

Weekly Commentary with Professor Jeremy J. Siegel

A “Goldilocks” Labor Market Report

Monday, 7/9/2018



Jeremy Schwartz, Director of Research for WisdomTree, hosts a weekly discussion with Professor Siegel, typically on the Wharton Business Radio podcast. The notes below summarize their conversation along with further commentary and context.

A “Goldilocks” labor market report: Strong payroll gain, yet the participation rate rose sufficiently to cause the unemployment rate to unexpectedly jump 2 tenths to 4.0%. Thus we take a step away from my critical 3.5% unemployment rate which I believe sparks an inflationary gain in wages. Wage growth, indeed, was only 2 tenths, below expectations of a 3.0% gain.

A few more months like this, and there will be only one more Fed hike this year. But we cannot count on that; the month-to-month data is volatile, and we have seen past jumps in job participation dissipate in future months. Nevertheless, Friday’s news will likely keep the ten year in a 2.8% zone, which is favorable for stocks.

On the equity side, all eyes are on the trade “war.” Trump, as promised, struck the first “blow” and now China will respond. Professor Siegel has no inside track on how far each side is willing to push, but the stock market clearly does not believe an all-out war is in the cards. Nevertheless, if it can be resolved, and if the unemployment rate stays near 4.0%, equities could rise another 10% to record highs. Of course, there are a lot of “ifs” here.

Q2 GDP is running at 4% plus, and some forecasters put it near 5%; so first half GDP growth will come in about 3%, giving Trump some bragging rights. This new quarter is forecast at between 2.5% and 3%, but this is a real early “morning line.” If trade doesn’t blow up, 3%+ is probable.

The midterm elections are 4 months away. At this point, the Dems are expected to take the House, but the good economic news make that only a 60% chance. The GOP is about 75% probable to hold the Senate. Trump’s Supreme Court choice, set for Monday night, could rile the upcoming elections. So no outcome is assured.

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