WEEKLY MARKET RECAP: August 07–August 11, 2023

Happy Friday, traders.

Welcome to our weekly market wrap, where we look back at these last five trading days with a focus on the market news, economic data and headlines that had the most impact on the financial market – and may continue to into the future for the US Dollar and other key correlated assets.

Last week's employment report painted a nuanced picture of the labor market. While job openings and payroll gains came in below expectations, wage growth surprised slightly to the upside. This prompts the question: Will wages revert to their previous easing trend? The answer may hinge on how corporations react to the evolving macroeconomic environment.

As the 2Q23 earnings season draws to a close, a trend emerged – more than 70% of companies have beaten earnings estimates despite softer revenues. In the face of input cost inflation, companies had been raising prices in an effort to pass along these costs and defend margins. However, the landscape is shifting. As inflation eases further, companies will see pricing power wane, and therefore be forced to embrace layoffs and cost-cutting to protect margins. This dynamic should support softer wage growth and ensure continued moderation in the labor market more broadly. IT has already seen significant moderation in wage growth due to layoffs last year. Other service-related industries have also seen wages cool. However, the impact on goods-producing industries and trade, transport, and utilities could well lag due to still-high job opening rates and more unionization.

Considering Chairman Powell's recent comment that the FOMC may not need to wait for inflation to return to 2% to cut rates, a less robust environment for wages should allow the Fed to pause, and eventually cut rates next year. Importantly, although the path to a soft landing is increasingly visible, history reminds us that soft landings are rare. What remains certain is that the timeline to add duration has been extended given the recent back-up in rates; investors should take advantage of this and embrace higher-quality sectors of the fixed income universe as they prepare for lower inflation and softer growth next year.

Thanks for reading! Have a great weekend.

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