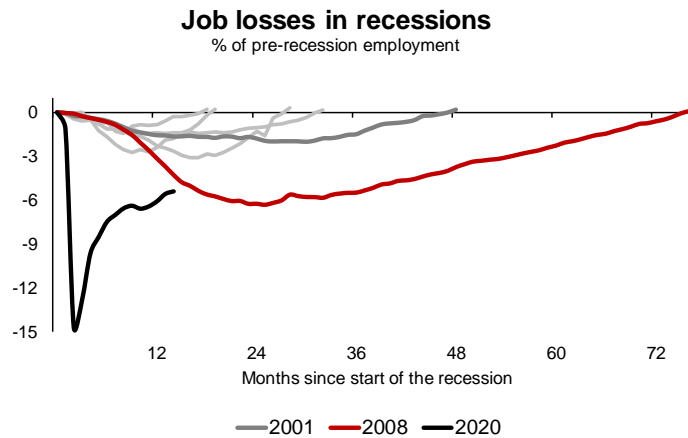


GIAM Macro & Market Research- Market Commentary

US job creation disappoints in April, adding to the Fed's case for patience

- Employment growth was well below expectations (266k versus 900k+). The increase in reopening sectors was offset by losses in temporary help and delivery/transportation.
- However, the increase in the participation rate and the upbeat message from surveys show that the recovery is intact. Surveys point also to the risk of bottlenecks, but wage data do not show overheating yet.
- The data are consistent with the Fed's call for patience and should temper expectations of an early key rate lift-off.
- We developed a visual tool gauging the path towards full and inclusive employment, which monitors the evolution of the main labour market aggregates and the breakdown by workers' categories. It shows that employment growth is outpacing the recover in labour market participation, but this is not leading to wage pressures..

The April employment report poured some cold water on hopes of a strong acceleration in the recovery. The US economy created 266k jobs, much below the 900k+ consensus estimates. Moreover, the stellar March figure was revised down from 916k to 770k. Overall employment still remains some 6% below the beginning of 2020 level.

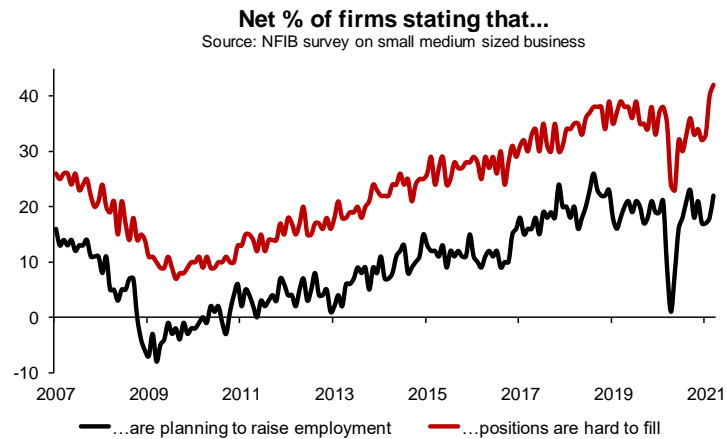


The details of the report, however, show that the recovery is intact. Employment in sectors heavily affected by restrictions posted notable gains: for example, hiring in restaurants doubled, from 99k in March to 178k. This was offset by large declines in help services and delivery and transportation (possibly a side effect on the return to normal business activity). Payrolls continued to expand in 60% of the sectors.

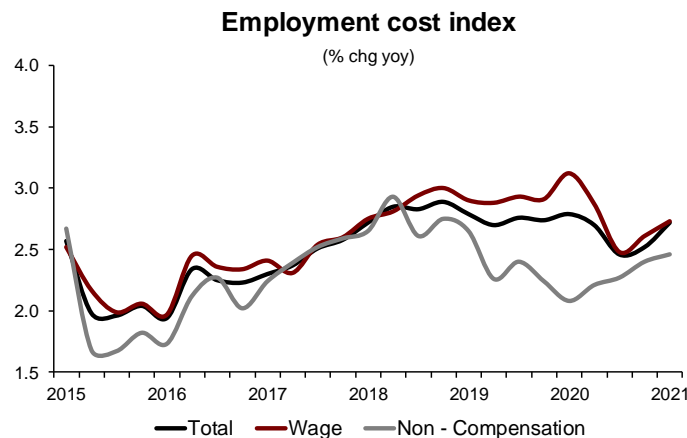
The unemployment rate rose slightly, from 6% to 6.1%, but this was largely due to the ongoing firming in labour market participation, as job creation incentivise people to restart looking for employment. Moreover, initial claims in regular state programs continued to trend lower. Filings dropped by 92,000 to 498,000 during the week ending May 1, reaching a new low since the beginning of the pandemic.

Further data show that at, least in expectations, the labour market is getting as tight as just before the virus outbreak. In the April release of the Conference Board household survey the difference between the percent of respondents saying jobs are plentiful and those saying jobs are hard to get surged to +24.7 (from +8.0 in March) and is now at 2018 levels.

And the risk of bottlenecks related to the fast recovery are showing up also in the labour market. The April NFIB small business survey shows that the net percentage of firms signalling problems in filling openings is at its highest level since the series began (1973). This and combined with the rising share of firms expecting to raise payrolls, indicate the risk of upward pressures on wages. This in turn, may further fuel concerns about overheating.



Hourly wages increased by 1.2% on the month (2.3% yoy), but data remain choppy, heavily influenced by composition effects as sectors reopen. The wage component of the employment cost index (a more stable gauge of labour costs) was up by 3% yoy in Q1, accelerating from 2020 but still substantially below the 2018-2019 average.



Overall, we see the April data as a warning that, while the economy is rebounding, it happens in fits and starts. This adds to the case for patience the Fed continues to push through, and underlines the fact that the labour market has yet to show the signs of “substantial improvement” required for the monetary stimulus to be reduced. This should soften the expectations of an early lift-off in key rates. However, volatile employment data, noisy indications on wage pressures and the short-term surge in inflation (the core CPI rate for April, due on Wednesday, is expected at 3.6%), are likely to increase market nervousness.

Given the stronger focus by the Fed on realised outcomes and the vaguely defined notion of full employment as a “broad-based and inclusive goal” we developed a visual tool to monitor the evolution of the labour market not just in terms of aggregate variables but also in terms of outcome for different workers’ categories. The update with the so far available April figures shows that the improvement is broad based across groups and type of variables, but participation lags employment. Wage pressures remain muted.

US Labour Market Dashboard

	Pre Covid Avg.*	Apr-21	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20	Sep-20	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Feb-20	Jan-20	
Unemployment rate																		
Overall	3.5	6.1	6	6.2	6.3	6.7	6.7	6.9	7.8	8.4	10.2	11.1	13.3	14.8	4.4	3.5	3.5	
Broad	6.9	10.4	10.7	11.1	11.1	11.7	12	12.1	12.8	14.2	16.5	18	21.2	22.9	8.8	7	6.9	
Median duration of un.	9.1	19.8	19.7	18.3	15.3	16.8	18.9	19	17.8	16.7	15.1	13.4	7.5	1.9	5.8	9	9.3	
Prime age (25-54)	3.0	5.5	5.5	5.7	5.8	5.8	6.1	6.4	7.1	7.5	9.1	9.7	11.5	12.8	3.6	3	3	
Asian	2.7	NA	6	5.1	6.6	5.9	6.7	7.6	8.8	10.6	11.9	13.9	14.9	14.5	4.1	2.4	3.1	
Black	6.1	9.7	9.6	9.9	9.2	9.9	10.3	10.8	12	12.8	14.4	15.3	16.7	16.7	6.8	6	6.1	
Hispanic	4.3	7.9	7.9	8.5	8.6	9.3	8.4	8.8	10.3	10.5	12.7	14.5	17.6	18.9	6	4.4	4.3	
White	3.0	5.3	5.4	5.6	5.7	6	5.9	6	7	7.4	9.2	10.1	12.3	14.1	3.9	3	3	
Men	3.5	6.3	6.2	6.3	6.4	6.7	6.9	7	7.7	8.3	9.8	10.5	12.2	13.6	4.4	3.5	3.5	
Women	3.5	5.8	5.9	6.1	6.3	6.7	6.4	6.8	8	8.6	10.6	11.7	14.5	16.1	4.4	3.4	3.5	
Less than high school	5.6	9.3	8.2	10.1	9.1	9.8	9.2	9.9	10.7	12.6	15.1	16.4	19.6	21	6.9	5.8	5.7	
High School	3.6	6.9	6.7	7.2	7.1	7.8	7.8	8.1	9	9.8	10.8	12.2	15.3	17.3	4.3	3.5	3.7	
College dropout	2.8	5.8	5.9	5.9	6.2	6.3	6.3	6.6	8.1	8	9.9	10.9	13.2	15	3.7	3	2.7	
At least college	1.9	3.5	3.7	3.8	4	3.8	4.2	4.2	4.7	5.3	6.7	6.9	7.4	8.4	2.5	1.9	2	
Employment to population																		
Overall	61.1	57.9	57.8	57.6	57.5	57.4	57.4	57.4	56.6	56.5	55.2	54.6	52.8	51.3	59.9	61.1	61.1	
Prime age (25-54)	80.4	76.9	76.8	76.5	76.4	76.3	76	76	75.1	75.3	73.9	73.6	71.3	69.6	79.5	80.4	80.5	
Asian	62.1	NA	59.3	59	58.6	58.2	58.5	58	57.3	57	56.2	52.9	52	52.1	61.1	62.6	61.9	
Black	59.1	55.3	54.9	54.2	54.7	53.9	54	53.7	52.5	52.5	51.5	50.8	49.6	48.8	57.7	59.3	58.8	
Hispanic	64.7	60.1	60.4	59.9	59.4	59.2	59.9	59.8	58.2	58.5	56.4	55.9	52.9	51.4	63	65	64.8	
White	61.0	58.2	58	57.7	57.3	57.7	58	58.3	57.4	57.2	56.1	55.7	53.6	51.8	60	61	60.8	
Men	71.3	68	67.7	67.4	67.1	67.3	67.6	68.1	67.3	67	65.9	65.1	63.2	61.4	70.2	71.3	71.1	
Women	56.8	53.8	53.9	53.5	52.9	53.4	53.6	53.4	52.2	51.9	50.8	50.4	48.3	46.9	55.9	57	56.5	
Less than high school	43.9	40.1	40.8	41.2	40.8	40.7	41.4	41.5	38.9	39.3	38.3	36.1	34	34.1	42.7	44.9	43	
High School	56.4	51.5	51.1	50.8	51.3	51.1	51.1	51.3	50.1	49.7	49.6	48.7	46.6	44.9	54.6	56.3	56.5	
College dropout	62.8	59.3	59.6	59	58.4	58.6	58.4	58.3	58.4	59.1	57.4	56.9	55	53	62.1	62.7	62.7	
At least college	72.1	69.6	69.4	69.1	69.3	69.1	69.1	69	68.8	68.8	67.3	67.6	66.7	65.6	71.2	71.8	72.3	
Labour force participation																		
Overall	63.1	61.4	61.5	61.3	61	61.3	61.5	61.7	61.4	61.8	62	61.8	60.7	60	62.6	63.3	63	
Prime age (25-54)	83.0	81.45	81.4	81.25	81.25	81.05	80.95	81.35	81	81.5	81.4	81.55	80.65	79.95	82.6	82.95	83.1	
Asian	69.2	67.6	67.3	67.4	67.5	67.4	67.4	67.7	67.6	67.7	67.1	67.2	66.7	66.2	68.5	69.2	69.3	
Black	57.7	55.8	56.2	55.9	55.5	55.9	56	56.1	55.7	56	56.3	56.2	55.1	54.4	57.1	57.9	57.6	
Hispanic	63.8	NA	63	62.2	62.8	61.8	62.7	62.8	62.9	63.8	63.8	61.4	61.1	60.9	63.8	64.1	63.9	
White	63.0	61.2	60.7	60.1	60.3	59.8	60.2	60.2	59.7	60.2	60.2	60	59.6	58.6	61.8	63.1	62.7	
Men	67.6	65.3	65.6	65.4	65	65.3	65.4	65.6	64.9	65.3	64.7	65.4	64.1	63.3	67	68	67.8	
Women	63.2	61.5	61.4	61.4	61.4	61.6	61.5	61.8	61.6	61.8	61.5	61.6	61	60.3	62.6	63.2	63.3	
Hours/Wages																		
Hours Worked	34.3	35	34.9	34.6	35	34.7	34.8	34.8	34.8	34.7	34.6	34.6	34.7	34.2	34.1	34.4	34.3	
Atlanta Fed wage tracker (12 mth %chg)	3.7	NA	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.7	3.6	3.7	3.7	3.7	
- White	3.6	NA	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	
- Nonwhite	4.3	NA	3.4	3.5	3.5	3.6	3.4	3.5	3.5	3.7	3.8	4.1	4.2	4	4.3	4.3	4.3	
- High Skill	3.7	NA	3.5	3.5	3.5	3.6	3.7	3.7	3.7	3.7	3.6	3.6	3.7	3.6	3.7	3.7	3.7	
- Mid skill	3.6	NA	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.7	3.8	3.8	3.7	3.6	3.7	3.6	
- Low skill	3.7	NA	3.5	3.2	3	3.1	3.1	3	3	3.1	3.1	3	3.1	3.2	3.3	3.7	3.7	
- Male	3.9	NA	3.7	3.7	3.7	3.8	3.8	3.7	3.7	3.7	3.7	3.7	3.7	3.8	3.9	3.9	3.9	
- Female	3.5	NA	3.3	3.3	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.6	3.6	3.6	3.5	3.6	3.5	
Expectations																		
NFIB - % planning to raise employment	19.7	NA	22	18	17	17	21	18	23	21	18	16	8	1	9	21	19	
NFIB - % have raised compensation	33.7	NA	28	25	25	21	24	23	23	18	15	14	14	16	31	36	36	
NFIB - % planning to raise compensation	22.3	NA	17	19	17	14	20	18	16	14	14	13	10	7	16	19	24	
Conf. Board Cons.conf. - Job plentiful	46.7	37.9	26.5	21.6	20	21	26.3	26.7	23.6	21.4	22.3	20.5	16.5	18.8	43.3	46.5	47.2	
Conf. Board Cons conf - Income to rise in NY Fed exp. - income to rise in 1 yr	2.5	NA	2	2.19	2.04	2	2	2	2	2	2	1.6	2	1.81	2	2.59	2.59	

*Average of Dec. 2019, Jan. and Feb. 2020

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