Wealth Management International, Ltd.

Proactive Investment Management & Financial Planning

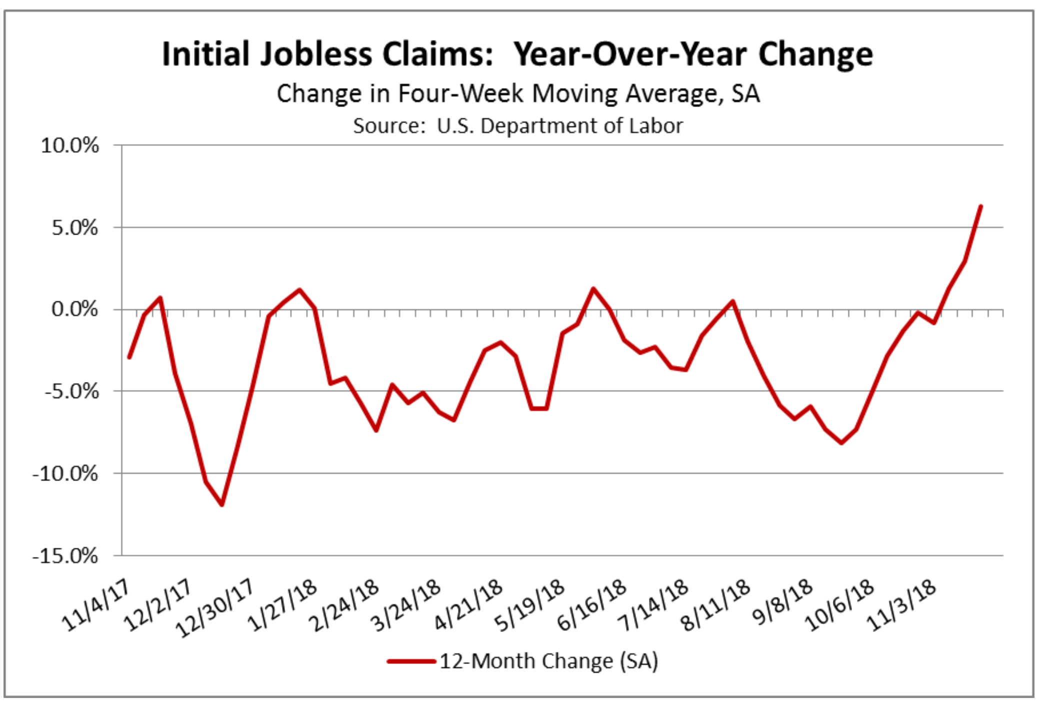
Economic Chart of the Week

December 5, 2018

On balance, the U.S. labor market remains very strong, so consumers are spending a lot and driving the economy forward. That gives us more confidence that stocks can keep rebounding from their recent correction and maybe even rise to a new series of record highs in the coming months. Nevertheless, we have recently noticed one area where the labor market may be flashing a warning sign.

The Labor Department's weekly report on "initial jobless claims" tracks first-time applications for unemployment benefits, so it's widely considered to be a measure of layoffs. To smooth out some of the volatility in the series, people often focus on the four-week moving average of claims. That figure fell to a nearly 50-year low of 206,000 in mid-September. Layoffs seem to be extraordinarily low, indeed! The problem is that even though the four-week average of claims remains historically low, it has recently been rising again. In fact, as shown in this week's chart, the four-week average is now up a full 6.3% from a year ago. Some of the rise in initial claims could reflect damage from this autumn's hurricanes, or perhaps problems with the seasonal adjustment process. However, it might also reflect longer-lasting issues. For example, the rise in initial claims might reflect layoffs resulting from the on-going trade war, or firms shedding workers as they struggle with rising wage rates and other input costs. We still think the stock market can rebound from its current level, so we don't want to cut our stock exposure below the modestly under-weight positions we're maintaining at present. All the same, if initial claims continue to rise, investors could suddenly have a "Wile E. Coyote moment" in which they realize the stock market is losing its most important economic foundation. That could spark a significant sell-off, so we'll be closely watching the initial claims data and other labor-market indicators to see if we should cut our stock exposure again, even if it's earlier than planned.

Patrick Fearon, CFA
Chief Investment Officer



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