Capital Markets Strategy

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Chart of the Day

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From the Mediterranean to the South China Sea, risks abound globally. Pockets of weakness, from CRE to sub-prime auto, are also plentiful. The macro data is noisy. In our view, however, last week's economic data should disabuse us of the notion that Godot's arrival is imminent. The engine of the US economy - the consumer - remains strong.

The glass half empty view: Over recent months, the glass half empty view of the consumer and labor market weakness focused much of its energy on: minor increases in the unemployment rate, minor declines in work week hours, falling full time employment metrics, monthly job growth < 200k and faulty seasonal data.

The glass half full view: Friday's job's report was well above consensus, unequivocally strong and now more trend than anomaly. From July to November, monthly job growth averaged +197k. Since then, we have had four consecutive reports > +250k, a 4-month average of +280k, and a further strengthening in March to +303k (well above +213k consensus). Secondly, the gains were fairly broad based across sectors, with prior months revised modestly higher. Wage growth remained steady at 0.3% m/m, 4.1% y/y. Avg weekly hours edged higher again from 34.3 to 34.4. The labor force participation rate increased 0.2% to 62.7% (highest since November), and the unemployment rate declined modestly to 3.8% - its 28th straight week below 4%, the longest such stretch since the 1960s.

Numerous studies have also highlighted the rise in part time employment as being less a sign of weakness in the current cycle, and more indicative of post COVID structural and behavioral shifts linked to "non-economic reasons" (including the large inflow of prime-age women into the workforce in more flexible hybrid and part-time roles).

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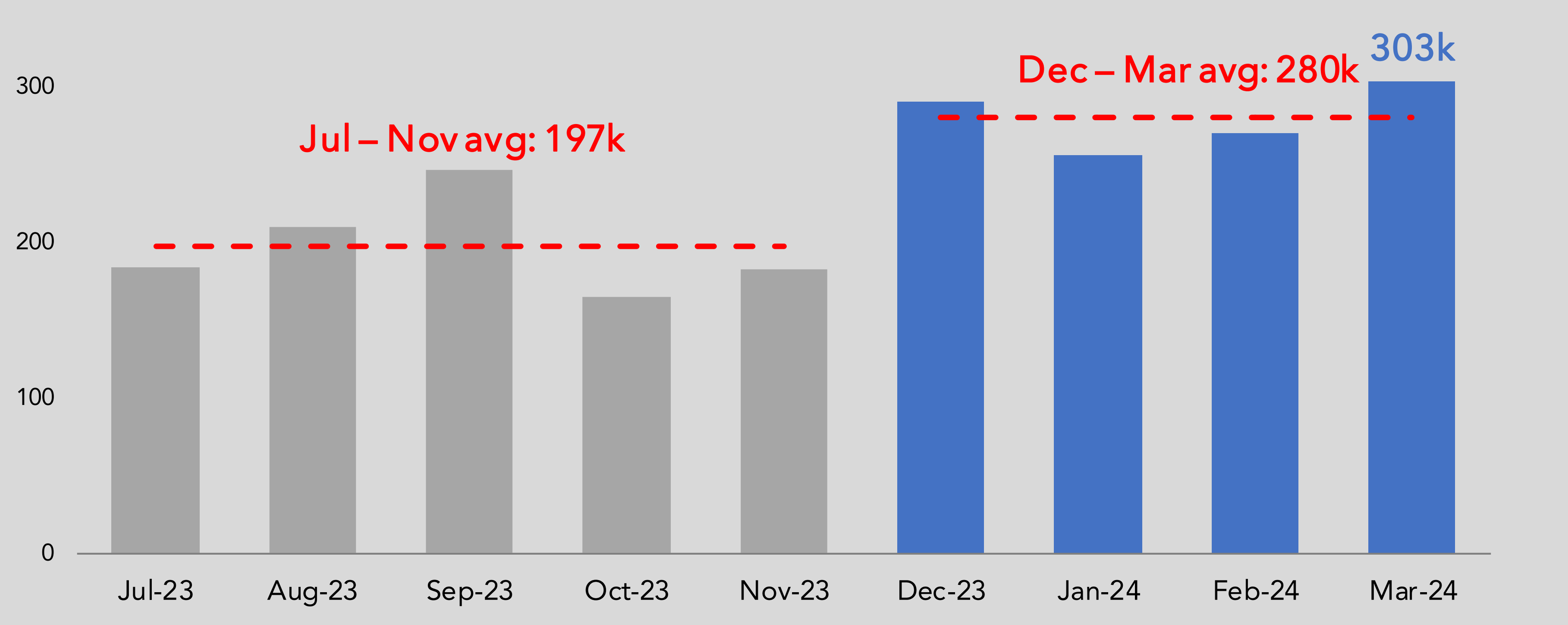
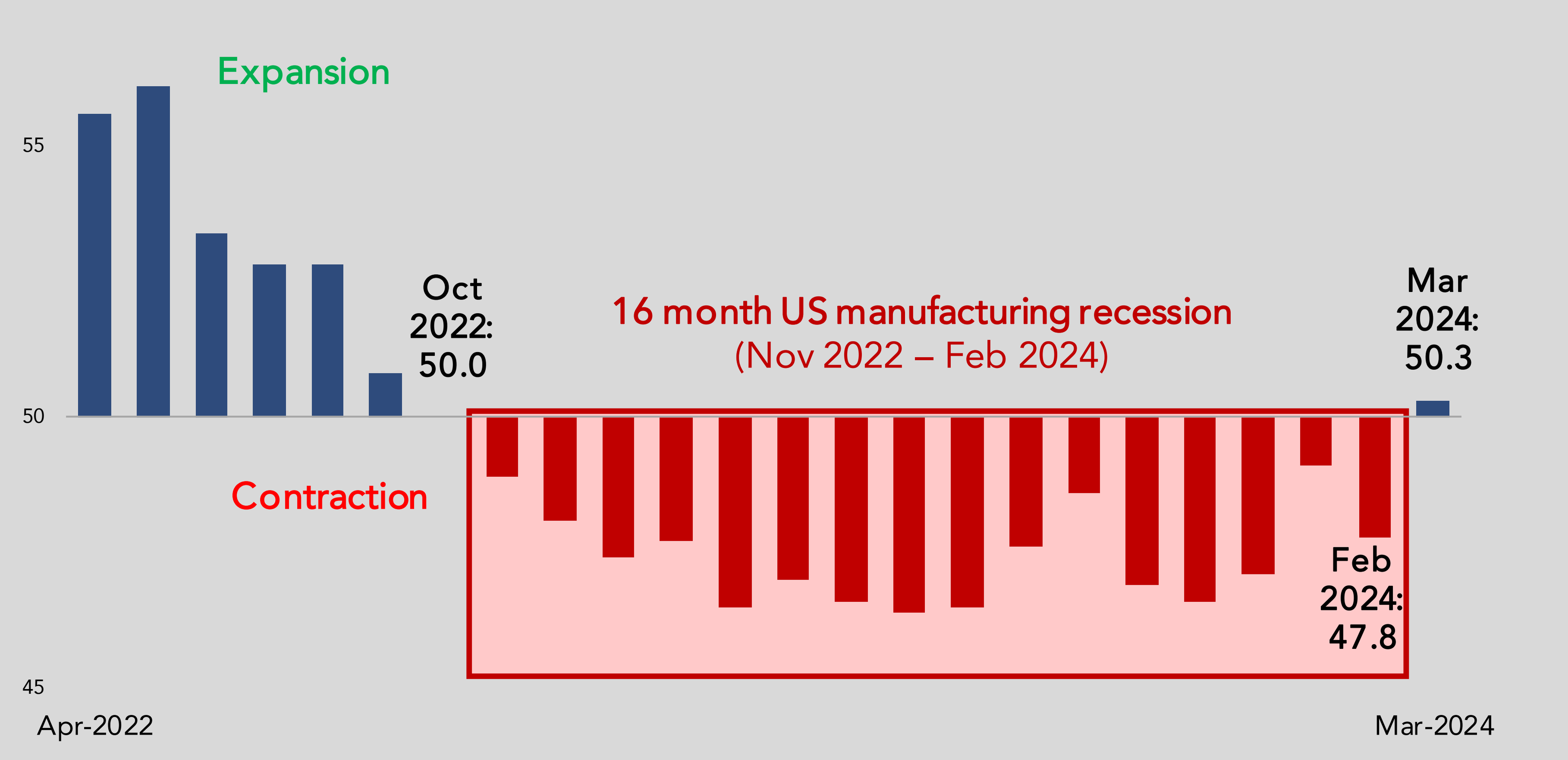
Monthly change in US nonfarm payrolls, thousands



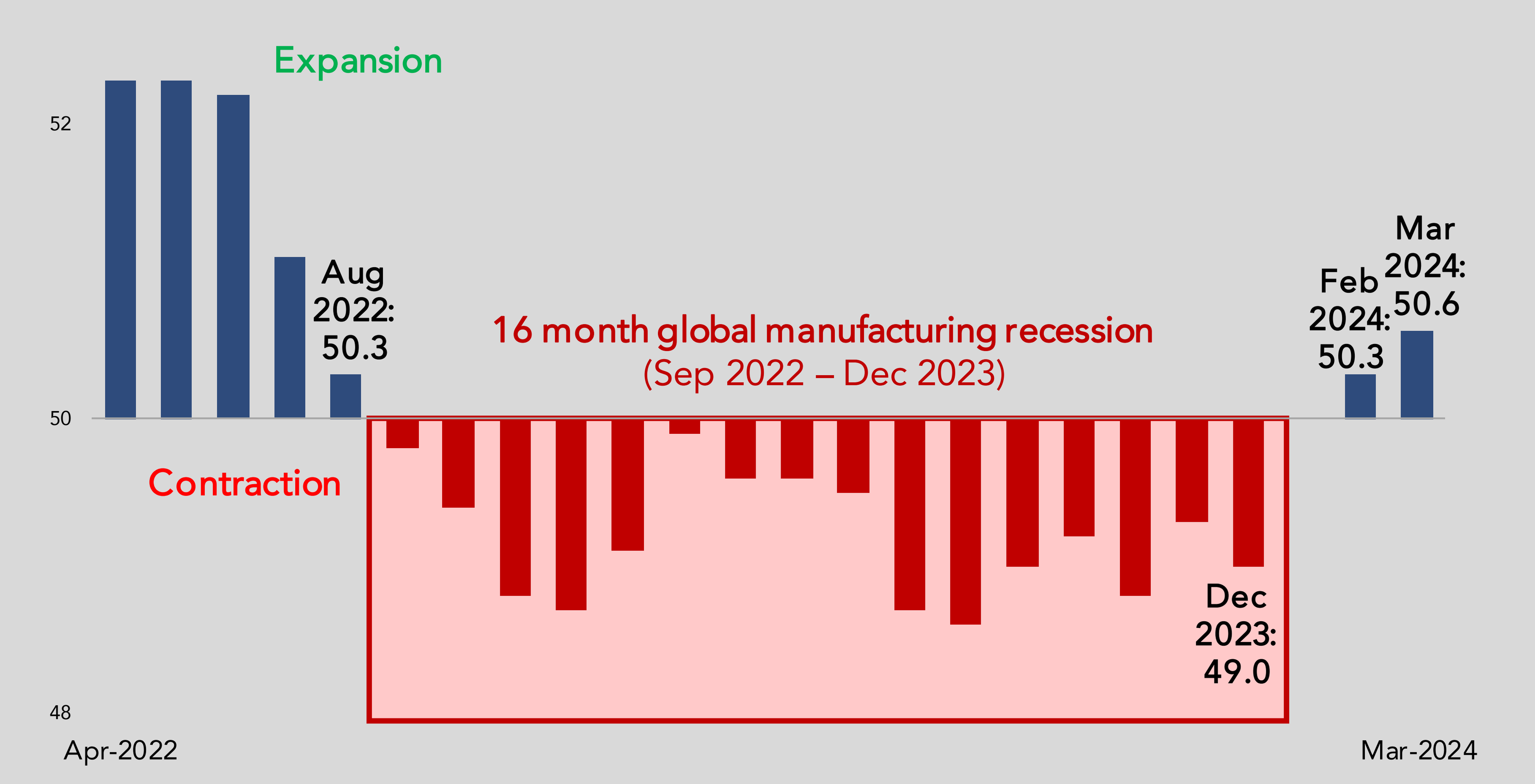
Also last week, the March US ISM manufacturing report jumped sharply from 47.8 to 50.3, led by a strong rebound in industrial production and new orders. Importantly, the move above 50 demonstrates a transition from contraction to expansion territory, following a 16 month manufacturing recession. While the jump in the prices index was a notable weak spot, other data suggests that a slow, gradual and sustained manufacturing recovery is likely underway. Although ISM Service sector data declined, the sector is still in expansion territory and is unlikely to derail above trend Q1 GDP growth expectations.

US ISM manufacturing PMI



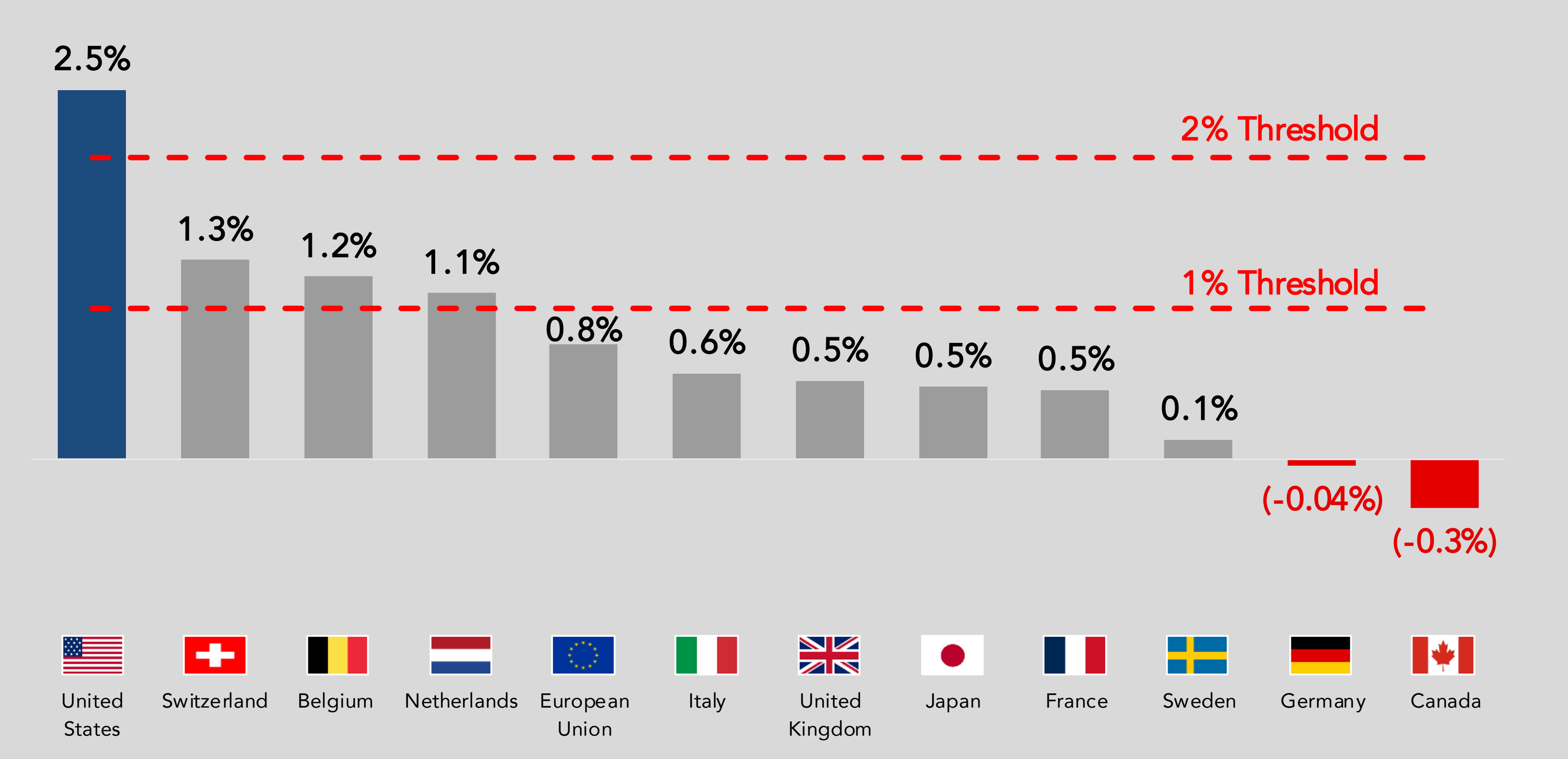
Though tempting to view the US March report as an isolated data point, the improvement in US manufacturing appears to be part of a multi-month trend underway globally (with January's decline a small bump in the road). Even in Germany, where the manufacturing recovery has been weakest among advanced economies, data suggests an improvement in the industrial and manufacturing sector has begun.

Global manufacturing PMI



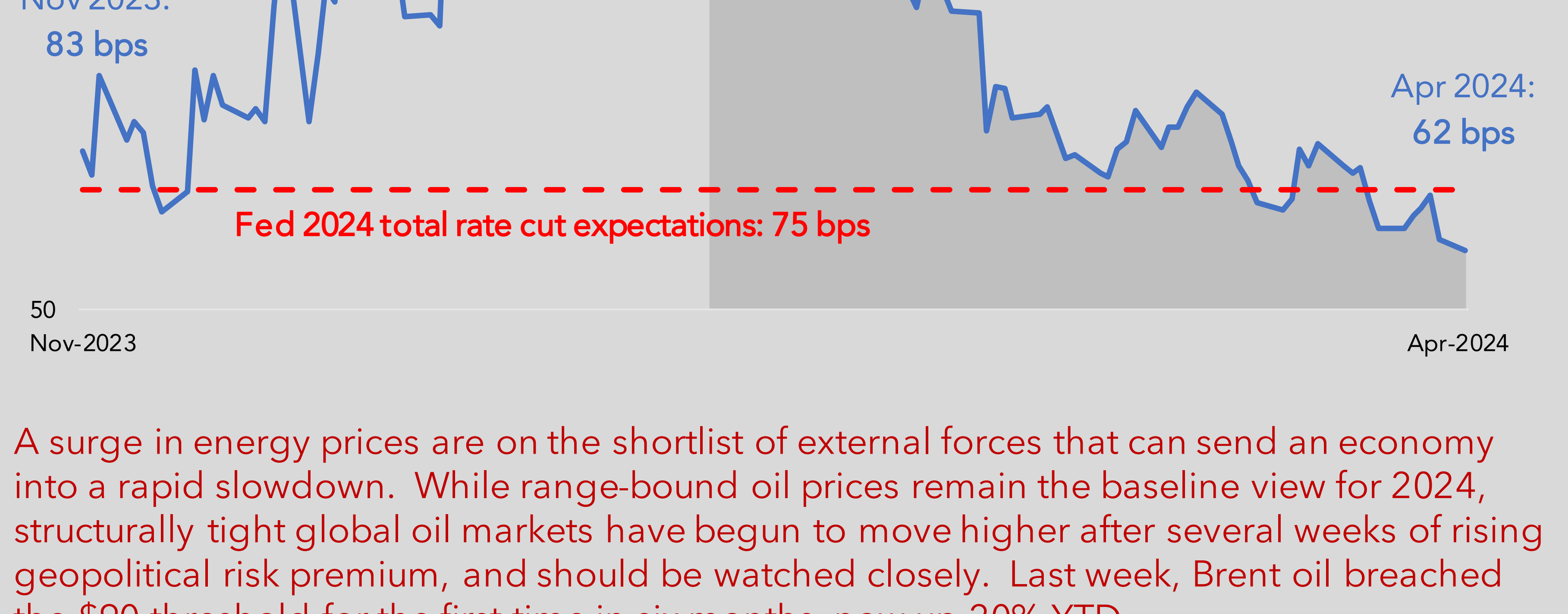
With expected 2024 GDP growth at 2.5%, the United States is the only G7 economy projected to grow above 1% and only G10 economy expected to grow above 2% in 2024. The US, in fact, is growing above its long term potential growth estimate.

G10 2024 expected growth rate, y/y



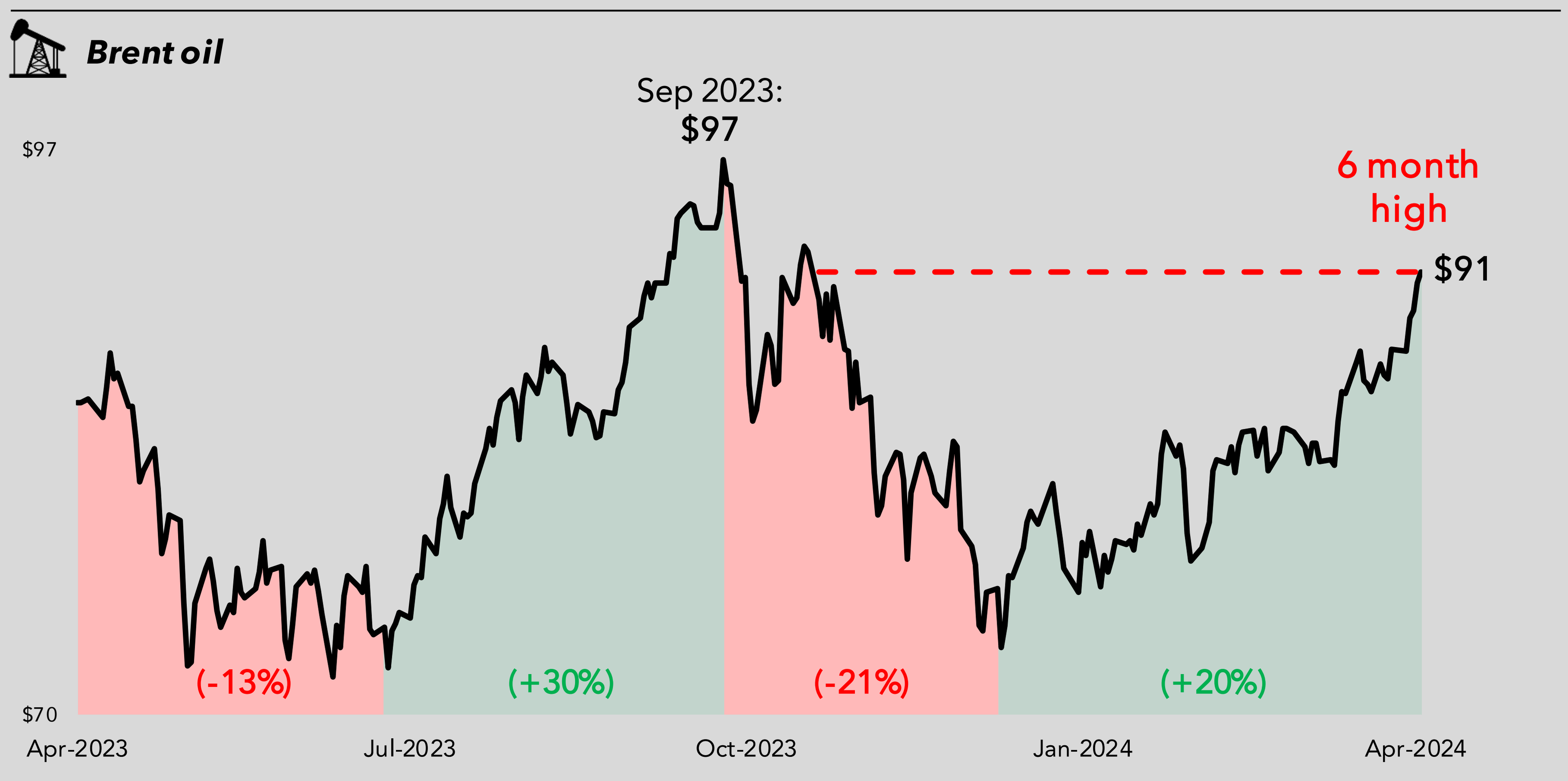
With inflation normalizing, Chair Powell has indicated that the Fed does not need to see labor market weakness to cut rates. This week's inflation reports may therefore be important in determining whether the first rate cut will be in June or slip to the 2H 2023. In either case, the more bearish market sentiment of late 2023 and January has converged with Fed forecasts. Higher energy prices and Fed rate cut delays into Q3 will also pose interesting timing dynamics with the US election in November.

Market implied total 2024 Fed rate cut expectations, bps



A surge in energy prices are on the shortlist of external forces that can send an economy into a rapid slowdown. While range-bound oil prices remain the baseline view for 2024, structurally tight global oil markets have begun to move higher after several weeks of rising geopolitical risk premium, and should be watched closely. Last week, Brent oil breached the $90 threshold for the first time in six months, now up 20% YTD.

Brent oil



Source: (1-6) Bloomberg. Data as of April 8, 2024.

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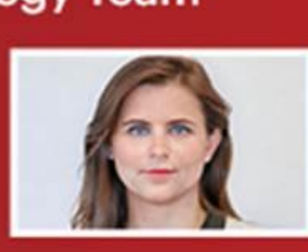

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"Macro stability isn't everything, but without it, you have nothing."