Weekly Market Flash

The Dog Days Finally Arrive

August 12, 2022

Once upon a time, the entire month of August was set aside as that special stretch of the calendar when folks could check out for a little while. These were the "dog days of summer," a time for trashy novels at the beach, or fly fishing in a Montana stream, or anything other than paying attention to the news and the usual daily grind.

This year, the first couple weeks of the year's eighth month have been anything but relaxing. Important economic data – persistent inflation, the strangest jobs market in recent memory, declines in productivity – demanded our constant attention alongside troubling geopolitical developments from China's military exercises around Taiwan to Europe's frenetic attempts to find non-Russian solutions to its energy crisis. And there has been no lack of domestic political drama here in the US as well, with the critical midterm elections just around the corner. The dog days have been on hold.

Wake Me Up When the Jobs Numbers Hit

Of course, anything could happen between now and Labor Day. But in terms of scheduled news releases with the potential to shape a durable market narrative, there really isn't much on tap until three weeks from today, when the Bureau of Labor Statistics releases its monthly jobs report on September 2. It would be a good idea to rest up between now and then, because once the jobs reports hits, it's going to be several straight weeks of market-moving potential: the ECB monetary policy meeting on September 8, followed by the August CPI report on September 13 and then the Fed's next interest rate move on September 21.

We will be particularly interested in that jobs report, because the US labor market as it stands today is really hard to comprehend. Last week, of course, we had a blowout report with 528,000 nonfarm payroll gains and an unemployment rate of 3.5 percent, matching the pre-pandemic low in February 2020, which is also the lowest jobless rate since 1969. The majority of mainstream economists do not think it is possible to bring inflation down from the upper single digits to the Fed's target rate of two percent while maintaining historically low unemployment.

Vacancies Here, Layoffs There

Those same economists are hard pressed, though, to say how much they expect unemployment to rise while the Fed tries to bring down inflation. We are seeing two things happening at the same time right now. First, there are still tons of job vacancies out there – 1.9 for every unemployed American, according to the BLS's latest numbers. Second, layoffs are gaining steam in many industry sectors, including technology and diverse consumer services.

Sometimes the layoffs and the vacancies happen in the same company. A recent article in the Financial Times described the situation at Gannett, the publishing house with more than 250 titles including USA Today. There are vacancies galore on Gannett's news routes, where it can't find enough people to deliver the morning papers. Around 12 percent of the company's news routes are unstaffed, according to the FT article. At the same time, cost pressures on its printing business are forcing painful layoffs in that part of the company. Similar concerns about rising input costs at other prominent companies have been in the

news recently. Yet the high vacancy rate continues to signal a robust labor market and is perhaps the most potent argument against the idea that the US is in or close to being in a recession.

Meanwhile, Ignore the Noise

Will that string of September reports about jobs, inflation and central bank decisions help us make better sense of what is actually going on in the economy? Hopefully so. In the meantime, though, the absence of hard news is unlikely to deter markets from moving in strange ways. We expect that volume will be light during these final weeks of August, which creates the potential for more exaggerated lurches one way or another.

Having powered its way through the many data points of the past three weeks, the stock market will test its ability to make up more of the ground lost during the bear market of the year's first half. The rally has been strong, but some of the driving factors seem to be clinging onto the way things were in 2021. Meme stocks, cryptocurrencies and some of the junkier parts of the growth stock universe have all had their moments, and it will not surprise us much if those moments don't last much longer. The bond market appears skeptical of the rally in stocks, with the yield curve firmly inverted from 6-month Treasury bills to the 10-year T-note.

Whatever winds up happening for the remainder of the month, we are inclined to think that much of it will be noise. The financial media these days are full of technical talk – pain trades, short covering, positioning dynamics and other expressions that long-term investors can afford to ignore. Tune out the noise, rest the body and mind, and get ready for an action-packed September.

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