

Employment

The U.S. economy added 661,000 jobs in September, slightly short of consensus estimates. Payroll growth from the previous two months was revised higher by 145,000 jobs. The unemployment rate fell from 8.4% to 7.9%. Average hourly earnings rose just 0.1% in September and 4.7% over the last twelve months. The labor force participation rate fell from 61.7% to 61.4%.

Our Take: The employment reports were a bit of a mixed bag. On the positive side, employment continues to recover. On the flipside, the pace of growth is slowing, and workers are dropping out of the labor force. Total payrolls numbered approximately 152 million before the pandemic began and sit at around 141 million now. Even at September's pace it will take quite a while to recover all the job losses. Given the slowing pace of growth and an increased number of formerly temporary job losses becoming permanent, there are reasonable concerns of a more difficult road ahead.

Personal Income and Spending

Personal income fell 2.7% in August while spending increased by 1.0%.

Our Take: Personal incomes fell primarily due to the dramatic reduction in government pandemic assistance. Savings rates have skyrocketed during the pandemic. The consumption increase of 1% shows that consumers saved less of their income in August, yet the monthly savings rate was still over a 14% annualized rate. The savings could represent pent-up demand or consumers worried about the future squirreling away as much as they can.

China

The Commerce Department announced that it is imposing restrictions on U.S. exports of certain equipment and software to Semiconductor Manufacturing International Corp. (SMIC) due to national security concerns over SMIC products and exported U.S. equipment being diverted to military end use. Implementation of these restrictions would likely be crippling to SMIC, which the Chinese government views as a critical firm in its efforts to become a global leader in technology. SMIC shares slumped on this news.

Our Take: While the Commerce Department actions fall short of those taken against Huawei, they do represent an expansion of the conflict between the U.S. and China and a clear move to continue isolating China's tech sector from key inputs and end markets. These efforts further decouple the Chinese and U.S. economies and push the rest of the world to do the same.

Municipals

Moody's Investors Service downgraded New York City and New York state on Thursday, affecting billions of dollars of debt. Moody's has issued a stable outlook for New York state and a negative outlook for New York City due to the city's reliance on borrowing. The ratings agency cited the economic impact of the coronavirus pandemic as reason for the downgrades.

Our Take: New York has struggled with budget gaps and a decline in revenue due to the pandemic. This week's downgrade may lead to increased borrowing costs for the city and the state. Other major cities should prepare for possible downgrades if recovery slows.

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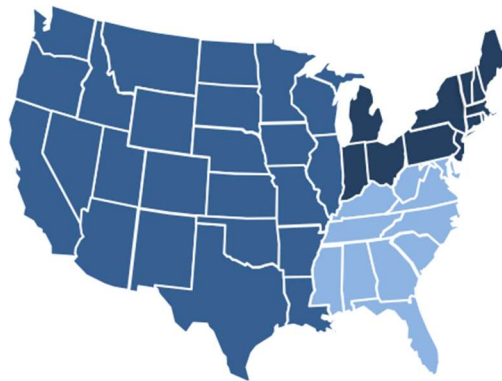
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