Mixed Data Adds to Market Volatility

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Earlier this week, the ISM factory survey showed U.S. purchasing managers are feeling the pinch of higher interest rates and a stronger dollar. The headline manufacturing index slipped from 52.0 to 50.9, *the lowest level in 28 months*, as only nine of 18 industries indicated growth.

The new orders index dropped from 51.3 to 47.1, now flashing *contraction*, as a greater percentage of PMs now expect fewer new orders in the coming months. This isn't altogether bad. Factory managers indicated production had increased a bit in September, which chipped away at supply chain snarls. The ISM order backlog index fell to its lowest point since 2020, and the supplier deliveries index is now below the pre-pandemic levels.

Fed officials, trying to slow growth and lower inflation will find plenty to like in the factory survey. The employment index fell from 54.2 to 48.7 as purchasing managers curtailed hiring, and the prices paid index fell from 52.5 to 51.7. This inflation measure had reached a record high of 92.1 just 15 months ago and stood at 87.1 as recently as March. Comments by factory managers were mixed, but demand seems to be largely intact, while lingering supply chain concerns still weigh on most industries, and hiring remains a challenge.

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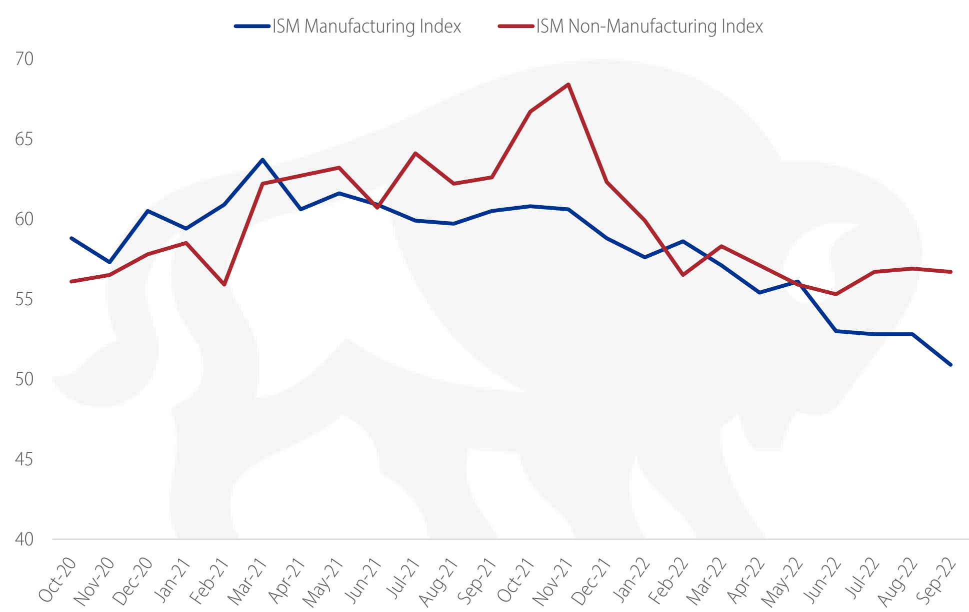
ISM Purchasing Managers Index



Source: Institute for Supply Management

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This morning, the ISM *non-manufacturing* index indicated that service sector managers are faring much better as U.S. consumers continue to reallocate purchases from goods to services. The headline services index topped forecasts with a solid 56.7 reading as 15 of 18 industries reported growth. The business activity index slipped from 60.9 to 59.1 and new orders from 61.8 to 60.6, but both key measures remained historically strong. The employment index climbed from 50.2 to 53, *the highest in six months*, while the prices paid index fell from 71.5 to 68.7, *the lowest since February 2020*. Similar to the factor survey, order backlogs and supplier deliveries improved significantly, indicating supply chain relief. Although several comments by PMs cautioned of slumping sales in September, *it was a good report*.

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Also this morning, mortgage applications for the final week of September fell another -14%, with applications for new purchases tumbling -12.6% and refi apps down -17.8%. Since the year began, new purchase and refi volume have declined -37% and -82% respectively. Affordability has become a significant hurdle for prospective homebuyers as lending rates have more than doubled in 2022.

Yesterday, the Job Openings and Labor Turnover Survey (JOLTS) showed the number of job openings in the U.S. plunged by 1.1 million in August to 10.05 million. This is still extremely elevated with 1.7 jobs for every active job seeker, but the giant single month decline was significant.

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Bonds rallied on Monday and Tuesday as the data releases had suggested Fed policy was working, but have backed-off today, perhaps having something to do with resiliency in the service sector. There are far too many variables in play to pin market movement on a single trigger. Volatility is alive and well.

The September employment report will be released on Friday morning. Forecasts suggest a slower pace of payroll growth and continued moderation of wages. But with less than a month to go before the November FOMC meeting, it's unlikely that labor conditions will sour enough to convince the Fed that another 75 basis point hike isn't the most appropriate move.

Market Indications as of 12:07 P.M. Central Time

DOW	Down -66 to 30,250 (HIGH: 36,800)
NASDAQ	Down -86 to 11,091 (HIGH: 16,057)
S&P 500	Down -21 to 3,770 (HIGH: 4,797)
1-Yr T-bill	current yield 4.15%; opening yield 4.11%
2-Yr T-note	current yield 4.17%; opening yield 4.08%
3-Yr T-note	current yield 4.19%; opening yield 4.09%
5-Yr T-note	current yield 3.98%; opening yield 3.84%
10-Yr T-note	current yield 3.77%; opening yield 3.62%
30-Yr T-bond	current yield 3.78%; opening yield 3.69%