GHP Investment Advisors, Inc.

Personal Wealth Management

GHP Global Markets

INVESTMENT INSIGHT

# Labor Market Focus: Turbulence in the Descent to a Soft Landing

By Barbara Terrazas CFP®, Wealth Advisor

> "If you can walk away from a landing, it's a good landing. If you use the airplane the next day, it's an outstanding landing."
>
> - Chuck Yeager

In August, an unexpected jobs report sparked a global selloff in the markets and caused recession fears among investors and economists. Economic data, such as the jobs report, has long influenced market performance, and the labor market reports are viewed as a strong indicator of future economic trends. The employment report, officially known as the Employment Situation Summary, is released on the first Friday of every month and is eagerly anticipated and closely monitored by economists and the Federal Reserve (the Fed) when setting monetary policy.

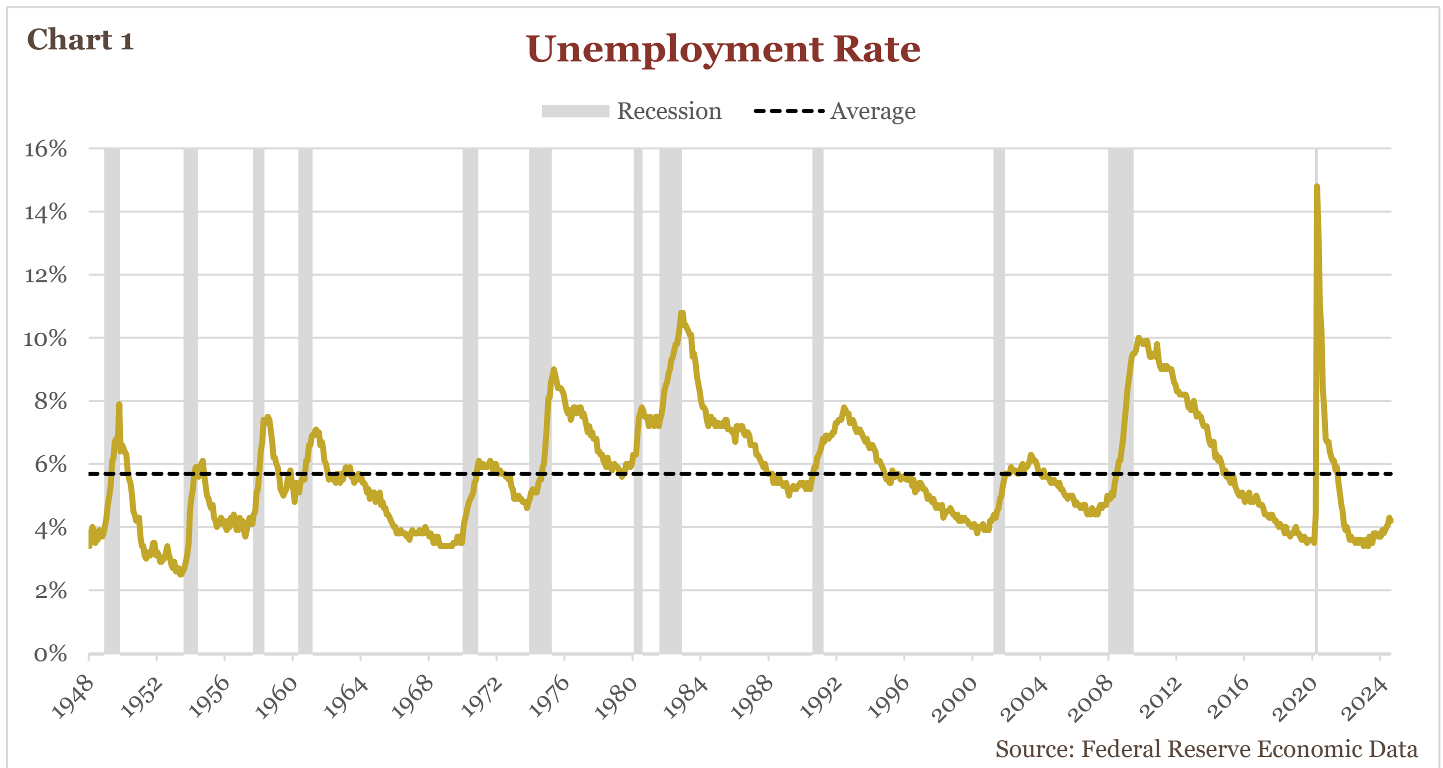
When the August jobs report produced lower than anticipated numbers, investors and economists questioned whether this marked the beginning of a recession. In a strong economy, there is low unemployment, increasing wages, and high labor force participation. Demographic shifts also play a huge role in labor market trends. While some analysts may jump to the conclusion that a poor labor report signals a recession, it is important to understand the fundamentals and historical trends before adopting a pessimistic outlook.

## The Dual Mandate

In 1977, an amendment to the Federal Reserve Act ordered the Fed to promote maximum employment and stable prices in the U.S economy. Fundamentally, this means the Fed strives for low unemployment while being tasked with controlling inflation. Known as the dual mandate, these objectives form the core of U.S. monetary policy. High unemployment or rising inflation serve as indicators to the Fed that adjustments are necessary.

## The Covid Story and Shifting Demographics

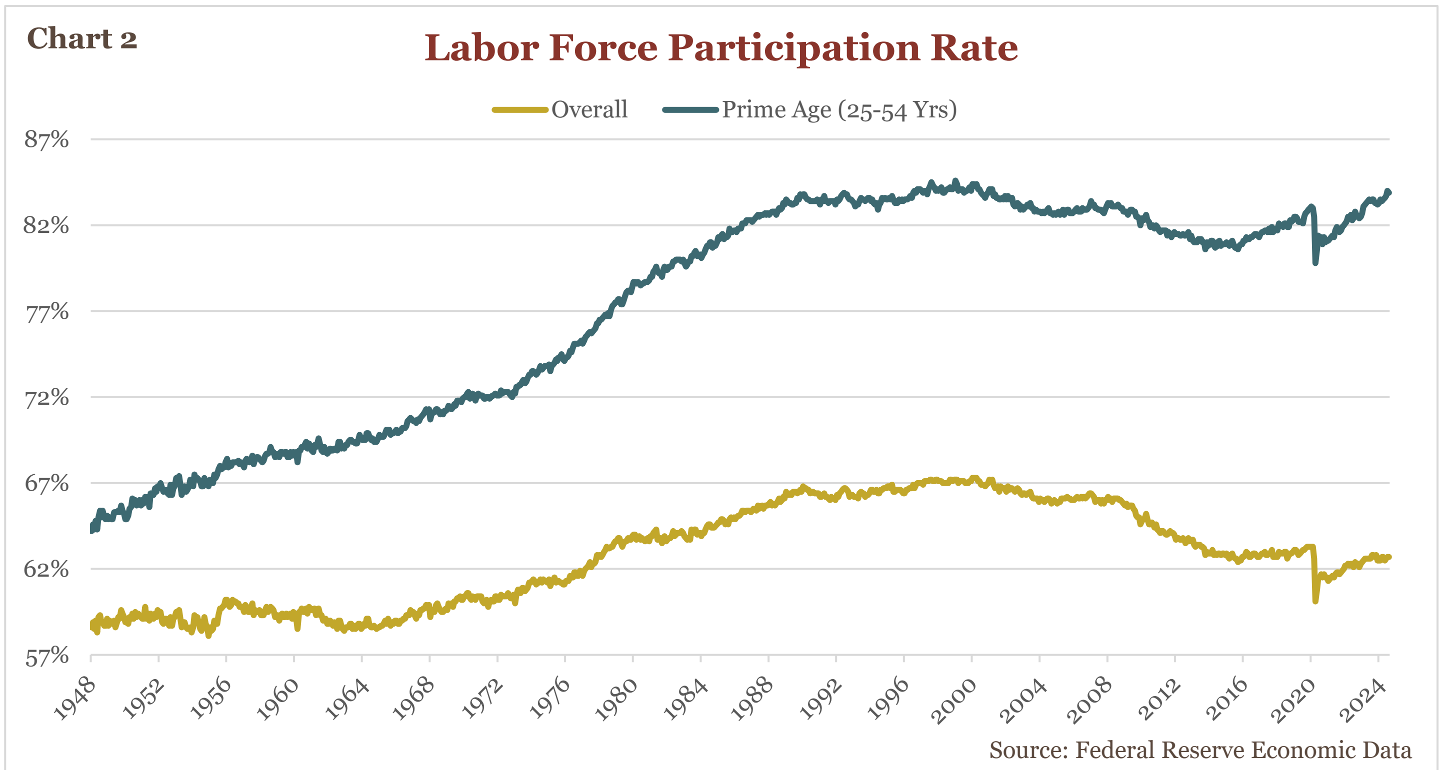
When the global pandemic struck in 2020, the labor and financial markets roiled. Unemployment peaked at 14.8% in March of 2020 before recovering to 6.7% by year-end. By early 2023, the unemployment rate had dropped to 3.4%, the lowest level in over 50 years. It has since gradually risen to 4.2%, still well below the post-WWII average of 5.7% (see Chart 1).




During the 2009 Global Financial Crisis, unemployment peaked at 10%, but the rise in unemployment during the COVID-19 pandemic was far more sudden and severe, prompting the Fed to respond swiftly by lowering its benchmark interest rate to 0% within months. While the unemployment rate eventually stabilized after the pandemic, inflation persisted and required the introduction of the Fed's tightening measures to bring it under control.

Contributing to the pandemic economic disruption, the United States labor market is greatly affected by demographics and workforce participation. Immigration declined during the pandemic and increased in the years since, driving some of the recent increases in the unemployment rate. According to U.S. Congressional Budget office projections, population growth is expected to peak in 2024 before declining. A combination of increased immigration, declining birth rates, and an aging population are the major drivers for this trend.

Similarly, the labor force participation rate (LFPR) is an important measure of labor market health, reflecting the percentage of the population either employed or actively seeking work. Currently at 62.7%, the LFPR is well above its pandemic low but remains 0.6 percentage points below pre-COVID levels (gold line in Chart 2). This




participation gap equates to 1.61 million workers missing from the labor force. Demographic factors, such as an aging population and increasing retirements, continue to weigh down overall participation. However, the prime-age labor force participation rate (ages 25-54) is near an all-time high (see blue line in Chart 2), suggesting that changing demographics have a more significant impact on long-term labor trends than short term concerns about a cooling labor market.

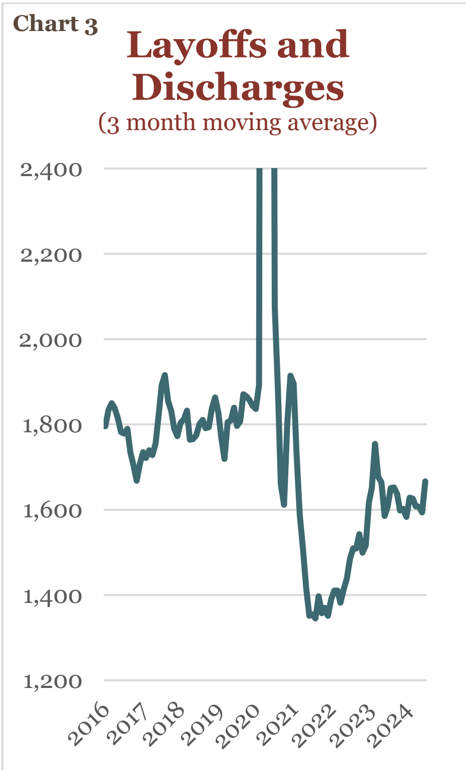
## Normalization

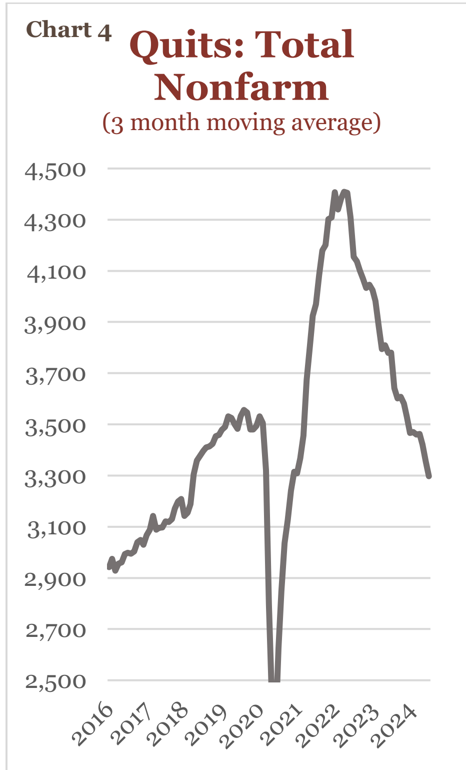
Recent Employment Situation Summary reports indicate that while the labor market is cooling, it is primarily returning to more stable, normalized trends after the turbulence of the past few years.

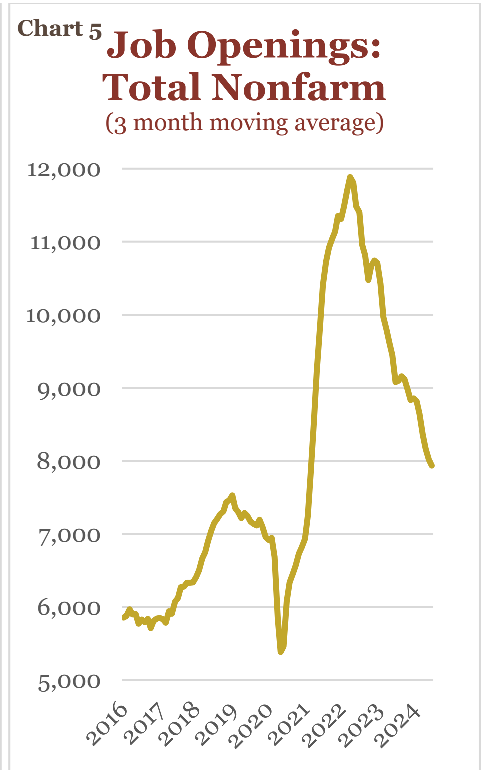
Layoffs and discharges, which are a regular part of business operations, are not signaling major concerns. Currently, the 3-month moving average for layoffs is at 1.7 million (see Chart 3), still below the 2016-2019 average of 1.8 million.

Similarly, the quits data, which tracks the number of people voluntarily leaving their jobs, is also stabilizing. After spiking to record highs during the pandemic—often referred to as the "Great Resignation"—the number of people quitting each month has returned to pre-pandemic levels (see Chart 4).

The total number of job openings has followed suit, normalizing after a peak of over 12 million in March 2022. The most recent data shows 7.6 million job openings (see Chart 5), reflecting a healthier, more balanced labor market. There are now approximately 1.1 job openings for every unemployed person, down from the high of 2 openings per unemployed person in March 2022, signaling improved equilibrium between supply and demand in the workforce.




Source: Federal Reserve Economic Data

## Soft-Landing Possibilities

While recent economic reports have sparked fears of a labor market-driven recession, a closer analysis suggests these changes are more indicative of normalization rather than an economic downturn. Key labor data such as layoffs, quits, and job openings, point to a workforce that is cooling but stabilizing after the pandemic's disruptions. Demographic shifts, including an aging population and rising retirements, are influencing long-term labor trends more than short-term market fluctuations. With inflation stabilizing and the Fed refocusing on the employment side of their dual mandate, the outlook appears more optimistic. While minor bumps on impact are likely as the labor market rebalances, the Fed appears closer to achieving a soft landing.

# Market Summary

## The GHPIA Equity Valuation Dashboard

| Asset Class | Price/ Earnings 2024:Q3 | P/E Benchmark | Over / Under Valuation | Price/ Book Value 2024:Q3 | P/BV Benchmark | Over / Under Valuation | Price/ Cash Flow 2024:Q3 | P/CF Benchmark | Over / Under Valuation |
|---|---|---|---|---|---|---|---|---|---|
| Large-cap growth stocks | 30.9 | 27.0 | 14.3% | 11.6 | 5.7 | 102.8% | 25.9 | 17.5 | 47.7% |
| Large-cap value stocks | 18.3 | 20.2 | -9.4% | 3.0 | 2.5 | 18.9% | 15.1 | 13.1 | 14.9% |
| Mid-cap growth stocks | 20.4 | 24.8 | -17.8% | 4.1 | 4.5 | -8.2% | 14.9 | 16.1 | -7.6% |
| Mid-cap value stocks | 15.4 | 19.1 | -19.3% | 1.9 | 2.2 | -13.9% | 9.3 | 12.4 | -24.6% |
| Small-cap growth stocks | 18.7 | 23.2 | -19.5% | 2.8 | 3.5 | -19.8% | 14.5 | 15.0 | -3.6% |
| Small-cap value stocks | 16.1 | 18.2 | -11.3% | 1.5 | 2.1 | -30.1% | 8.0 | 11.8 | -32.1% |

*GHP Investment Advisors, Inc. Benchmarks are determined using any combination of valuation approaches deemed relevant by GHPIA, including Price to Earnings (P/E), Price to Cash Flow (P/CF), and Price to Book (P/B), and other relevant analyses. Consideration is given to such factors as historical and projected financial growth for the company, profit stability, leverage, the quality of earnings, valuations of comparable companies, the size and scope of the company's operations, the strengths and weaknesses of the company industry information and assumptions, general economic and market conditions, and other factors deemed relevant. While Benchmarks are based on valuations and assumptions that GHPIA believes are reasonable under the circumstances, actual realized returns on such investments may differ materially and do not take into account any fees or expenses that may be associated with investing in those assets. There is no assurance that the investment objectives and strategies described herein will be achieved or successful. P/E, P/BV, and P/CF data are provided by FactSet.*

## Returns by Index

| Index | 2024:Q3 | YTD |
|---|---|---|
| DJIA Total Return* | 8.72% | 13.93% |
| S&P 500 Total Return* | 5.89% | 22.08% |
| S&P 500/Growth* | 3.55% | 27.51% |
| S&P 500/Value* | 8.44% | 13.40% |
| S&P Midcap 400/Growth | 4.37% | 15.99% |
| S&P Midcap 400/Value | 8.97% | 8.27% |
| S&P Smallcap 600/Growth | 8.63% | 11.53% |
| S&P Smallcap 600/Value | 10.68% | 4.20% |
| MSCI EAFE | 6.65% | 10.40% |

*Source: FactSet as of 09/30/2024.*
**Dividends reinvested.*

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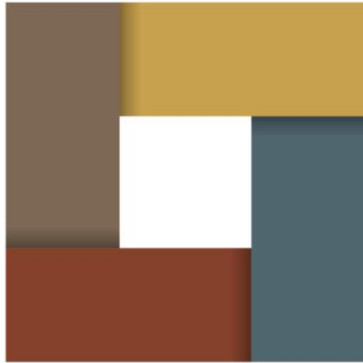

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