Is Strong Economic News Good or Bad for Markets?

Last week's strong jobs report had the market up at the open, but it faded quickly. We believe many investors are concerned that the Fed is bound and determined to raise rates multiple times this year. Stronger jobs reports give them confidence in their Phillips curve view that low inflation is transitory, and that economic growth is still solid. The market believes that multiple increases by the Fed would increase the odds for a recession, therefore, strong economic news that supports Fed increases is bad for the market. On the chart below, the red line shows YOY hourly wages up 2.5%. We view this strong economic news as supporting further Fed rate increases.

Two more important factors to watch are oil prices and credit spreads. With oil prices falling below $35, and credit spreads back at their 2015 highs, the market is likely poised for continued volatility in 2016. Any combination of higher oil prices, lower credit spreads or the Fed backing off its prediction of 3-4 increases this year should help the market.

Average Hourly Earnings (red line) And Monthly Earnings Percentage Change (blue bars) All Workers

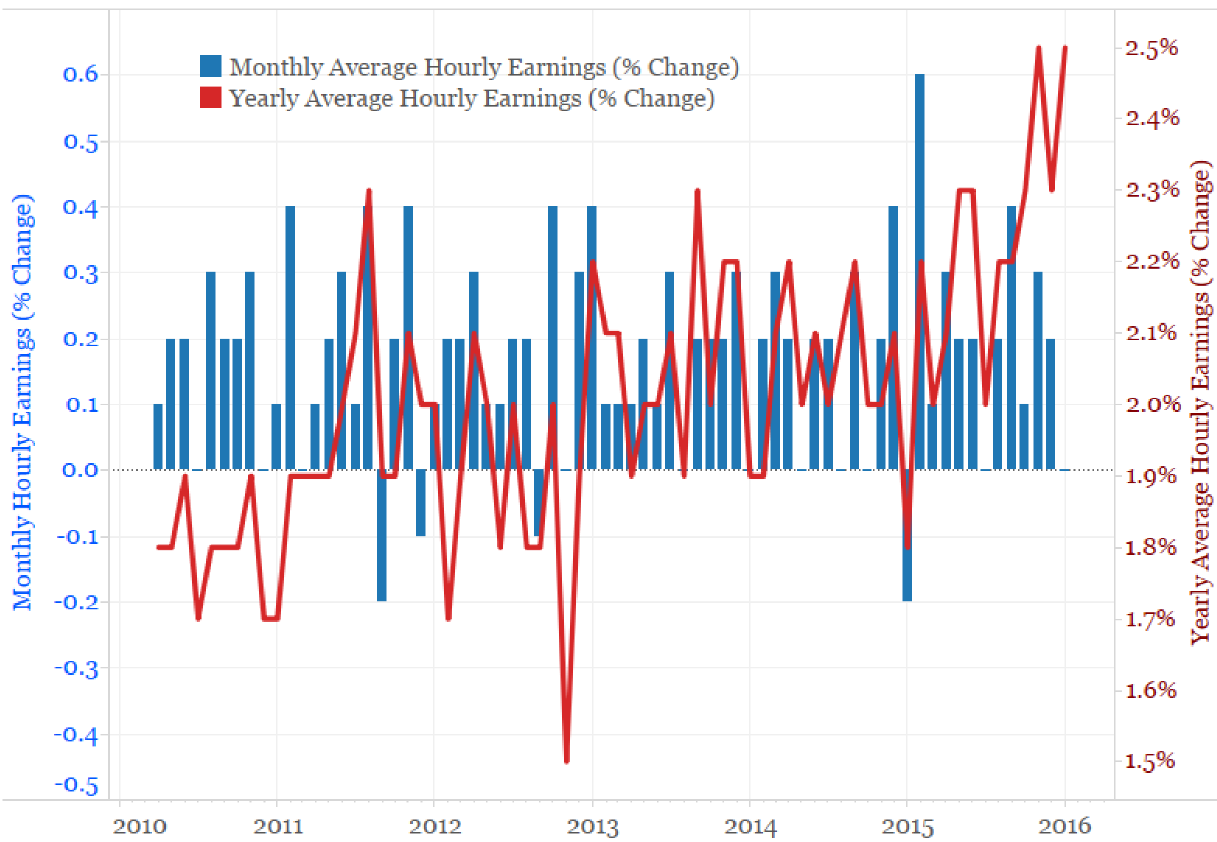

Chart Source: Bianco Research, LLC