# Weak Jobs Data Chills Stocks

**June 6, 2016** — U.S. stocks ended a holiday-shortened four-day trading week essentially where it began. The S&P 500 finished lower on Friday, ending at 2,099.13 versus 2,099.06 a week earlier, after a disappointing May payrolls report showed the economy added the fewest new jobs since September 2010. Just 38,000 new jobs were added last month. While the unemployment rate fell from 5% to 4.7%, it declined mostly because more Americans dropped out of the labor force. The report triggered concerns about consumer confidence and the future pace of consumer spending, causing the benchmark equity index to retreat from its seven-month high and the safer asset havens of gold and Treasuries to rally.

In other key economic data, personal spending climbed 1% - the most since June 2005, while wages rose 0.4%, in line with estimates. Home prices rose 0.9% in March and continue to trend higher, especially in the West as retiring baby-boomers move to less populated areas. The ISM non-manufacturing (service sectors) activity expanded in May at the slowest pace since February 2014. Lastly, the U.S. trade deficit slightly widened in April as annual revisions widened the March tally, which showed a large 4.6% decline in imports. April imports rose 2.1%, while exports rose 1.5%.

Friday's jobs setback reinforced views that the S&P 500 remains mired in a trading range that has prevailed since the index hit its all-time record a year ago. For the week, the S&P 500 rose 0.04%; the Dow Industrials fell 0.37%; and the NASDAQ Composite gained 0.19%. Six of the ten major sectors ended higher last week, led by Utilities (+2.56%) and Healthcare (+1.51%). Financials (-1.24%) and Energy (-1.02%) fell the most. The US Dollar Index fell 1.56%, snapping three weekly gains, ending at 94.029. Gold futures jumped $33.25/oz. on Friday, ending the week up 2.58%. Treasuries prices rallied, pulling the yield on 10-year Treasury notes down 15.1 basis points to 1.701%.

## What We're Reading

**Yellen Urges to not Overreact on Jobs ↗**

**Brexit Polls Lean Toward Brexit ↗**

**Iran's Oil Exports Expand More Quickly↗**

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## Week's Economic Calendar

**Monday, June 6:** Labor Market Conditions;

**Tuesday, June 7:** Productivity & Costs, Consumer Credit at 3 pm ET;

**Wednesday, June 8:** MBA Mortgage Applications Activity, JOLTS;

**Thursday, June 9:** Weekly Jobless Claims, Wholesale Trade;

**Friday, June 10:** Consumer Sentiment.

**Market Watch**

| Stocks | 1-Week | MTD | 3-Month | YTD | 1-Year | 3-Year |
|---|---|---|---|---|---|---|
| Dow Jones Industrial Avg. | -0.37% | 0.11% | 5.09% | 2.19% | -1.49% | 5.29% |
| S&P 500 | 0.04% | 0.13% | 5.88% | 3.71% | 1.49% | 10.88% |
| NASDAQ Composite | 0.19% | -0.11% | 5.35% | -0.72% | -1.86% | 13.95% |
| Russell 3000 | 0.21% | 0.24% | 6.31% | 3.66% | 0.00% | 10.47% |
| MSCI EAFE | 0.18% | 0.23% | 5.13% | -0.88% | -10.33% | 2.25% |
| MSCI Emerging Markets | 1.05% | 1.13% | 5.15% | 3.48% | -16.01% | -4.27% |

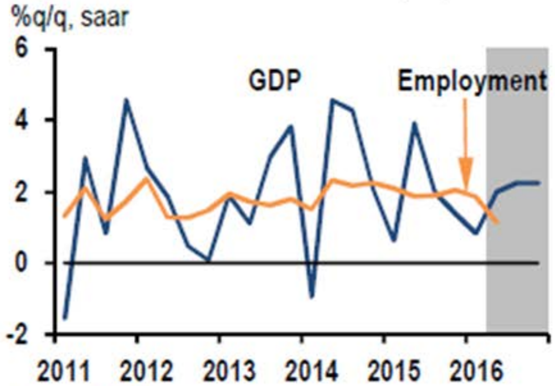
| Bonds | 1-Week | MTD | 3-Month | YTD | 1-Year | 3-Year |
|---|---|---|---|---|---|---|
| Barclays Agg Bond | 0.67% | 0.61% | 2.14% | 4.09% | 4.88% | 3.11% |
| Barclays Municipal | 0.25% | 0.19% | 1.85% | 2.89% | 6.55% | 4.08% |
| Barclays US Corp High Yield | 0.16% | 0.03% | 7.26% | 8.09% | -0.51% | 3.08% |

| Commodities | 1-Week | MTD | 3-Month | YTD | 1-Year | 3-Year |
|---|---|---|---|---|---|---|
| Bloomberg Commodity | 1.96% | 2.12% | 13.44% | 11.06% | -13.54% | -12.81% |
| S&P GSCI Crude Oil | -1.44% | -0.98% | 40.64% | 31.26% | -18.44% | -19.57% |
| S&P GSCI Gold | 2.15% | 2.09% | -1.22% | 17.23% | 4.88% | -4.16% |

*Source: Morningstar*

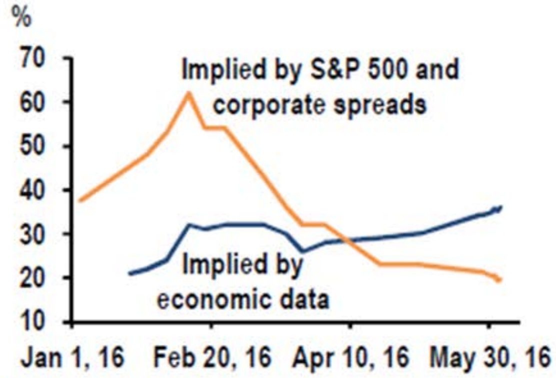
## Chart of the Week: Interpreting May Payrolls; Risks Skewed to the Downside

Figure 1: US real GDP and employment




Source: J.P. Morgan

Figure 2: US recession probability within 12m




Source: J.P. Morgan

There are three messages to take from the U.S. May employment report. First, labor demand is waning, as job growth (adjusted for the Verizon strike effect) slowed to a 127,000 monthly average pace over the past three months (Figure 1). Second, hopes for a sustained pickup in labor supply were dashed as the participation rate has now retraced most of its recent rise. Job growth is still running faster than the underlying trend in the labor force and the US unemployment rate is now at an expansion low of 4.7%. Third, tight labor markets look to be lifting labor costs. Average hourly earnings are tracking 3% annualized this quarter, an outcome that would match its high for this expansion.

JPMorgan said Friday's job report validates their concern that firms might turn more cautious and that a run of stronger labor income gains may be coming to an end. As such, JP Morgan's outlook that U.S. growth rises above 2% during second-half of 2016 places greater weight on households cushioning the impact of slowing job growth and rising energy prices with a decline in the saving rate. Consumption news has been upbeat with strong April spending readings this past week and yet, while their forecast is unchanged, the risks have skewed to the downside.

Indeed, JPMorgan's recession probability tracker suggests that risks are creeping higher with the probability of a recession in the next 12 months reaching 36% this past week (Figure 2). It is important to note that their discomfort outlook view contrasts notably with financial markets, where implied recession probabilities have moved lower. To sum things up, the Fed likely shares JPMorgan's tracker discomfort and is therefore likely to remain on hold until they gain confidence that the expansion is on firmer footing. A June hike is most likely off the table, and a sharp data pickup in activity is needed for a July hike to be realized.

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## Glossary

*The **Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of Barclays Credit government bond index, mortgage backed securities index, and asset backed securities index and is generally representative of the US Bond market.*

*The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.*

*The **Barclays U.S. Municipal Bond Index** is an unmanaged, market-value-weighted index of investment-grade municipal bonds with maturities of one year or more.*

*The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).*

*The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.*

*The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.*

*The **CRB Index** is a pricing index that measures changes in the price of 22 commodities that are believed to be among the first to react to changes in economic conditions.*

*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 **Hang Seng Index** is a market capitalization weighted index of the stocks of the 33 largest companies in the Hong Kong market. The Hang Seng Index is a price weighted/share price index which measures movements in the prices of shares, but not of their dividends.*

*The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.*

***MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

*The **NASDAQ 100 Index** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No individual listing can have more than a 24% weighting. Launched on February 1, 1985, the index carried a base value of 125.*

*The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.*

*The **Producer Price Index** is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective.*

*The **Russell 1000 Index** comprises the 1,000 largest companies in the U.S. equity market, and is a subset of the Russell 3000 Index. The Russell 1000 is a market capitalization-weighted index, meaning that the largest companies constitute the largest percentages in the index, affecting performance more than the smallest index members. The inception date for the Russell 1000 and 3000 indices was January 1, 1984.*

*The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.*

*The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.*

*The **S&P Growth Index** is a float adjusted, market capitalization weighted index of 317 stocks drawn from the S&P 500 Index that exhibit strong growth characteristics. S&P Dow Jones Indices uses three factors to measure growth: sales growth, the ratio of earnings change to price, and momentum.*

*The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.*

*The **S&P GSCI Crude Oil** Index is a sub-index of the S&P GSCI and provides investors with a publicly available benchmark for investment performance in the crude oil market.*

*The **S&P Value Index** is a float adjusted, market capitalization weighted index of 364 stocks drawn from the S&P 500 Index that exhibit strong value characteristics. S&P Dow Jones Indices uses three factors to measure value: the ratios of book value, earnings and the sales to price sales metric.*

*The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.*

*The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.*

*The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.*

***West Texas Intermediate (WTI)** is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.*