**Weekly Commentary** **August 5, 2016**

JEREMY SIEGEL .com

## Strong Jobs sends Stocks to New Highs, Keeps December Hike Alive

### Friday 4:20 p.m., EDT

A strong employment report keeps December very much in play for a Fed rate increase. I still do not think September is in the cards. To be sure, the payroll numbers were strong, but the wage increases and the unemployment rate are not at all "scary" for the Fed. Again, thanks to an increase in the participation rate, the strong jobs number (which was matched in the household survey) was equaled by an increase in those seeking work, keeping the unemployment rate at 4.9%, the lower end of the Fed long-term target. Wages did increase 3 tenths (one tenth over expectations) but the year-over-year increase of 2.6% is not inflationary and in line with expectations. Furthermore, the inflation numbers are not at all threatening as oil has now dipped back down to the $40 range, more than 20% below its recent high. This has been reflected in gasoline prices which have declined by 11% over the past 8 weeks after rising nearly 40% from February through June. Unless we get some very threatening CPI/PPI numbers in coming weeks or the August payroll turns out extremely hot, the Fed will prepare the markets, but not move in its post Labor Day meeting. It should be noted that the recent payroll gains are still above the 50k to 75k that economists estimate are needed to keep up with the growth of the labor force. So these increases are not sustainable in the long run and are the rationale for raising rates.

Stocks rallied to new all-time highs on today's report, with the S&P 500 up 0.85%. It is encouraging that investors are putting more weight on the favorable earnings implications of the report than to the fact that interest rates have jumped as probabilities of a hike later this year have increased. The ten year treasury yield has jumped 9 bps, but still remains in a very accommodative 1.59%. The dividend yield on stocks is still well above this rate so fixed income still does not present a serious challenge to equity holders. If the strength indicated in today's labor report can spark a much stronger second half (early estimates of Q3 GDP growth are up 2.6%), this can certainly drive stocks higher. Another bullish factor: Everyone's fear of another "August swoon" (even I predicted a small correction) has created a large short position in stocks.

Political Update: Trump's recent collapse in the polls after a strong showing following the RNC is one of the sharpest turnarounds is polling history. It stems from a combination of a Democratic Convention bounce and controversies that Trump himself has generated that have not served him well in public opinion polls. But we still have more than 3 months until the election. Although current betting markets are giving RHC a 75% or more chance of winning, I expect more volatility in coming weeks.

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