Wentz Weekly

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Job Gains Accelerate in June, First Half 2021 Ends Strong

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The U.S. added 850,000 jobs in June, according to the Department of Labor, stronger than the 700,000 job gains expected by economists. Job gains were driven by a 343,000 increase in leisure and hospitality jobs as well as a seasonal adjustment in the education sector where 268,000 jobs were added. One surprise was construction losing 7,000 jobs in the month, however that was likely due to a shortage of materials, holding back the sector. Since May 2020, when over 22 million jobs were lost due to the pandemic, the U.S. has added back almost 16 million and remain about 6.8 million jobs below the level where it was in February 2020. In addition, still 3.5 million are collecting state unemployment benefits while still over 11.2 million are collecting pandemic unemployment benefits from the federal government. As we previously mentioned, we expect to see a sharp drop in these numbers as over half the states decided to end the enhanced benefit in attempt to alleviate the labor shortage.

While jobs gains accelerated, the pace of wage growth slowed slightly in June. Wages increased 0.3% in the month, slightly below the expected increase, with wages up 3.6% from the same month a year ago, driven by base effects. However, we still believe wage increases will lead to inflationary pressures and a headwind for investors. For one, wages are increasing at a higher pace in lower paying jobs, which holds less weight on the headline number. According to data from the DOL's employment report, the average wage gain in leisure and hospitality jobs was 1.0% in June and 7.1% from the same month a year ago. In addition, per the personal income report from the BEA two weeks ago, the wages component of personal income rose 0.8% in May and is up 5.0% from the same month a year prior, indicating an acceleration in raises for some workers. We will continue to monitor the data as it is released, but for now we believe the Fed will remain on hold at its next meeting toward the end of the month and potentially announce something in regard to tapering at its Jackson Hole event in August with the first rate increase at some point in 2022.

The first half of 2022 was full of headlines, dominated by a new administration in the White House, the so called "meme stocks" and surge of the retail trader, a third round of fiscal stimulus driving a spike in income and spending, the rollout of vaccines leading to the economic reopening, several infrastructure and tax increase proposals with many disagreements, and inflationary concerns leading to more pressure on the Fed. All of this resulted in the S&P 500 gaining 14.4% and rising at least 5% for five consecutive quarters for the first time since 1954. According to Barron's, the S&P 500 finished higher five months in a row with the fifth month finishing at a record high. This has occurred 17 times in history and the index was higher one year later all 17 occurrences. We think it will still be a bumpy ride for the remainder of the year but remain bullish equities as we believe we are in the middle of a secular bull market.

A scheduled Thursday meeting between OPEC members was extended into Friday and again into Monday as some members failed to come to an agreement about how much production to bring back online. The price of crude oil rose to its highest level in six years Monday morning after the OPEC meeting was called off. After initially coming to an agreement last week to bring an additional 2 million barrels per day, or an additional 400k barrels/day each month, through the end of the year, the United Arab Emirates refused to support the Saudi Arabian backed deal. UAE is reportedly asking to produce more of its oil under its own arrangements as global demand nears pre-covid levels. Per the WSJ, UAE is expecting to get a better deal by holding out, and if OPEC does not reach a deal that will free up the UAE to pump more oil and damage OPEC's reputation of controlling the global supply of oil. As of Monday, a new meeting date and time was not determined.

We know from recent housing reports the housing market remains very strong with the pace of new and existing home sales at the highest rate since the 2000s housing boom. The strong sales pace and very limited supply of homes is however leading to an acceleration in the sales price of homes. The S&P Case Shiller Home Price Index data lags by a month, but the latest data shows home prices accelerated again in April with the year-over-year rate now at 14.6% (accelerating from 13.3% in March), the highest annual growth in home prices in the 30 years the data has been collected (even higher than pace during the 2000s housing boom). On a monthly basis, prices were up 1.6%. All 20 cities tracked saw accelerating prices with all seeing price gains in the top decile of historical data and 5 of the 20 seeing record increases including Cleveland. Phoenix continues to lead the way for the 23rd straight month (up 22.3% y/y), followed by San Diego up 21.6% and Seattle up 20.2%. The slowest increase was in Chicago at +9.9%, Minneapolis +11.3%, and Vegas +12.5%. The average home price in Cleveland is +13.3% higher than a year ago.

Company News

- Robindhood Financial was fined $57 million and ordered to pay $12.6 million in restitution by FINRA for false or misleading information the firm issued to its customers. It is the largest penalty FINRA has ever given.
- United Airlines said it made its largest ever order of new jets, ordering 270 Boeing planes including 200 737 MAX jets, worth over $30 billion. The company will also hire over 25,000 new employees.
- Memory chip maker Micron reported quarterly results last week that beat expectations with revenues growing 36.4% from a year ago. The company also announced the sale of its Utah chip factory to Texas Instruments for $900mil in cash. Management said it expects both NAND and DRAM chip demand to grow at least 20% for the remainder of the year.

The Week Ahead

It will be a holiday shortened week after the U.S. markets were closed Monday in celebration of Independence Day. It will be a much quieter week for both corporate news and economic data. On the earnings calendar the only notable reports are Levi Strauss on Thursday and Greenbrier on Friday. Second quarter earnings season will begin next week and the reporting season kicks off with some of the large banks toward the second half of the week. Economic data reports for the week include the job openings and labor turnover survey on Wednesday along with the release of the Fed's most recent meeting minutes, followed by weekly jobless claims figures on Thursday. On Friday, G-20 finance ministers and members will meet in Venice for its next summit. A hot topic will likely be the global minimum corporate tax that many countries have agreed to back.