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Stocks Rise on Positive Job Gains, Despite New Global Crises

By Louis Navellier

The S&P 500 rose 1.6% last week, with most of the increase coming Friday due to a reasonably healthy 195,000 net new jobs created in June. The overall tone of last week's other economic indicators was also positive, but foreign news grabbed the headlines once again. Specifically, the leadership crisis in Egypt lifted crude oil prices higher, while the latest crisis in Europe (this time centered in Portugal) sent bond rates up sharply among the Mediterranean "PIGS" – i.e., Portugal, Italy, Greece, and Spain.

Tensions Return to Egypt and Southern Europe

The orderly ousting of President Mohammed Morsi in Egypt on Wednesday was a surprise, but the ensuing riots and fears of a potential civil war may keep crude oil prices high (above \$100), since a State of Emergency remains in effect in the Suez and Sini provinces, which are crucial to crude oil traffic.

Another concern influencing financial markets was that Portugal's 10-year bond yields surged by about 1.4% to 7.88% in intraday trading early last week before settling down to 7.385% on Wednesday. The bond surge came in reaction to the surprise resignation of Finance Minister Vitor Gaspar, raising fears that the escalating political crisis in Portugal will spread across Southern Europe. Based on those fears, 10-year bond yields also rose sharply elsewhere, to 4.52% in Italy, 4.74% in Spain, and 11.31% in Greece.

Speaking of European interest rates, the European Central Bank (ECB) said last Thursday it will keep its key short-term euro interest rate at 0.5% for "an extended period." This phrase broke previous ECB precedence of not providing any forward guidance. Hence, it came as a bit of a shock to ECB observers.

Also on Thursday, the Bank of England pleasantly surprised financial markets when it said it would not raise its key interest rate – which remains at a record low 0.5% – anytime soon. The new head of the Bank of England, Mark Carney, said the British economic recovery is on track but is "weak by historical standards." That comment immediately caused the British pound to drop 1.2% vs. other major currencies.

Over in Asia, the Chinese economic "miracle" continues to sputter. The official Purchasing Managers Index (PMI) – which is notoriously optimistic, since it is controlled by Beijing's rosy expectations of continued rapid growth – sank to 50.1 in June, down from 50.8 in May. (Any number below 50 signals a contraction.) Meanwhile, the competing HSBC China PMI, which appears to be more objective to most observers, was 48.2 in June, down from 49.2 in May. Part of China's slowdown comes from artificially high interest rates instituted by China's central bank in an attempt to stop real estate speculation. That medicine seems to be working, so a return to normal interest rates should help China's growth revive.

Stat of the Week: 195,000 New U.S. Jobs Created in June

Friday's June payroll report, released by the Labor Department, tallied 195,000 net new payroll jobs, significantly above economists' consensus estimate of 160,000 new jobs. Virtually all of June's job growth was in the service sector, as manufacturing shed 6,000 jobs and government lost 7,000 jobs.

The Labor Department also revised its April and May job figures upward by a combined 70,000 jobs, to 199,000 and 195,000, respectively. That means we've now seen an average of 202,000 new jobs created each month in the first half 2013 vs. 183,000 per month in 2012, so the job growth rate is picking up a bit.

On the negative side, too many of these new jobs are part-time. The average workweek remains at 34.5 hours in June, which is too low to create the kind of robust job growth we need. The economy needs to create 300,000 or more jobs per month to substantially reduce the unemployment rate to below the Fed's new target of 7%. The jobless rate remains stuck at 7.6%, while the broader U-6 rate (including part-timers looking for full-time work and discouraged workers) surged to 14.3% in June vs. 13.8% in May.

Due to these negative details in the job report, the Fed's \$85 billion-per-month money pump will likely remain in force for the foreseeable future. I do not expect any "tapering," despite CNBC and *The Wall Street Journal* saying the Fed may cut back on QE later this year. This fear of "tapering" has caused the 10-year Treasury bond yield soar, reaching 2.725% on Friday, up from just 1.6% at the start of May.

Speaking of jobs, I can't ignore another important development that influences job growth – namely, the threatened implementation of that part of the Affordable Care Act requiring businesses with 50 or more employees to provide healthcare insurance. This has the unintended consequence of causing firms to hire more part-time and contract workers, while discouraging the hiring of that 50th full-time person.

Last week, President Obama delayed the corporate insurance mandate until 2015, instead of the original 2014 mandate. Why? Various health exchanges are behind schedule, especially the national exchange, but a more likely reason is that the President is delaying this unpopular move until after the 2014 election.

Meanwhile, the individual mandate remains in place, so U.S. residents must acquire "minimum essential" healthcare insurance by 2014 or pay a penalty. Unfortunately, the largest healthcare insurance company, UnitedHealth Group, said last week that it would not provide individual health insurance in California after 2013. Also, the third largest health insurance company, Aetna, announced in June that it would not provide individual health insurance in California. An added problem is the cost of this individual health insurance, which has skyrocketed to \$8,000 per year in some states. As a result, many young people may choose to pay the penalty, which ranges from \$95 to \$285 in 2014, or \$325 to \$975 in 2015. This fee may be a more affordable option for cash-strapped young people, making universal healthcare an elusive goal.

Most Other U.S. Economic Indicators are Also Positive

The other economic news last week was generally good, especially the Institute of Supply Management (ISM) manufacturing index, which surged to 50.9 in June, up from 49.0 in May – the weakest reading in four years. Some of the key components of the ISM index were also encouraging: New orders rose to 51.9 in June, up from 48.8 in May, while Production surged to 53.4 in June, up from 48.6 in May. Since any reading above 50 signals expansion, this rise back above 50 was greeted with a sigh of relief.

Also on Wednesday, the Commerce Department announced that the U.S. trade deficit rose 12.1% in May. Imports rose 1.9% and exports fell 0.3%. This was the biggest surge in the trade deficit since May 2011 and will likely cause economists to cut their second quarter GDP estimates to 1.8% or lower.

I wouldn't be too worried about this monthly figure, since these wide monthly variations in trade figures revolve around the varying strength of the U.S. dollar vs. the yen, euro, and other currencies from month to month. We've seen wide swings in the dollar in the first half of 2013. In May, for instance, the dollar index (DSX) reached its first-half peak of 84.35. A strong May dollar hurt U.S. exports that month. For instance, exports of U.S. agriculture products in May were the lowest since September 2010. Also, the U.S. imported a record amount of autos and auto parts in May due in part to a weak Japanese yen, which allowed Honda, Nissan, and Toyota to be more competitive, reducing vehicle prices to U.S. customers.

On Friday, the dollar strengthened on the positive jobs report – on the theory that the Fed might "taper" monetary easing sooner than expected – but I think the negative details within the jobs report will not escape the Fed's detection, so the Fed will continue with its monetary easing policies for the time being.

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