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## **S&P Tests New High on Jobs Surge**

Weekly Update – July 11, 2016

Markets surged last week after a surprising June jobs report buoyed investor sentiment. The S&P 500 came within a hair of a new record close on the news. For the week, the S&P 500 grew 1.28%, the Dow gained 1.10%, the NASDAQ added 1.94%, and the MSCI EAFE fell 1.76%.<sup>i</sup>

Stocks surged after Friday's better-than-expected June jobs report. The S&P 500 closed Friday at 2,129.90, less than a point from its record closing high of 2,130.82 reached in May 2015.<sup>ii</sup> The rally was broad-based, and we're happy to see that investors are shaking off global worries by responding to success stories at home.

After disappointing April and May jobs reports introduced worries of a labor market slowdown, the June report showed that the economy added 287,000 new jobs last month. Since expectations called for around 165,000 jobs, investors counted the report as a solid win for the economy.<sup>iii</sup>

How many jobs does the economy need to support sustainable growth? According to a survey of Wall Street Journal economists, the break-even number for sustainable labor growth could be an average of 145,000 new jobs per month. Fewer new jobs, and the economy won't be able to keep up with population changes as older workers retire and young adults join the workforce.<sup>iv</sup>

As with all things economic, there are other opinions. In 2013, the Federal Reserve Bank of Chicago estimated that the economy could get by with just 80,000 new jobs each month; Federal Reserve Chair Janet Yellen stated in December that under 100,000 new jobs per month are needed.<sup>v</sup> You can see in the chart below that the labor market has produced above those estimates in most months since the beginning of 2014.

## How Many New Jobs Does the Economy Need?

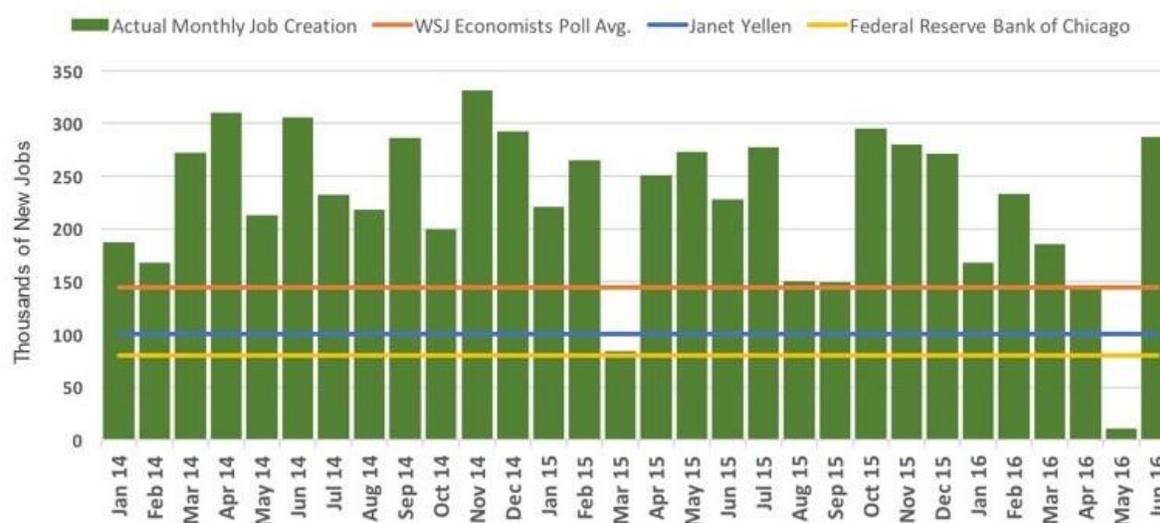


Figure 1 Monthly Increase in Total Nonfarm Payrolls, Seasonally Adjusted Source: BLS, Federal Reserve, Wall Street Journal

Digging a little deeper into the June numbers gives us more positive news. The unemployment rate rose to 4.9%, which is actually a good thing because it rose as a result of more job seekers entering the labor pool. The Federal Reserve estimates that long-run unemployment in a healthy economy should average between 4.7% and 5.0%.<sup>vi</sup>

Even better, average hourly earnings rose 2.6% over June 2015, indicating that the labor market is tightening and employers are raising wages to compensate.<sup>vii</sup> Since economists had been worrying about the stagnant pace of wage growth, the June data is encouraging.

### Our View

After June's strong job report, investors are feeling pretty good about the U.S. economy; however, it's important not to let your perspective be swayed too much by a single data point. While a healthy labor market supports continued economic growth and market upside, we expect additional volatility in the weeks to come. We still face a turbulent presidential election, corporate earnings season, Britain's EU exit, and other market headwinds. Enjoy the rally, but stay focused on your long-term goals and don't be surprised if markets pull back again.

### ECONOMIC CALENDAR:

**Tuesday:** JOLTS

**Wednesday:** Import and Export Prices, EIA Petroleum Status Report, Beige Book, Treasury Budget

**Thursday:** Jobless Claims, PPI-FD

**Friday:** Consumer Price Index, Retail Sales, Empire State Manufacturing Survey, Industrial Production, Business Inventories, Consumer Sentiment

Data as of 7/8/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	1.28%	4.21%	4.07%	11.70%	6.83%
DOW	1.10%	4.14%	3.60%	8.67%	6.36%
NASDAQ	1.94%	-1.01%	0.96%	14.66%	13.27%
U.S. Corporate Bond Index	1.08%	8.85%	8.28%	6.03%	8.20%
International	-1.76%	-7.24%	-11.14%	-1.39%	-1.38%
Data as of 7/8/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.26%	0.36%	0.48%	0.95%	1.37%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance, S&P Dow Jones Indices and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the SPUSCIG. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

## HEADLINES:

**Factory orders shrink.** New orders for manufactured goods fell in May, but unfilled orders and falling business inventories hold promise for future demand.<sup>viii</sup>

**China's inflation drops.** Last month, a measure of consumer inflation in China grew at its slowest pace since January on persistently weak demand. More government stimulus is likely to prop up the ailing economy.<sup>ix</sup>

**Weekly jobless claims fall.** The number of Americans claiming new unemployment benefits fell by 16,000 last week, adding more evidence that the labor market is on solid ground after May's miss.<sup>x</sup>

**Service sector expands to seven-month high.** An indicator measure service sector activity—a component of the economy that accounts for 80% of economic growth—rose in June, suggesting continued strength.<sup>xi</sup>

## QUOTE OF THE WEEK



*"Winning isn't everything, but wanting to win is."*

*—Vince Lombardi*

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Diversification does not guarantee profit nor is it guaranteed to protect assets.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

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<sup>i</sup> <http://finance.yahoo.com/q/hp?s=%5EGSPC&a=06&b=1&c=2016&d=06&e=8&f=2016&g=d>

<http://finance.yahoo.com/q/hp?a=06&b=1&c=2016&d=06&e=8&f=2016&g=d&s=%5EDJI%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=06&b=1&c=2016&d=06&e=8&f=2016&g=d&s=%5EIXIC%2C+&q=1>

<https://www.msci.com/end-of-day-data-search>

<sup>ii</sup> <http://www.cnbc.com/2016/07/08/the-sp-got-very-very-very-close-to-making-records-on-friday.html>

<sup>iii</sup> <http://www.bls.gov/news.release/empsit.nr0.htm>

<http://www.wsj.com/articles/global-stocks-steady-ahead-of-jobs-report-1467964140>

<sup>iv</sup> <http://blogs.wsj.com/economics/2016/04/07/the-new-magic-number-for-monthly-job-growth-145000/>

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<sup>vi</sup> <http://blogs.wsj.com/briefly/2016/07/08/june-jobs-report-the-numbers-2/>

<sup>vii</sup> <http://www.bls.gov/news.release/empsit.nr0.htm>

<sup>viii</sup> <http://www.foxbusiness.com/markets/2016/07/05/factory-orders-fall-but-unfilled-orders-increase.html>

<sup>ix</sup> <http://www.cnbc.com/2016/07/10/china-june-inflation-eases-further-more-policy-stimulus-anticipated.html>

<sup>x</sup> <http://www.foxbusiness.com/markets/2016/07/07/weekly-jobless-claims-fell-by-16000.html>

<sup>xi</sup> <http://www.foxbusiness.com/markets/2016/07/06/u-s-service-sector-growth-expanded-in-june.html>

<http://www.wsj.com/articles/u-s-service-sector-gains-in-march-1459865563>