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REVIEW OUR 2022 MARKET OUTLOOK

February's Employment Report

The US Labor Market Remains Robust

In another strong employment report, February's nonfarm payrolls increased 678,000 well above expectations for a 423,000 gain. January's employment gain was also revised higher by 14,000. Within the details, leisure & hospitality saw another impressive job gain as the COVID-impact continued to lessen, as did construction and education & health. Additionally, the unemployment rate fell to 3.8%. This was better than expectations (Figure 1) even as labor force participation improved (more on participation later). What does this mean for investors? In the first two months of the year, the US labor market was robust. While investors must contend with high inflation, Federal Reserve interest rate hikes, and geopolitical risk in Europe, the fundamental growth driver of the US economy, the labor market, remains strong.

Figure 1: Unemployment Rate Source: BLS, Strategas, Bloomberg

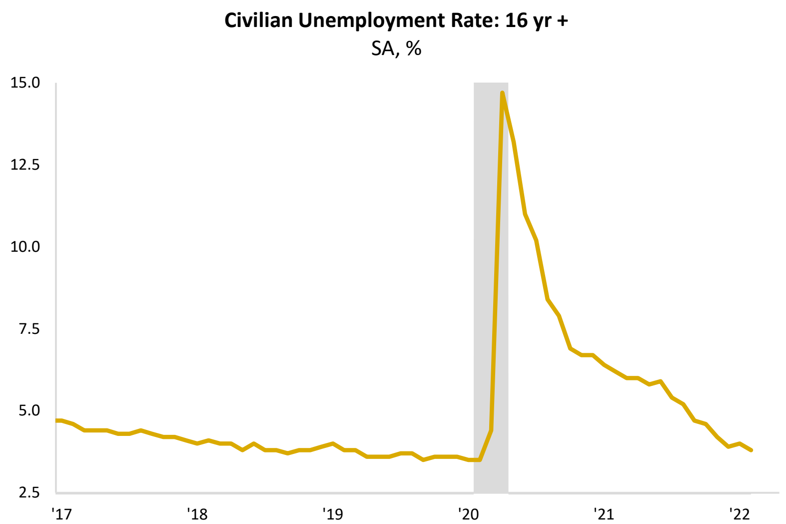
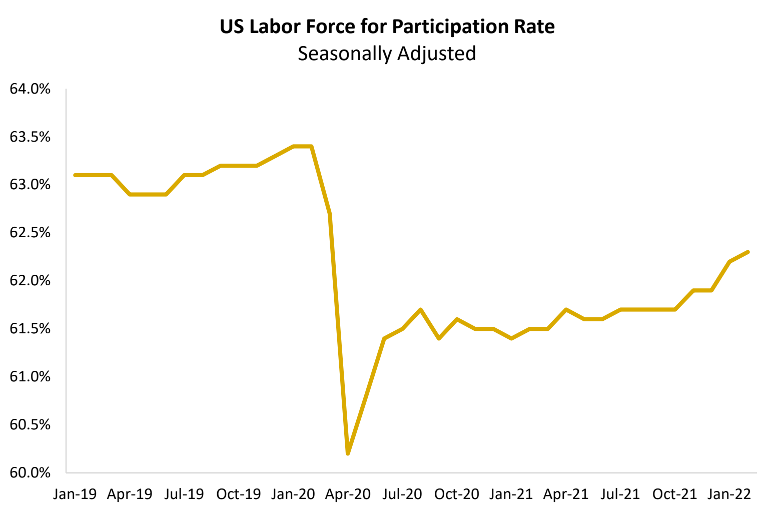


Figure 2: Labor Force Participation Source: BLS, Bloomberg



Maybe the most important point in the report, the labor force participation rate rose again. The participation rate improved to 62.3% in February from 62.2% in January. Over 300,000 individuals entered the labor force in February. Labor force participation remains below the pre-pandemic, 63.4% level, but it has improved from a low of 60.2% at the depths of the pandemic (Figure 2). With the job market incredibly tight, continued improvement in labor force participation is critical.

Wages continued to rise in the current, incredibly tight labor market. Average hourly earnings rose 5.1% year-over-year, and while elevated, this level is better than consensus estimates (5.8%) and better than the January reading (Figure 3). This is good news on the wage front.

Figure 3: Average Hourly Earnings Source: BLS, Strategas, Bloomberg

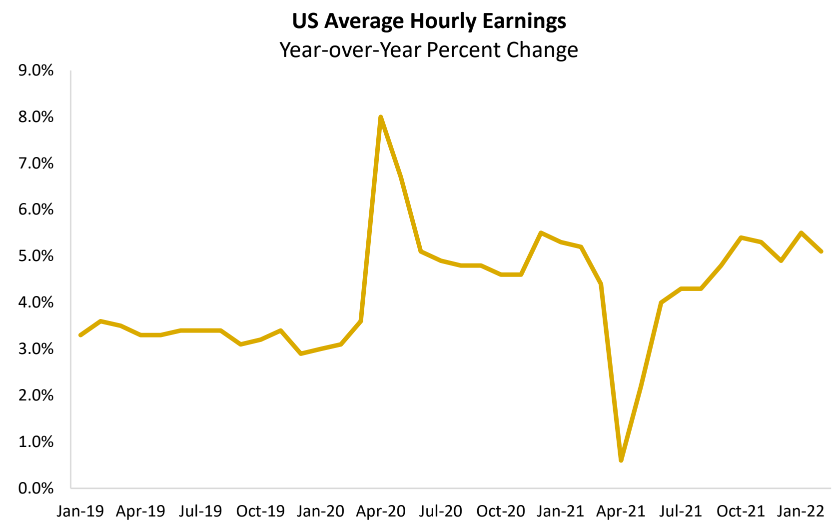
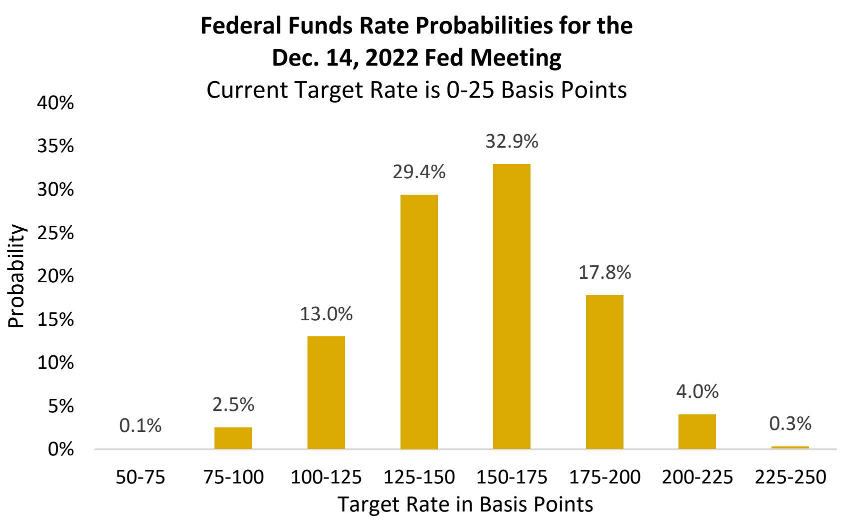


Figure 4: 2022 Year-End Federal Funds Rate Probability Source: CME Group



With all eyes on the Fed, it is worth noting Fed Fund futures are currently pricing five to six 0.25% hikes this year (Figure 4). While expectations are volatile and quite data dependent, we continue to think there is a chance the market is overestimating the number of near-term Fed hikes and underestimating the number of hikes in coming years.

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