Mid-Week Market Recap: Waiting for the Biggest Jobs Report in Years

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Editor's Note:

As a subscriber to *Benzinga Research*, you're entitled to weekly briefings from our research team, in which we make sense of the market's latest moves and break down any potential catalysts or risks ahead. In this week's market recap, we cover the stakes of tomorrow's jobs report and whether or not it can force the Federal Reserve into a last-minute pivot ahead of its expected interest rate cuts on September 17.

Dear Benzinga Member,

When the monthly jobs report for July came in on August 2, markets tanked as the news of a mere 114,000 jobs created sparked fears of an impending, and perhaps severe, recession.

The Dow cratered almost 1,000 points, while the major indices went on to dip over 3% on the following trading day on Monday, August 5.

Since then, markets have not only rallied, but actually hit new all-time highs as fears of an imminent recession receded after the release of more positive data—especially the monthly Consumer Price Index report showing inflation down at 2.5%.

But this week, a slew of reports have disquieted markets as they indicate weakness in the labor market.

As Yogi Berra would say, it's starting to look like "déjà vu all over again."

Tepid Jobs Data Jolts Markets

Last month's revelation that the Bureau of Labor Statistics had reported 818,000 more jobs added than were actually created last year through early 2024 got plenty of attention.

What wasn't so widely reported was the fact that, combined with July's numbers, the downward revision meant the U.S. economy's unemployment rate of 4.3% is now higher than it was in the month leading up to the Covid-19 pandemic.

Since April 2023, the unemployment rate has risen from 3.4% to 4.3%. The trend has the attention of Federal Reserve officials, who operate on a dual mandate.

First and foremost, their goal is to head off recessions, or at least mitigate their severity, by lowering interest rates to help foster new hiring, expansion, and therefore economic growth when appropriate.

But the Federal Reserve is also focused on keeping inflation at what it considers its ideal range of 2% a year. As we've seen in recent years, it's willing to limit economic growth if it perceives inflationary danger from an economy that's overheating.

Today, with core CPI inflation at 2.5% year-over-year, and 2.9% inflation when you factor in food and fuel costs, the Fed's goal of tackling inflation from its 8.2% high in July 2022 looks almost complete.

Of course, people can and will disagree about how the Fed handled the crisis of 40-year high inflation—but here at *Benzinga Research*, we don't take sides in policy disputes or tell you what to think.

What matters from an investing standpoint is the question of whether a recession is imminent—or already in motion.

And that means that tomorrow's jobs report, scheduled for release at 8:30 AM, is the most important one in years.

Setting the Tone for the Fed's September 17 Announcement

There's no question that, after years of viewing robust monthly jobs growth as a worrisome sign that the economy was still overheating, the Fed is looking at the jobs picture differently.

"We do not seek or welcome further cooling in the labor market conditions," Fed Chair Jerome Powell said in Jackson hole, Wyoming, last month.

But the signs of a cooling jobs market have mounted since that August 23 speech.

Take Tuesday's report from the Institute for Supply Management (ISM), which showed only 47.2% of surveyed manufacturers reporting expansion last month.

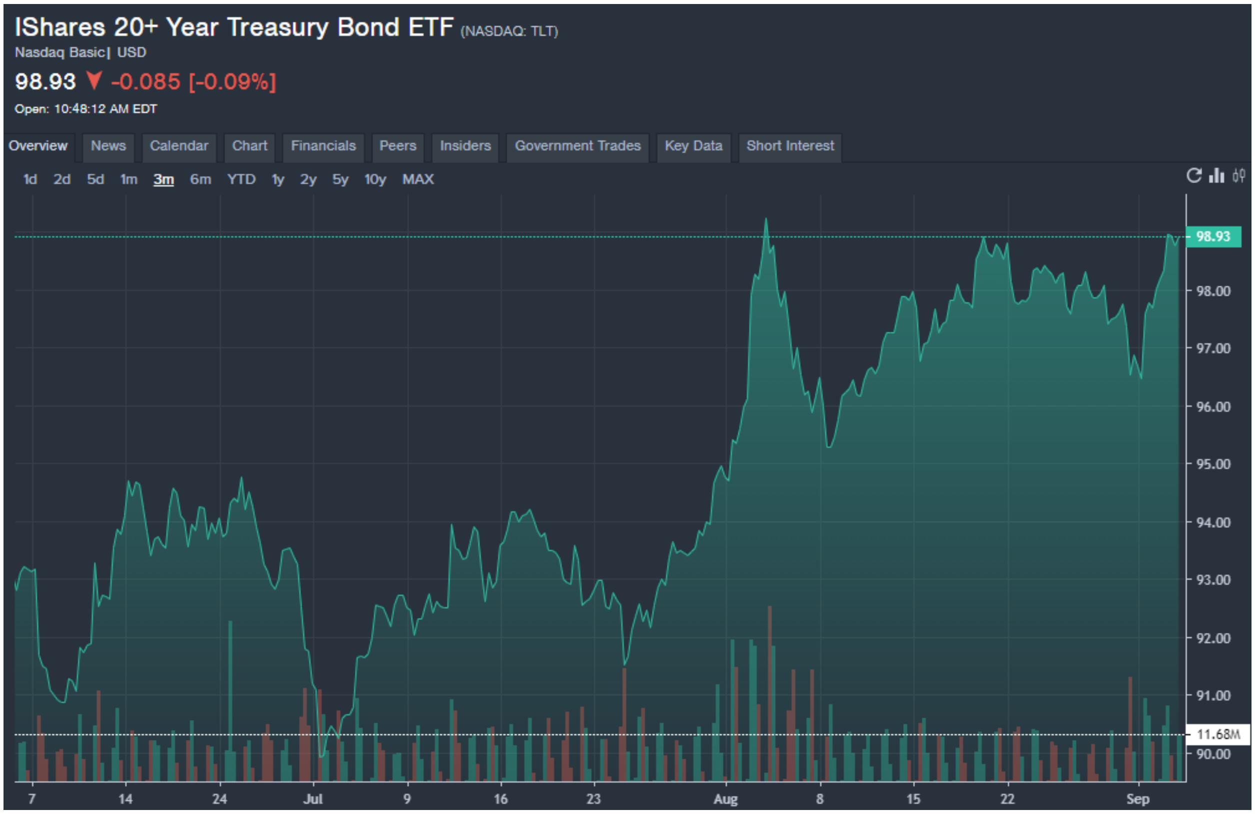
In the words of Timothy Fiore, chair of the ISM Manufacturing Business Survey Committee, we're in "contraction territory."

Then there's another tea leaf for the jobs market: jobless claims. Reported weekly, they've been edging higher.

These statistics report layoffs—a different measure than slowing jobs growth, but a more unmistakable sign of economic pain. Here's what the uptick looks like in context:

The spike is worrying officials—and is one of the main reasons we may see a rate cut of not just 25 basis points, but 50 when the Fed announces its new course on Tuesday, September 17.

Falling rates are, of course, good for bond prices, as investors look to look in years of income at a higher yield. You can see this reflected in a recent uptick in the iShares 20+ Year Treasury Bond ETF, as you can see below.



Source: Benzinga Pro

Tomorrow, we'll find out whether July's numbers were a one-off… or if the disappointing jobs numbers continue.

Two months of the slowdown would be meaningful…because a third would mean a pattern. As always, it's our mission to help you navigate what's coming.

Regards,

The *Benzinga Research* Team

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