July 8, 2016,

Irrational Exuberance? Dow Jumps 220 Points as Payrolls Bring Relief

By Ben Levisohn

Stocks are flying today after today's blockbuster payrolls report. Is the market getting too excited?

The S&P 500 **has gained 1.3% to 2,125.55 at 1:17 p.m. today, while the** Dow Jones Industrial Average **has risen 219.78 points, or 1.2%, to 18,115.66. The** Nasdaq Composite **has climbed 1.5% to $4,947.37**.

The **Economic Outlook Group's Bernard Baumohl** warns investors to avoid "excessive exuberance" following the June payrolls report:

> "Let's get past the first obvious reaction to the latest jobs report. Whew! The 287,000 spike in June payrolls was a big surprise and huge relief to be sure. But when it comes on the heels of a month that saw hiring slump to shockingly low 11,000, well… then perhaps a more sobering assessment is called for to better understand what is really going on in the US labor market.
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> The June rebound, whether you look at total payrolls or just private sector hiring, was the largest one month gain since last October. Business hiring alone shot up 265,000 in June, certainly a positive trend. But hold the Champagne! That hefty figure came after an actual net loss of 6,000 jobs in May – the first monthly drop in more than 6 year! Such wild swings are telltale signs of economy of an erratic course."

MKM Partners' Michael Darda worries that the Fed could still upend U.S. growth:

> The implication here should be clear: any form of fiscal stimulus now would simply be met with full monetary offset (i.e., the Fed tightening to block the impact). Yes, the Fed has moved to the sidelines for now given uncertainty about how much the jobs trend has actually slowed. But make no mistake, anything that pushes growth back up in a

> sustained way would be met with tighter money from the Fed. To argue otherwise is to live in a parallel universe, in our view. In short, the Fed seems perfectly happy with a 4.9% U3 rate and a 9.6% U6 rate (despite the prime age employment to population ratio still nearly 200 bps below its two-decade pre-crisis average). Absent acceleration in productivity growth or the growth rate of the working age population, sustained growth at the low end of the six year range (about 3% nominal) is likely to be as good as it gets. In any event, there are a few red flags to keep an eye on. The six month average for temporary help employment (a leading indicator) has sunk into negative territory despite jobless claims hovering near cycle lows. The NFIB Small Business Hiring Plans Index, also a leading indicator, has been range bound for two and one half years. With NGDP growth on the low end of the six year range and inflation breakevens on the floor, Fed Chair Yellen would be well served, in our view, to beat back the Fed hawks who will unwaveringly want to put the FOMC back into near-term rate hiking mode given today's "strong" data.

And we wouldn't want that, would we?

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