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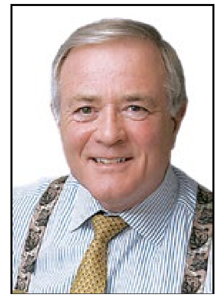
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OP-ED: Despite Federal Reserve's efforts, jobs and equity markets prove resilient

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After some of the biggest bank failures in years, the equity markets have struggled. The Federal Reserve finds itself challenged to get itself right with the markets after pushing interest rates up and bringing about bank failures. In addition to the Fed reaction to market stutters, worries about the U.S. exceeding the debt ceiling brought more uncertainty and new worries. If the debt ceiling were exceeded, the government would not be able to pay its bills when due. Such an event has not happened in modern times in the U.S., so it is uncertain what that would mean for the national economy and the global one. One thing is for sure: It is extremely worrisome.

What is the direction for the Fed, the economy, and the U.S.? Without a doubt, a breach in the full faith and credit of the United States on its obligations would bring a good deal of uncertainty. By now we know that the markets do not like uncertainty.

We would expect the markets to be unsettled at a minimum. But what else? We could expect that the U.S. would find itself in the unenviable position of a debtor nation rather than the lender it has been. It is not just the foregone interest income that the U.S. is accustomed to receiving, but also the money we would owe, and not be able to pay. It would be unthinkable for the U.S., with the dollar as the reserve currency of the world, to owe money it could not pay. Fortunately, the two political parties agreed to a compromise over the weekend prior to the deadline and avoided default. That is good news for the economy and the markets. The Dow jumped 700 points.

With the debt ceiling problem out of the way for now, the Fed can turn its attention back to dread inflation. The Fed's recipe for containing inflation has been to raise interest rates and slow the jobs market, but the job market has proven resilient. Employers added 339,000 jobs in May, well over the 253,000 in April. 250,000 is about the level believed to establish equilibrium. The new numbers don't settle the discussion over the direction of interest rates, but they do provide evidence of economic vitality, robust consumer spending, and an improving housing market. Average hourly earnings grew at the rate of 4.3 percent over the prior year in May – similar to the gains in March and April.

Fed Chairman Jerome Powell and a few others have raised the prospect of pausing rate increases in June to observe the effects of prior increases. However, no conclusions have been reached. Such a pause may just postpone further rate increases.

As of this writing, the market has now registered the longest bear market rally in history. The 2022 bear market reached a low on Oct. 10, and prices have been rising since. Does that mean we are at the inception of another bull market? Or are we at the end of a bear market rally?

Stock market analysts are unusually divided on this topic. Corporate earnings have remained strong and have fueled this rally. However, stock market analysts remain unusually divided on what to expect going forward. Those who focus on macroeconomic factors have a wide divergence of opinions regarding S&P earnings for all of 2023, from up 5.5 percent to down 15.1 percent. That is a broad range considering that we are already halfway through the year. Their average estimate is a decline of 4.1 percent compared to 2022.

The sell side community – about 1,000 people working for investment banks and brokerages – is focused on individual company performance. In aggregate, they are forecasting a 1 percent rise in S&P earnings for 2023 over 2022. This estimate has not changed for several months. Midway through the year, both market strategists and sell side analysts appear to be less certain that a recession is inevitable.

The market has shown strength in the face of a full-on assault by the Fed. While we do not know the future course of the market, we do know that historically the market has risen on more days than it has fallen. We believe that investors should remain invested for the long term but expect volatility.

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