Of Rates and Recessions (First of a Series)

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One of many challenges of the investing climate is reading the economic signs. Is inflation coming down or going up? Is the labor market strengthening or weakening? Are we in a recession or just slow growth?

Last Friday's job report was a case in point. Job openings dropped dramatically by 1.1 million, the lowest level since February 2021. This "bad" news was greeted hopefully by markets last week as a sign the Fed's rate increases were having their desired effect and slowing the economy and, with any luck, inflation. (See our *Chart of the Week*).

But this was offset by "good" news that the unemployment rate *fell* to 3.5% from 3.7%. August data showed hiring rose to 6.3 million jobs, according to Berenberg economist, Mickey Levy. And the hire rate of 4.1% remains steady and above pre-Covid levels. This and other signs of a strong economy have lopped 10% off equity indices in the last month.

Our friend at Nuveen, Brian Nick, points out the economy bears more than a passing resemblance to 2019. Today's employment rate among working age people is close to that of year's peak. The civilian labor force of 164 million is almost back to where it was in December 2019. Finally, unemployed worker numbers dropped by 261,000 last month and is well under 6 million, roughly where it began in 2020.

At the core of lack of conviction around the economy is inflation. Accepting that "transitory" is off the table, how long is "permanent"? And what's driving it?

FS Investments' Lara Rhame identifies the end of a long cycle of durable goods deflation as one key. Companies relied for decades on cheaper products from low-cost geographies. That tailwind has shifted to a headwind, abetted by supply chain challenges. Once prices move up, manufacturers are motivated to buy now, rather than wait for costs to escalate further.

Accompanying rate increases has been the growing strength of the dollar. Helping imports and hurting exports, an expensive greenback lowers some costs-of-goods for US businesses, with the opposite effect overseas, according to Ms. Rhame.

With multiple cross-currents at play, it's tough to know where to set your sail. To help our readers navigate these roiling waters, join us next Wednesday for an exclusive *Lead Left* webinar: *"Of Rates and Recessions: What's Ahead for the Economy."* [link].

We've invited the three above-mentioned economists, Ms. Rhame, Mr. Nick, and Mr. Levy, for a broad discussion on where we are with inflation and interest rates. We'll also discuss the underlying elements at work linking and driving those forces. What's the outlook for the labor market? Will all this result in a soft or hard landing? Are we already landing?

Finally, find out what this means for asset selection and how to manage amid continued volatility in an uncertain economic environment.