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**Investment Institute**

# Market Commentary

**Weekly perspective on current market sentiment** **January 10, 2024**


Scott Wren
Senior Global Market Strategist


Last week's S&P 500 Index: -0.7%

## A closer look under the hood

### Key takeaways

- With economic reports, investors need to look closer at the details to understand what the data is really telling us.
- Recent labor-market data showed meaningful downside revisions to the number of jobs created last year.

The stock and bond markets react immediately to data as soon as it is released. Sometimes the headline reported number is all investors need to know. On many occasions, however, the initial market reaction is reversed or its magnitude is lessened once investors have had time (it could be minutes, or it could be hours) to look more closely under the hood and understand on a more granular level what the report might actually be telling us.

A very recent case in point is last week's labor report covering December. At first glance, the number of jobs created came in considerably higher than the consensus estimate (216,000 vs. 175,000 expected). But a closer look at the details shows meaningful downside revisions to the reported number of jobs created in both October and November. These adjustments showed 71,000 fewer total job adds in the previous two months than initially reported. Monthly revisions result from additional reports received from businesses and government agencies since the initial published estimates and from the recalculation of seasonal factors.

But October and November were not the only months where adjustments were made. According to the Bureau of Labor Statistics (BLS), on a year-to-date basis through November, 439,000 fewer jobs were created than initially reported. This year-to-date data has been revised using updated seasonal adjustment factors, a procedure done at the end of each calendar year. Also note that many of the jobs added since the middle of last year have been part-time positions according to the BLS. In addition, the November labor report showed the underemployment rate rose to 7.1% while the average workweek fell to 34.3 hours. This more than offset the employment increase to leave aggregate weekly hours worked (a proxy for economic activity) lower.

What all this data boils down to is a labor market that is gradually weakening as the economy slows. We expect the economy to slow further from here in the coming months, leading to a rise in the unemployment rate. As we always like to point out, history shows that Americans with jobs and money in their pockets are going to spend. The American economy runs on consumer spending. If the economic and employment scenarios unfold as we expect, more unemployed consumers will have less money to spend, creating further speedbumps for positive economic momentum. The result would be weaker growth and earnings headwinds for corporations. We believe the stock market is not properly pricing in a noticeable slowdown in consumer spending and is overly optimistic on earnings growth.

A closer look under the hood of the latest employment report reflects the increased likelihood that an earnings stumble caused in part by reduced consumer spending growth lies ahead. We believe current stock and bond valuations are too high given our outlook. A more defensive portfolio stance is still warranted.

**Risk considerations**

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