August 2023
Macro Commentary

After months of looking for slowing economic activity, August finally delivered what appears to be the start of a slowing labor market and economic activity. The August jobs report indicated that unemployment ticked up from 3.5% to 3.8%. While part of the increase was due to a higher labor force participation rate, it was certainly not the whole story. In addition to the increase in unemployment, the JOLTS survey showing job openings has been contracting (chart below). While still elevated, it is starting to accelerate its drop.

Between slowing jobs openings and higher unemployment, our theory on the yield curve steepening to a more normal curve is gaining traction.

In addition to the yield curve, one of the hallmarks of a steepening yield curve is that all rates go down as economic activity slows. With short term yields at heightened levels, a low-risk trade in short term rates has been added to the portfolio. If the slowing economic activity allows the Fed to cut rates, it will pay off handsomely down the road.

As discussed in previous updates, while the US is currently slowing, the EU has already slowed. With Germany in recession, the rest of the EU should soon follow. Coupling higher rates in the US and European economies either already in or heading to recession, the Euro should continue to weaken. While not currently engaged, it is something that is certainly on the radar.

Sincerely,

Stephen Davis
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9047 Poplar Ave; Suite 101
Germantown, TN 38138

sdavis@daviscomllc.com

T: 901-766-4446
F: 901-766-4406