

OBSERVATIONS

- Markets traded flat-to-lower as tensions mounted in the Middle East. The S&P 500 gained +0.3%, but small caps (Russell 2000) lost -0.5% and the yield on a 10-year Treasury rose +22 basis-points (bps) to 3.97%.¹
- ISM manufacturing PMI underwhelmed in September remaining at 47.2, the same level as in August—analysts had expected the PMI would rise by at least 30 bps in September.¹
- Conversely, ISM services PMI came in much stronger than expected, increasing to 54.9 in September—the highest reading since Feb-2023—from August’s 51.5 figure.¹
- The number of job openings increased in August to 8.04 million—up from August’s 7.7 figure, which itself was revised higher. However, quits—a good measure of how confident workers are in finding a new job—continue to trend lower hitting 3.1 million in August, which is on par with quit levels in 2017.¹
- Initial unemployment claims remain low increasing only +6k from the previous week to 225k new claims.¹
- The US jobs report blew out expectations, with the US economy creating 254k new jobs in September—expectations were for 150k—and positive upward revisions to both August (159k) and July (144k). The unemployment rate moved down to 4.1% from August’s 4.2% level, while the labor force participation rate remained steady at 67.2% and average hourly wages increased to 4.0% year-over year.¹

EXPECTATIONS

- In his first speech since the Fed’s first rate cut in over a year, Fed Chairman Powell emphasized that the Fed was likely to act at a measured pace going forward unless the labor market—which he characterized as currently solid—weakens in an unanticipated manner.² Given this the Fed Funds Futures market has priced in one additional -25bps rate cut at the Fed’s next meeting in early November, while they estimate the likelihood that the Fed cuts -50bps at this November meeting as just under one-in-five.¹
- Nearly 45,000 union dockworkers returned to work last Friday after beginning a strike earlier in the week that shut down all US ports along the East and Gulf Coasts for the first time in 50-years. The dockworkers returned to work—averting a costly supply-chain disaster—after securing a 62% wage increase spread over a new six-year contract. Union dockworkers and port managers will continue talks regarding automation and staffing levels over the coming months with the union reserving the right to strike again in January.³

ONE MORE THOUGHT: Israel and Iran inching towards war⁴

The last several days have brought about a number of developments that bear upon the broader security environment of the Middle East. In late September, Israel intensified operations against the Iranian-backed, non-state militia Hezbollah in southern Lebanon. These actions have decimated the senior leadership of Hezbollah including the groups most senior figure, Hassan Nasrallah. In the aftermath of these attacks, Israel began what it characterized a limited invasion into southern Lebanon with the aim of seizing Hezbollah tunnels and missile caches located near the border with Israel and pushing back Hezbollah fighters away from the area to create a buffer zone between them and Israel. As a result of these actions, Iran—for the second time in the past six-months—launched a direct missile attack on Israel targeting several airbases as well as the Mossad headquarters in the Israeli capital of Tel Aviv. Iran’s attack last week was pre-announced to the Israelis before its launch, but with much less warning than Iran’s previous attack in April. Iran’s attack consisted of nearly 200 mostly ballistic missiles that were almost

¹ Bloomberg LP 10/2/2024

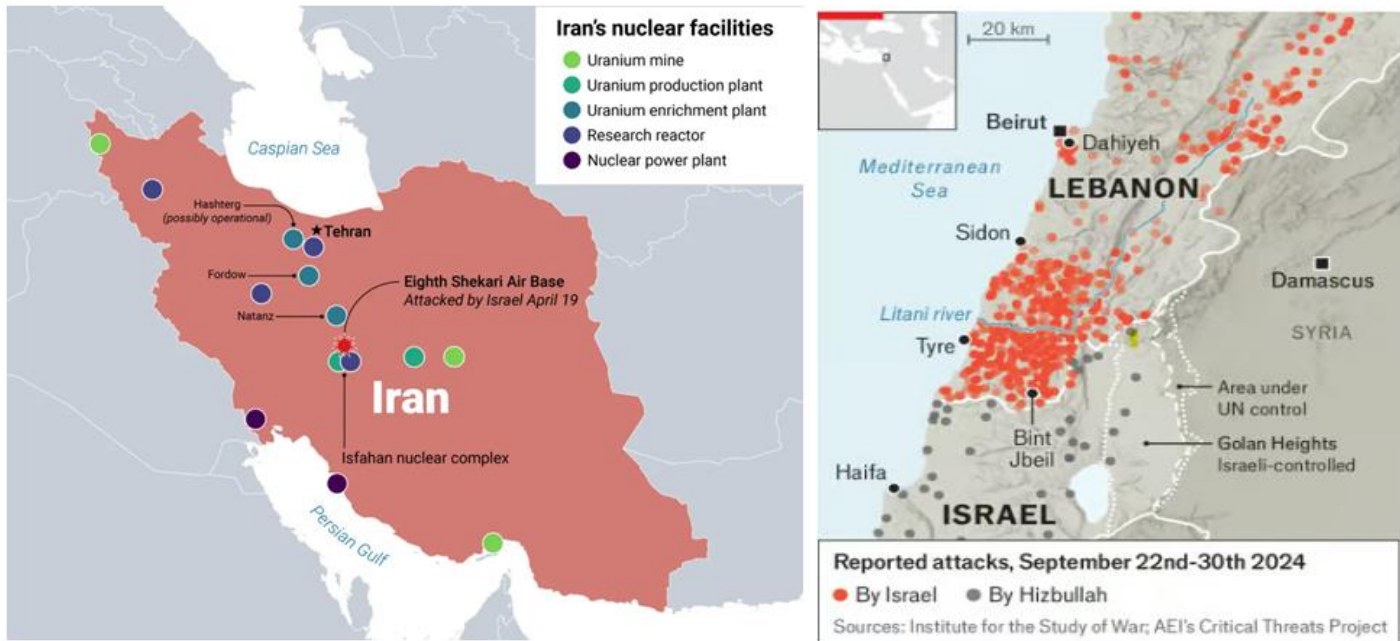
² <https://www.federalreserve.gov/newsevents/speech/powell20240930a.htm>

³ https://www.wsj.com/business/logistics/port-operators-to-offer-62-raises-to-end-dockworkers-strike-a6032db5?mod=hp_lead_pos3

⁴ https://www.wsj.com/world/middle-east/iran-exposed-to-israeli-counterattack-after-blows-against-its-allies-4c65e888?mod=hp_lead_pos2

completely shot down by Israeli air defense systems. Nonetheless, Tel Aviv has indicated that it will respond. In the Spring, while trading limited, direct attacks, Israel and Iran were able to avoid an all-out war. However, since then war has begun between Israel and Hezbollah—the most significant of Iranian proxy militias in the region and the primary force that was to provide a deterrent for Israel to attack Iran—and Israeli actions have greatly decimated Hezbollah's ability to further threaten Israel. This dynamic may induce Iran to finalize its nuclear program and race to develop a nuclear warhead as a final deterrent from a larger Israeli attack. This is the context that exists as Tel Aviv contemplates how to respond to Iran's latest attack. In the meantime, oil prices have risen on the prospect that Israel's near-term response will be to target some oil infrastructure—refineries and oil export facilities—along with some of the military installations that launched Iran's latest missile barrage. But it is possible that Israel, fearful of Iran's nuclear potential, will target some of Iran's nuclear program as a means to delay Iran's ability to finalize a nuclear weapon—which the US State Department stated could be accomplished in under two weeks. What is clear, is that vector of tension in the Middle East is in the wrong direction. Thus far, Israel's war with Hamas and now Hezbollah have had a limited impact on broader global equity and bond markets. But a war with Iran, which could potentially close the Straits of Hormuz (the conduit for about 20 million barrels of oil per day) and may involve limited US military assets, would likely reverberate more widely for both markets and elections.

CHART OF THE WEEK **Tensions Rise in the Middle East**



Source: Clearstead, Erik English, IAEA, Iran Watch, ISIS, NTI, WNA, WNISR, Economist 10/3/2024

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