

Weekly Commentary by Professor Jeremy J. Siegel

Disappointing Labor Report will not Break Bullish Stock Trend

9:05 a.m. EDT, 1/7/2011, Philadelphia PA



Today's labor report was somewhat disappointing, especially after the sparkling ADP report on Wednesday. Private sector added 113,000 jobs, short of the 178k consensus. But October and November jobs data were revised upward by 70k, so that jobs created over the last 3 months were on target.

A big surprise in the report was the drop in the unemployment rate to 9.4%, the lowest since May 2009. The household survey, from which the unemployment report is derived, reported a gain of almost 300k jobs and the labor force shrank modestly. The household survey is not nearly as broad as the establishment (or payroll) survey and therefore carries less weight for forecasters. The participation rate (or the percentage of those aged 16 and over looking for work) dropped to 64.3%, the lowest in more than 25 years.

All other data were nearly in line, as manufacturing payrolls gained 10k (5k above estimates), and hourly earnings rose 0.1%, one tick below estimates. For the year average hourly earnings rose only 1.8% and this is the major reason why broad-based inflation has remained tame despite the rise in commodity prices.

As anticipated, S&P futures fell and bonds rose on today's data, but this is no way breaks the bullish trend in stocks. Virtually all other economic indicators have been above expectations. Forecasters' estimates for S&P 500 operating earnings are now \$94.79, above the all time high reached in 2007 when the index reached 1575, about 25% higher than today. Furthermore interest rates are far lower than 3 years ago and the quality of earnings, measured as the difference between reported and operating earnings, is very high.

This means that the bull market has further to run. A major factor keeping a lid on stock prices is the growing crisis in Europe, where the sovereign bonds of the peripheral euro countries continue to hit new lows. I believe there will be some major defaults in Europe this year, but this will not be a substantial negative for U.S. or Asian equities. Despite Europe, forecasters are continually raising their estimates of GDP growth in the U.S. and Asia and the capital markets agree. Look for a further rise in equity prices.

Professor Jeremy Siegel is a Senior Investment Strategy Advisor to WisdomTree Investments, Inc., and WisdomTree Asset Management, Inc. He is also a registered representative of ALPS Distributors, Inc. This article speaks of his research and expresses his opinions and is not to be considered a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product, and it should not be relied on as such. The user of this information assumes the entire risk of any use made of the information provided herein. Neither Professor Siegel nor WisdomTree nor any other party involved in making or compiling any information makes an express or implied warranty or representation with respect to information in this article.

Past performance is no guarantee of future results.