



Week In Review

September 7, 2018

Employment

Nonfarm payrolls rose by 201,000 in August, though revisions to the previous two months showed 50,000 fewer jobs gained in June and July than previously reported. The unemployment rate remained at 3.9%, while labor force participation fell from 62.9% to 62.7%. Average hourly earnings were up 0.4% in August and 2.9% year-over-year.

Our Take: Tight labor markets are supposed to lead to rising wages, yet until recently, wages have been somewhat stagnant despite continued jobs gains. Rising wages have now started to appear in the jobs report, as average hourly earnings have been on an annualized pace of more than 3% over the last quarter. It remains to be seen if recent wage gains will lead to higher inflation, but expect the Fed to believe they will, and to therefore continue to raise rates.

Emerging Markets

Many key emerging market currencies fell sharply following the release of data indicating that South Africa has entered recession. This data point follows on the heels of policy and political concerns about Turkey and worries about Argentine fiscal solvency and hyperinflation. Many other emerging markets that may or may not have fundamental imbalances saw their currencies decline as foreign investors rush to the exits across all emerging markets.

Our Take: Much of the stress in emerging markets is due to a reversal of capital flows into these economies that was driven by Fed, ECB and BOJ actions following the financial crisis. As the Fed and the ECB tighten policy and local issues shake investor confidence, capital outflows are driving down currencies against developed market currencies. Given the large amount of dollar and euro denominated debt issued to foreigners in emerging markets in recent years, there is a danger that the rout in emerging market currencies could impact the global financial system.

Municipals

Chicago Mayor Rahm Emanuel announced this week that he will not seek reelection. Emanuel has led the city since 2011 and would have been running for his third term. The race for mayor is now wide open with 12 candidates currently running for the position.

Our Take: Many were surprised that Emanuel chose not to run for reelection. Over his tenure, Emanuel raised taxes, closed schools, and tried to tackle mounting pension debt. The city's next mayor will inherit the underfunded pension funds and investors will be watching the race closely to see how the candidates will aim to solve the city's fiscal issues.

—There is no additional Week In Review detail for this page.—

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