Weak Jobs Report Sends Mixed Signals



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Dan Laboe here, Editor of the Headline Trader, covering for Jim the Whiz Giaquinto, who should be back in action on Tuesday after Labor Day.

The public equity markets were quiet going into this long holiday weekend, as the irony of a bad jobs report on the eve of Labor Day weekend reverberated in investors' indecision today. The low volumes and muted price action on what should have been a market-moving morning of data (nonfarm payroll Friday) lead me to believe that bigshot (equity-focused) money managers are already on their yachts. On the other hand, fixed-income activity was vibrant as bond investors moved on

the inflationary implications of one of this morning's employment figures.

The only sector that saw any growth today was technology with mega-cap tech and semiconductors powering the Nasdaq 100 up over 30 basis points for another record close. This tech-focused rally kept the S&P 500 buoyant, with the trillion-dollar club (AAPL, MSFT, AMZN, GOOGL, & FB) now making up over 20% of this index, closing the session just a couple basis points below even. The Dow Jones traded two-tenth of a percent lower. This economically sensitive index has moved effectively sideways for nearly a month now, as the Delta-dent weighs on its performance.

As I mentioned yesterday, inflows into nothing but mega-cap tech is an indication of indecision. This cohort's boundless liquidity, decades of proven outperformance, and endless profitable growth make it a perfect place to park your coin when you don't know what else to do with it.

The August Jobs Report

The Delta-dent showed its colors in this morning's disappointing (to say the least) August jobs report. The US economy only added 235,000 new jobs this past month (the slowest monthly jobs improvement since January), missing economists' 720,000 consensus estimate by a mile. At the same time, the unemployment rate dropped to a post-pandemic low of 5.2%, a material improvement from July's 5.4% and January's 6.3%.

There was also a sizable uptick in average hourly earnings this past month, demonstrating a 0.6% jump from July (the largest monthly increase since this gauge was established) and a 2.2% increase from pre-pandemic levels. The accelerating wage expansion that we've seen since March is a sign of sticky inflation and had bond traders selling longer-dated assets on the notion that the Fed may have to initiate liftoff (rate

hikes) sooner than they think to control prices.

The August jobs report sent the bond market into a frenzy with the US 10-Year yield drop off a 2.5% wall in the first 30 seconds of the headline number's release only to slingshot 5% higher in the 30 minutes that followed. T-Bill traders had some initial confusion on how to react with mixed feelings about the Fed's monetary plan moving forward.

The report almost certainly pushed the timeline for an asset taper announcement from the Fed past the upcoming September meeting and likely to the November meeting. The Fed's $120 billion asset purchase program will still likely begin paring before the year is up. On the other hand, the timeline to liftoff was just pushed up on the accelerating growth of hourly wages, something that Chair Powell has stated explicitly as a concern.

These implications had a steepening effect on the yield curve with all T-bills with a less than 2-year maturity seeing yields fall on the notion of a delayed taper, and treasuries with maturities of 2 years or longer all saw yield spikes on inflation concerns related to wages.

The Headline Jobs Data May Not Be That Concerning

Hiring took a summer holiday with the latest wave of the COVID-variant significantly slowing the jobs market. Leisure & hospitality, construction, government schools, and retail all weighed on August's employment data. Reinstated COVID restrictions and an overheated housing boom catalyzed 0 net new jobs in leisure & hospitality and net employment declines in construction, government schools, and retail (which was by far the biggest laggard). Still, employers are somehow struggling to fill positions.

This unexpectedly large deceleration in August may not be as concerning as the headlines lead you to believe. Nearly 12 million people who have recently been relying on the

government’s COVID support will no longer receive the additional unemployment benefits after this long holiday weekend. This change in fiscal policy will leave 7.5 million people receiving aid under the qualification of long-term unemployed, self-employed, gig workers, freelancers, and anyone else who would usually be ineligible for state benefits, with nothing to lean on after September 6th.

This should inspire a flood of job seekers looking to get back into the workforce and push the health of our jobs market towards the “substantial further progress” that the Fed is looking for to give its tapering announcement the nod.

Portfolio Highlights:

The Surprise Trader: Ahead of this long weekend, Dave saw a pre-earnings opportunity in Restoration Hardware (RH) and added it to the portfolio with a 12.5% allocation. RH is a Zacks Rank #3, but Dave sees an upside surprise opportunity going into this company’s earnings next week (after the bell Wednesday, September 8th). RH hasn’t missed on earnings for as far back as we can see and has seen significant upside price action following its past three reports. Analysts’ Consensus EPS estimate sits at $6.58, but Dave sees a high probability chance of a sizable beat following its previous quarter’s earnings which came in 16.4% above expectations.

Counterstrike: TJX (TJX), owner of TJ Maxx, Marshalls, HomeGoods, Sierra, and Homesense, revealed an outstanding July quarter that blew past analysts’ expectations, driving this stock into a Zacks Rank #1 (Strong Buy). TJX saw a 10% rally in the week that followed its report last month but lost some momentum after hitting overbought RSI levels in the past week. Jeremy sees an opportunity to jump into this leading off-price retailer as it comes down to a Fibonacci-derived support level around $71.50. Jeremy is looking for an $82 target or nearly 15% upside from where it is trading today.

Blockchain Innovator: Dave pulled profits on Air Transport Services (ATSG) for an over 35% gain in just over four months, outperforming the S&P 500 by 28%. This sale was triggered by the stock's inability to get past the high $20s, where it continued to see resistance.

Have a great long weekend!

Dan

Recommendations from Zacks' Private Portfolios:

Believe it or not, this article is not available on the Zacks.com website. The commentary is a partial overview of the daily activity from Zacks' private recommendation services. If you would like to follow our Buy and Sell signals in real time, we've made a special arrangement for readers of this website. Starting today you can see all the recommendations from all of Zacks' portfolios absolutely free for 7 days. Our services cover everything from value stocks and momentum trades to insider buying and positive earnings surprises (which we've predicted with an astonishing 80%+ accuracy). Click here to "test drive" Zacks Ultimate for FREE >>

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