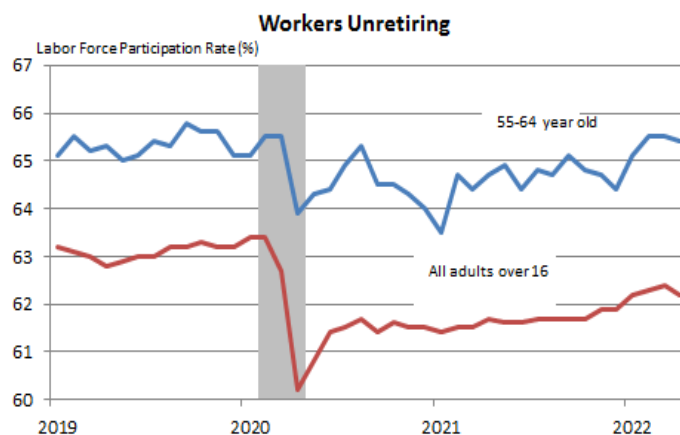


Looking at the details, the payroll gains were broadly based and in line with recent trends. The services sector added 340 thousand jobs following a similar 357 thousand gain in March. Services activity has regained some traction since the Omicron wave, but acute labor shortages in some industries continue to dampen firms' efforts to staff their operations. Leisure & hospitality payrolls continued to lead job creation within the service sector with a solid 78 thousand increase, although this was the weakest advance since December 2020. Within leisure and hospitality, hiring at food services and drinking places has slowed, adding 44 thousand jobs compared to a 78 thousand average gain over the prior three months.

The health and education sector was the second-largest contributor to the services employment in April as it added 59 thousand jobs, in keeping with its March performance. The gain was again concentrated in healthcare and social assistance payrolls, which rose by 41 thousand following a 45 thousand advance in March. It is encouraging to see some steady progress in this sector's jobs recovery, given that it continues to suffer from one of the most significant jobs shortfall caused by the pandemic, behind the leisure and hospitality and local government sectors.

In contrast, professional and business services payrolls moderated markedly in April, adding 41 thousand jobs, less than half the pace seen in March. Some of the slowdown in hiring reflected fewer IT and technical jobs being added, as well as a slowdown in hiring administrative and support services staff. Still, the professional and business services sector remains the brightest spot in this jobs recovery; not only has it rebounded above pre-covid levels, but it also has created the most jobs since then.

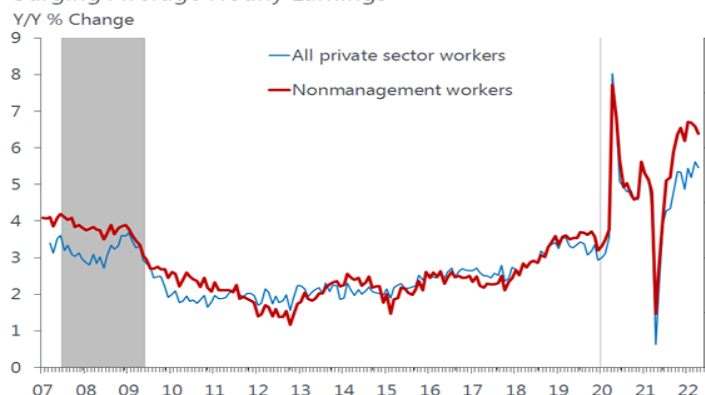
Meanwhile, transportation and warehousing payrolls surprised on the upside with a strong 52 thousand rebound in April compared to a 39 thousand average over the past twelve months. Within the industry, couriers and messengers, and warehousing and storage accounted for 60 percent of the increase as consumers are apparently sticking to their new online shopping habits. The gain here was surprising in that the March retail sales report showed a sharp decline in online sales. Still, hiring at retail stores is not showing a big lift from any shift in shopping preference towards in-person transactions. Retail employment saw a moderate gain of 29 thousand in April, in line with its March advance but down significantly from the 116 thousand average gain in January and February.



If nothing else, the April jobs data underscore Chairman Powell's view that the labor market remains exceptionally tight and risks setting off a wage-price spiral that would fuel the inflation embers. In this regard, two key trends bear close watching. Fed officials are hoping that an expanding labor supply, with workers coming off the sidelines, would ease upward pressure on wages. But the April jobs report starkly disabused that notion. Indeed, one of the biggest disappointments in the report is that the labor force actually declined by 363 thousand in April, arresting the recovery in the labor force participation rate. That rate slipped to 62.2 percent from a post-covid high of 62.4 percent in March. Interestingly, the wave of early retirements that contributed mightily to the decline in the participation rate during the pandemic may be lifting it now, as a growing number of workers appear to be un-retiring for various reasons. The participation rate for the 55-64 age group did slip in April, but only half as much as the overall rate, and it has regained virtually all of its drop during the pandemic. Conversely, the rate for all adults over 16 is still more than 1 percent below its pre-covid level.

The other trend to watch is worker earnings, which has surged over the past year and is primarily responsible for the Fed's heightened concern that inflation may become more embedded in the economy. Undoubtedly, workers continue to have the upper hand in this extremely tight labor market, where there are nearly 2 job openings for every unemployed worker. A sliver of good news appeared in the April jobs report, as the month-over-month increase in average hourly earnings moderated to 0.3 percent for all private-sector workers. But the moderation followed an upwardly revised 0.5 percent increase in March and still puts the gain over the past year at 5.4 percent; for nonmanagement workers, the annual increase stands at a vibrant 6.4 percent.

Surging Average Hourly Earnings



Those increases are far too high for the Fed's comfort. From our lens, the pressure on wages should gradually ease over the second half of the year as the recovery in labor force participation gets further along, and labor demand cools. But it will take time for labor demand and supply to realign, keeping the pace of wage growth elevated by historical norms. This will reinforce the Federal Reserve's increasingly hawkish posture and bolsters the case for two additional half-point rate hikes at the following two policy meetings.

FINANCIAL INDICATORS				
INTEREST RATES	May 6	Week Ago	Month Ago	Year Ago
3-month Treasury bill	0.84%	0.81%	0.67%	0.02%
6-month Treasury bill	1.33	1.40	1.15	0.03
3-month LIBOR	1.37	1.28	1.00	0.16
2-year Treasury note	2.71	2.65	2.47	0.15
5-year Treasury note	3.08	2.96	2.69	0.78
10-year Treasury note	3.15	2.86	2.71	1.57
30-year Treasury bond	3.24	2.93	2.72	2.28
30-year fixed mortgage rate	5.27	5.10	4.72	2.96
15-year fixed mortgage rate	4.92	4.40	3.91	2.3
5/1-year adjustable rate	3.96	3.78	3.56	2.70
STOCK MARKET				
Dow Jones Industrial Index	32899.37	32977.21	34721.12	34777.76
S&P 500	4123.34	4131.93	4488.28	4232.6
NASDAQ	12144.66	12334.64	13711.00	13752.34
Commodities				
Gold (\$ per troy ounce)	1882.10	1896.90	1950.40	1832
Oil (\$ per barrel) - Crude Futures (WTI)	110.60	104.13	97.90	64.84
ECONOMIC INDICATOR	Latest Month/Quarter	Previous Month/ Quarter	Two- Months/ Qtrs Ago	Average-Past Six Months or Quarters
ISM Manufacturing Index (April)	55.4	57.1	58.6	58.0
ISM Service Activity Index (April)	57.1	58.3	56.5	60.4
Nonfarm Payrolls (April) - 000s	428	428	714	552
Unemployment Rate (April) - Percent	3.6	3.6	3.8	3.9
Average Hourly Earnings (April) - % chg	0.3	0.5	0.1	0.4

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