



The U.S. Employment Report Reveals Mixed Signals for Economic Growth with the GDPNow for 2Q24 at 1.50%, and Wall Street Closes Up.

July 5, 2024

by Francisco Rodríguez-Castro
frc@birlingcapital.com

The U.S. and European stock markets closed with mixed results. However, the S&P 500 and the Nasdaq Composite broke new record closings. Today's highlight of the market activity is the June employment report, which surpassed expectations and caused an uptick in unemployment. While not expected, both issues lift the chances of a Fed's Rate cut campaign to begin in September, possibly followed by another rate cut in December. The data shows a solid performance that supports ongoing economic expansion but hints at emerging weaknesses that could decelerate growth. As a testament to this, the latest GDPNow for the second quarter fell to 1.5%, down from 3.90% GDP or 61.54% less at the start of the forecast on April 26, 2024.

The market takes comfort in the idea that a slightly softening labor market might help curb inflation further. This sentiment is reflected in today's interest rate movements, with the 10-year Treasury yield dropping back to 4.xx%, down from nearly 4.5% at the beginning of July.

Jobs Data: A perspective with dual narratives

In June, the U.S. economy added 206,000 jobs, surpassing expectations. The employment report presents a dual narrative. The First narrative is that the labor market remains robust, with solid job gains indicating sustained hiring demand. The unemployment rate increased to 4.1%, a slight increase from the previous month, mainly due to a significant influx of new workers, which helps mitigate inflationary pressures on wages. Wage growth remained steady at 3.9%, a positive sign for controlling consumer price increases and influencing future Federal Reserve policy.

The second narrative is that the nature of job growth could have been more encouraging. Most hiring occurred in the government and healthcare sectors, suggesting a slowdown in cyclical industries. Despite this, the labor market still appears healthy enough to support consumer spending and sentiment. However, after several years of a tight labor market, this emerging softness might lead to slower GDP growth in the upcoming quarters.

Corporate Earnings in the Spotlight Next Week

While this week focused on economic indicators like employment, manufacturing, and services activity, the upcoming week will shift attention to corporate earnings, a crucial determinant of the bull market's trajectory. Second-quarter earnings season starts with reports from money centers and the three local banks that report before the market opens as follows:

1. **JP Morgan:** July 12, EPS Estimate of \$4.355.
2. **Citi:** July 12, EPS Estimate of \$1.402.
3. **Wells Fargo:** July 12, EPS Estimate of \$1.283.
4. **Bank of America:** July 16, EPS Estimate of \$0.804.

5. **Goldman Sachs:** July 17, EPS Estimate of \$8.644.
6. **Morgan Stanley:** July 18, EPS Estimate of \$1.653.
7. **OFG Bancorp:** July 18, EPS Estimate of \$0.965
8. **First Bancorp:** July 23, EPS Estimate of \$0.395.
9. **Popular, Inc.:** July 24, EPS Estimate of \$2.102.

Consensus expectations forecast a 9-10% year-over-year growth in earnings per share (EPS) for the quarter, reflecting a robust economic backdrop and effective expense management by companies. The technology sector is anticipated to deliver another quarter of strong double-digit growth. However, the performance of cyclical sectors such as financials, industrials, and consumer discretionary will be pivotal. Strong earnings in these areas signal broad-based equity strength, especially given recent economic data suggesting potential vulnerabilities.

Considering the market rally this year, corporate earnings growth will play a critical role in equity performance for the rest of the year. Sustained EPS growth will be essential as investors assess the Federal Reserve's ability to achieve a soft landing for the economy.

GDPNow Update:

- The latest GDPNow for the 2Q24 reported on July 3 fell to 1.50%, down from 1.7%, decreasing -11.76 % and -61.54% when it had a 3.90% GDP forecast since April 26.

Key Economic Data:

- **U.S. Nonfarm Payrolls MoM:** fell to 206,000, down from 218,000 last month, a change of -5.50%.
- **U.S. Unemployment Rate:** rose to 4.10%, compared to 4.00% last month.
- **U.S. Labor Force Participation Rate:** rose to 62.60%, compared to 62.50% last month.
- **U.S. Recession Probability:** rose to 51.82%, compared to 50.04% last month.
- **Canada Employment Net Change:** fell -1,400, down from 26,700 last month.
- **Canada Unemployment Rate:** rose to 6.40%, compared to 6.20% last month.
- **Canada Labour Force Participation Rate:** fell to 65.30%, compared to 65.40% last month.
- **Canada Ivey PMI:** rose to 62.50, up from 52.00 last month, a change of 20.19%.
- **Eurozone Retail Trade YoY:** fell to 0.00%, compared to 0.70% last month.
- **Germany Industrial Production Index MoM:** fell to -2.50%, compared to 0.10% last month.
- **Japan Business Conditions Composite Coincident Index:** rose to 116.50, up from 115.20 last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 516.60, down 0.94 points or 0.18%.
- **FTSE 100:** Closed at 8,203.93, down 37.33 points or 0.45%.
- **DAX Index:** Closed at 18,475.45, up 24.97 points or 0.14%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 39,375.87, up 67.87 points or 0.17%.
- **S&P 500:** closed at 5,567.19, up 30.17 points or 0.54%.
- **Nasdaq Composite:** closed at 18,352.76, up 164.46 points or 0.90%.
- **Birling Capital Puerto Rico Stock Index** closed at 3,360.09, down 52.31 points or 1.53%.
- **Birling Capital U.S. Bank Stock Index** closed at 5,327.09, up 0.55 points or 0.01%.
- **U.S. Treasury 10-year note** closed at 4.28%.
- **U.S. Treasury 2-year note** closed at 4.60%.



GDP NOW

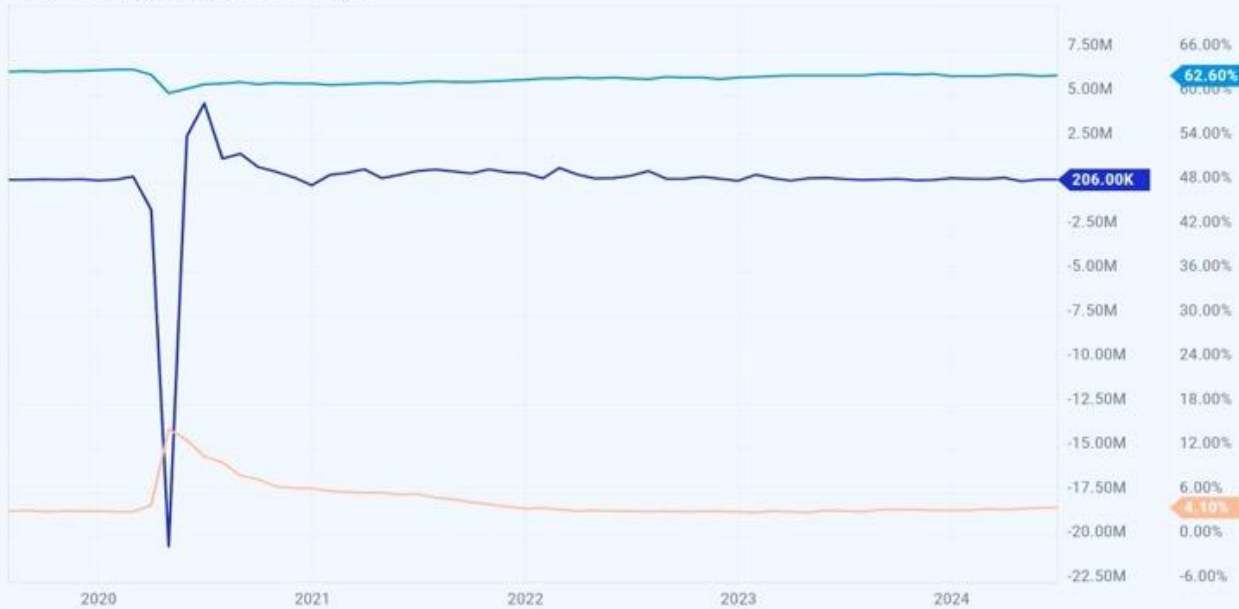
Date	GDPNow 2Q24	Change
4/26/24	3.90%	Initial Forecast
5/1/24	3.30%	-15.4%
5/2/24	3.30%	0.0%
5/8/24	4.20%	21.4%
5/16/24	3.60%	-16.7%
5/24/24	3.50%	-2.78%
5/31/24	2.70%	-22.86%
6/3/24	1.80%	-33.33%
6/6/24	2.60%	44.44%
6/7/24	3.10%	19.23%
6/18/24	3.10%	0.00%
6/20/24	3.00%	-3.23%
6/27/24	2.70%	-10.00%
6/28/24	2.20%	-18.52%
7/1/24	1.70%	-22.73%
7/3/24	1.50%	-11.76%



US Nonfarm Payrolls, US Unemployment Rate, and US Participation Rate

www.birlingcapital.com

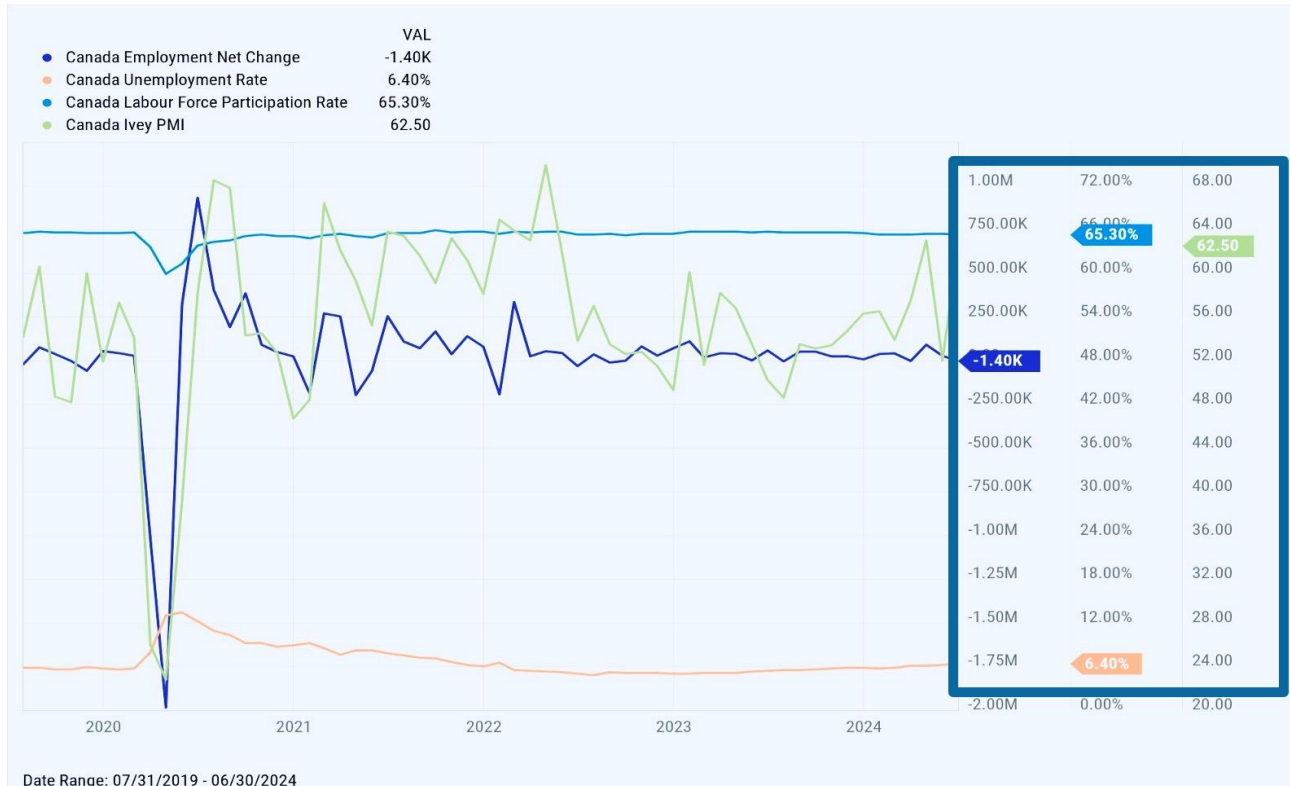
- US Nonfarm Payrolls MoM VAL 206.00K
- US Unemployment Rate 4.10%
- US Labor Force Participation Rate 62.60%



Date Range: 07/31/2019 - 06/30/2024



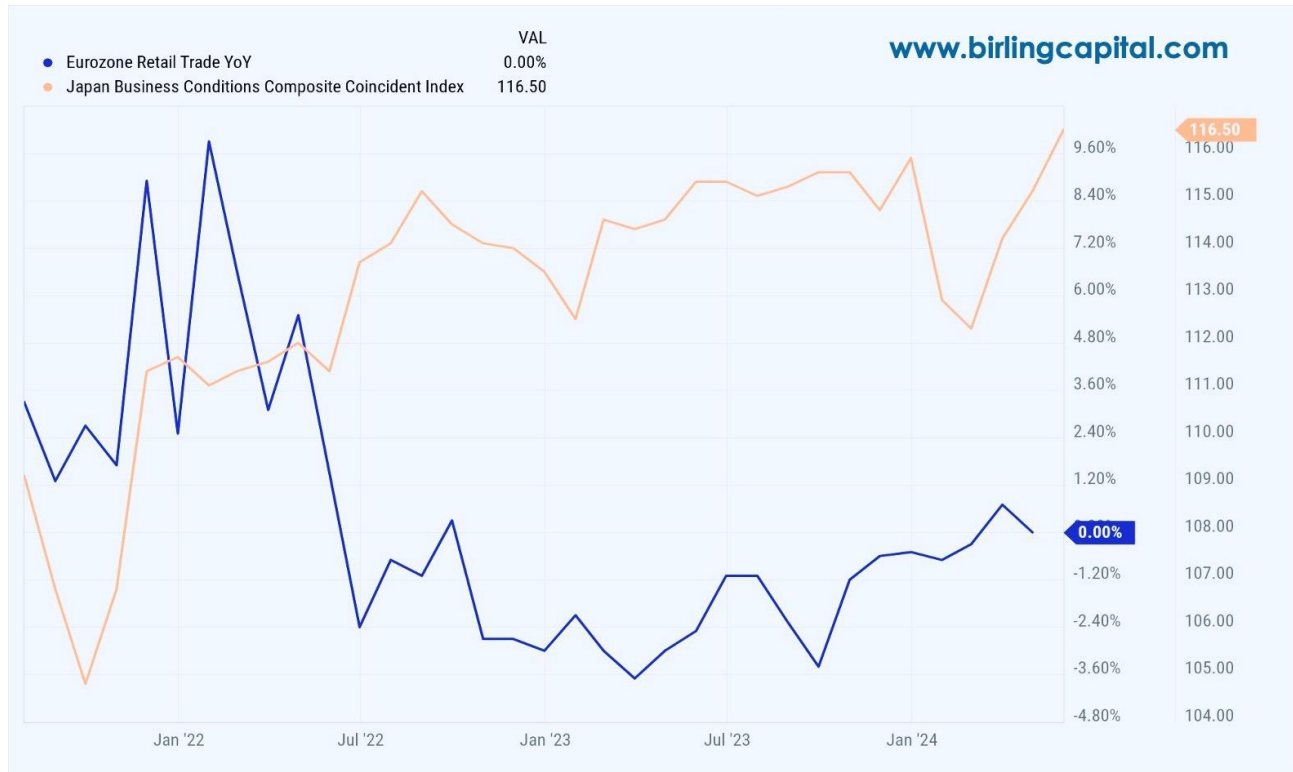
Canada Employment Net Change, Canada Unemployment Rate, Canada Labour Participation Rate and Canada Ivey PMI





BIRLING
CAPITAL ADVISORS, LLC

Eurozone Retail Trade & Japan Business Conditions Composite Coincident Index





Global Market Square © es una publicación preparada por Birling Capital LLC y resume los recientes desarrollos geopolíticos, económicos, de mercado y otros que pueden ser de interés para los clientes de Birling Capital LLC. Este informe está destinado únicamente a fines de información general, no es un resumen completo de los asuntos a los que se hace referencia y no representa asesoramiento de inversión, legal, regulatorio o fiscal. Se advierte a los destinatarios de este informe que busquen un abogado profesional adecuado con respecto a cualquiera de los asuntos discutidos en este informe teniendo en cuenta la situación de los destinatarios. Birling Capital no se compromete a mantener a los destinatarios de este informe informados sobre la evolución futura o los cambios en cualquiera de los asuntos discutidos en este informe. Birling Capital. El símbolo de registro y Birling Capital se encuentran entre las marcas registradas de Birling Capital. Todos los derechos reservados.