

## Weekly Marketmail

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**Monday, May 06, 2013**

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### **Market Sets New All-Time Highs on a Positive Jobs Report**

By Louis Navellier

The S&P 500 rose over 2% last week, hitting a new all-time high of 1614 on Friday, due in large part to a better-than-expected jobs report combined with massive positive revisions to previous monthly job totals. So far in 2013, the S&P is up 13.2%. NASDAQ is catching up, gaining 3% last week, and the Dow touched 15,000 before retreating to a new closing high of 14,974.

### **Stat of the Week: 635,000 Net New Jobs Created in Three Months**

The biggest news last week was Friday's April payroll report in which the Labor Department reported that 165,000 payroll jobs were created in April, significantly better than economists' consensus estimate of 135,000. Even more dramatically, the February report was revised to 332,000 jobs (from 268,000) and March was boosted from 88,000 to 138,000, for a newly-revised total of 635,000 net new jobs in the last three months. Meanwhile, the unemployment rate dipped to 7.5%, the lowest level since December 2008.

Friday's payroll report was significantly better than Wednesday's ADP private payroll report, which showed only 119,000 new private payroll jobs added in April, the weakest month since last September.

The biggest lesson we can learn from these monthly jobs reports is that the widely-watched job-growth total seems to matter very little. Revisions are usually huge, one way or another (usually, the revisions are up). As Gene Epstein wrote in Saturday's *Barron's*, "Much as the media and markets would like to view a freshly minted monthly number as having the finality of a market close, such figures more closely resemble out-of-focus snapshots that will take more than a year to come into better focus as multiple revisions are issued." He prefers to look at the longer-term average of 196,000 new jobs per month in 2013, which is about 10% above the 179,000 monthly average tallied during the last two calendar years, 2011 and 2012.

### **The FOMC's Meeting was Downbeat, Implying More QE to Come**

Last week's other big news came after the latest two-day meeting of the Federal Open Market Committee (FOMC) last Wednesday. Without the benefit of Friday's positive April jobs report, the FOMC said that overall U.S. economic conditions have "started to look sluggish in recent weeks." Their net-negative review of the economy made it clear the Fed will continue its \$85 billion per month quantitative easing (QE) program and its 0% interest rate policy until the jobless rate hits 6.5%. In fact, the Fed has added more than \$85 billion (more like \$91 billion) per month of monetary expansion so far in 2013.

Meanwhile, several other central banks are now planning to expand their money supply after the G-20 finance ministers and central bankers decreed two weeks ago that they supported Japan's unprecedented volume of money pumping. Last Thursday, the European Central Bank (ECB) announced it would cut its key interest rate by 0.25% to 0.5% and will "continue conducting the main refinancing operations ... for as long as necessary." ECB President Mario Draghi added that the ECB's monetary policy remains "extraordinarily accommodative," implying that he stands ready to ease even more if needed.

One excuse for ECB easing is that euro-zone business sentiment remains weak. Last week, the European Commission reported that its economic sentiment index fell to 88.6 in April, a five-month low. The cloud over Europe got even darker when the European Commission cut its 2013 GDP forecast for the 17-nation euro-zone to -0.4%, meaning that the euro-zone is expected to remain mired in a recession for all of 2013.

With central banks increasing their respective liquidity with more aggressive bond buying, yields on most sovereign bonds are falling. *The Wall Street Journal* reported on Thursday that the number of bond mutual funds that have boosted their holdings of stocks has risen to 352, based on the latest Morningstar data. With bond yields at record lows, more bond funds are turning to high-dividend stocks for income.

### **Last Week's Other Economic News Was Mostly Positive**

While the FOMC was meeting last Tuesday and Wednesday, a broad array of positive statistics was released, making the Fed's mostly-downbeat economic assessment suddenly seem like "old news."

On Tuesday, the S&P/Case-Shiller announced that its 20-city composite index rose a seasonally adjusted 0.3% in February. It is now up 9.3% in the past 12 months – the fastest pace of annual appreciation since May 2006. Excluding seasonal adjustments, the data is even better – up 1.2% in February. Overall, however, home prices remain 29% below their 2006 peak, so despite the improvement, home prices still have to rise dramatically higher before all the damage is erased.

Also on Tuesday, the Conference Board announced that its April consumer confidence index surged to 68.1, up from a revised 61.9 in March and well above economists' consensus estimate of 61.3. In addition, their consumer expectations index surged to 73.3 in April, up from 63.7 in March. This surge in consumer confidence is good news, since it implies that consumer spending could also pick up this spring, boosting second-quarter GDP growth rates.

On Wednesday, the Institute of Supply Management (ISM) reported that its manufacturing index fell slightly, from 51.3 in March to 50.7 in April, but this was essentially in-line with economists' estimate of 50.8. Since any reading above 50 signals expansion, the manufacturing sector is still growing. In addition, ISM's new orders index improved to 52.3 in April, up from 51.4 in March, while its production index rose to 53.5 in April, from 52.2 in March, nearly matching the service sector, which came in at 53.7 in April, reflecting the rapid rate of hiring in the service sector.

There aren't many key statistics scheduled for release this week, but we will hear quite a bit about monetary policy from the G-7 finance ministers and central banker governors meeting Friday in London.

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