Weekly commentary by Professor Jeremy J. Siegel

Finally a Superb Labor Report; Significant of B of A TARP Exit.

8:55 a.m. EDT, 12/4/2009, Philadelphia PA

Dramatically better-than-expected labor market news sends equity markets sharply higher and bonds lower. Not only was the November loss much less than expected, but September and October losses were revised sharply downward and the unemployment rate dipped to 10.0%. The number of hours also jumped to 33.2, the highest in many months. Even the household employment came in positive at 227k. These data confirm the excellent numbers we have been receiving for the last two weeks on jobless claims.

I believe that this news should be enough to send the equity market to new 14 month highs and keep stocks moving higher. The reaction in the bond market, especially short-term governments has been severe, with the 2 year now up 12 bps. Readers of this newsletter know that I have long taken the position that the Fed will be forced to tighten sooner rather than later, and the market is now seriously assessing that possibility. The rise in bond rates will moderate, but not eliminate, today's rise in equities.

Labor market aside, I thought that the news of the B of A repayment of TARP funds was of significance. B of A was considered second most vulnerable bank, after Citi, and last year many did not think it could be saved. That B of A is able to raise significant capital to extricate itself from government control 12 months later is remarkable and clearly raises the odds that Citi too will survive. If that is the case, that means that all the major bank recipients of TARP will be able to repay government loans at no loss to taxpayers. This however does not mean that AIG will make it, or certainly Fannie and Freddie, and of course the money the government put in non-financial firms such as GM and Chrysler is lost forever. But it does mean that ultimate cost of the TARP may be significantly less than many feared.

Surprisingly, financials sold off yesterday despite the B of A move. Part of the reason is that the banks will have to raise billions of dollars of equity capital and the government may have to sell millions of shares of bank shares and warrants it owns if the banks exit from TARP. Nevertheless the B of A news does mean that management sees a substantial improvement in its profit potential.

Next week, as usual, is slow after "employment week." The market will digest the long-awaited gains in the labor market and watch Christmas sales. The reduction of fear of losing one's job is the most powerful stimulant to consumer spending and let's hope these labor market data do just that.
