

## What Did the May Jobs Report Show Us?

Weekly Update – June 6, 2016

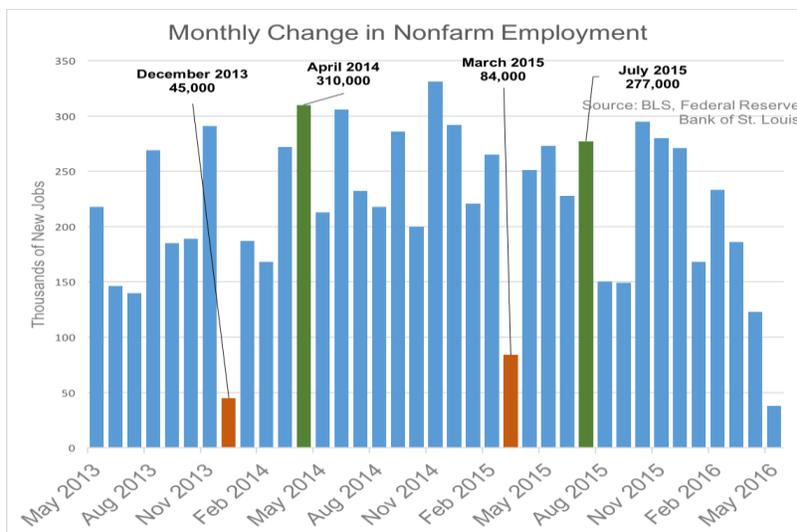
Stocks closed the holiday-shortened week mixed, with some sectors losing ground while others gained after a disappointing May jobs report signaled that the economy may not be strong enough for the Federal Reserve to raise rates this month. For the week, the S&P 500 ended flat, the Dow lost 0.37%, the NASDAQ increased 0.18%, and the MSCI EAFE added 0.13%.<sup>1</sup>

On Friday, we got a look at how the labor market did in May. Analysts looked to the report to see whether the labor market would give the Fed the ammunition it needed to move at the June meeting. Here are a few things we took away:

### Job growth disappoints...but it has happened before

The economy created just 38,000 new jobs last month, the worst showing since September 2010. The number of new jobs sharply missed expectations, which called for around 160,000 new jobs.<sup>2</sup> However, seasonal factors, like a massive Verizon worker strike, which took 34,000 workers out of the count, were at play and may have affected hiring numbers.<sup>3</sup>

The labor market has suffered temporary setbacks before. For example, in December 2013, the economy added a paltry 45,000 jobs; four months later, the economy gained 310,000 jobs. In March 2015, the labor market added just 84,000 jobs; in July, 277,000 new jobs were created.<sup>4</sup>



## Labor market trends may slow job creation

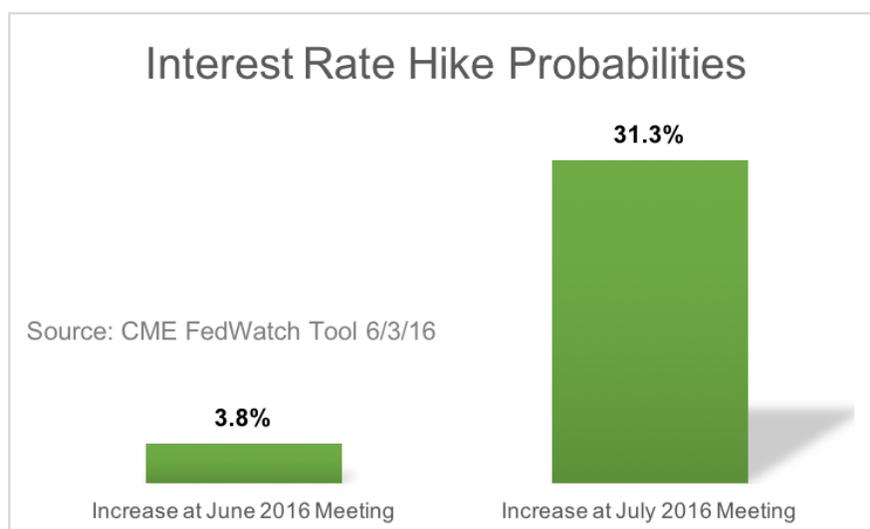
The jobs report showed that the unemployment rate fell to 4.7%, the lowest since November 2007. However, much of the decrease occurred when jobseekers dropped out of the job search. As we approach full employment (some may argue that we're already there), the effects of having fewer jobseekers begin to be felt by employers. Employers who are hiring may struggle to find qualified candidates due to skill mismatches, a problem that's likely to continue to affect certain industries.<sup>5</sup>

These issues affect job creation in a "mature" labor market recovery. One industry expert projects that monthly job growth will average 175,000 for the rest of 2016.<sup>6</sup> In comparison, monthly job increases averaged 251,000 in 2014 and 229,000 in 2015.<sup>7</sup>

Can the slower pace of hiring support the consumer spending the economy needs to grow? Perhaps, if wages continue to grow. Wages were up 2.5% in May as compared to a year ago, which is a better pace of growth than we have seen.<sup>8</sup> Another measure of wage growth favored by economists, the Employment Cost Index (ECI), shows that wages were up 2.4% (year-over-year) in the first quarter.<sup>9</sup> A third measure calculated by the Atlanta Fed shows a rosier 3.4% annual increase in hourly wages in April.<sup>10</sup> You can bet that the Fed will be looking at all three measures when deciding if wage growth is strong enough to support consumer spending this year.

## The Fed may not raise rates in June

The weak report also may have reduced the odds of a June interest hike by the Federal Reserve, though some analysts think that other positive economic indicators might give the Fed the confidence to act. Right now, the market is pretty convinced the Fed won't raise rates in June; one measure shows that the current market probability of a June hike is just 3.8%, while the probability of a July hike is 31.3%.<sup>11</sup>



## Our view

Overall, does the weak May jobs report signal weakness in the U.S. economy? Perhaps, though it's far too soon to sound the alarm. Since other economic indicators like Gross Domestic Product growth, housing market activity, and personal spending all point to positive growth, it's not likely that one weak report spells disaster for the economy.<sup>12</sup> Rather than fixate on a single piece of data, it's more important to look at overall economic trends.

Looking ahead, we're expecting investors to take stock of the dismal jobs report and perhaps hit the brakes on the three-month rally we've experienced. Summer tends to be a slow season for markets as many traders take time off and stocks can overreact to headlines. A small pullback in the weeks to come wouldn't surprise us, though traders could also shrug off the report. While weak data always sidelines some investors, long-term investors should focus more on their goals and less on short-term market swings. As always, we'll keep you updated.

## ECONOMIC CALENDAR:

**Monday: Janet Yellen Speaks 12:30 PM ET, Janet Yellen Speaks 2:00 PM ET**

**Tuesday:** Productivity and Costs

**Wednesday:** JOLTS, EIA Petroleum Status Report

**Thursday:** Jobless Claims

**Friday:** Consumer Sentiment, Treasury Budget

Data as of 6/3/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	0.00%	2.70%	-0.71%	12.29%	6.29%
DOW	-0.37%	2.19%	-1.49%	9.31%	5.83%
NASDAQ	0.18%	-1.30%	-3.07%	16.17%	12.27%
U.S. Corporate Bond Index	0.87%	5.91%	6.20%	5.39%	7.65%
International	0.13%	-2.64%	-12.85%	-0.40%	-1.05%
Data as of 6/3/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.19%	0.43%	0.60%	1.23%	1.71%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance, S&P Dow Jones Indices, and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the SPUSCIG. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

## HEADLINES:

**Motor vehicle sales slump in May.** The latest data shows that fewer selling days and lower foot traffic hurt U.S. auto sales last month.<sup>13</sup>

**Construction spending falls in April.** Spending by construction firms on residential, government, and nonresidential projects declined, surprising economists who had expected a slight overall increase.<sup>14</sup>

**Factory orders beat expectations.** April orders for U.S. manufactured goods grew by the largest amount in six months, though much of the growth came from volatile commercial aircraft orders.<sup>15</sup>

**Personal spending surges in April.** Spending by American consumers grew more than expected while personal income increased in line with expectations, showing that consumer spending is off to a good start in the second quarter.<sup>16</sup>



*"Generating creative work is not for the faint of heart."*

– Julien Jarreau



### Plum Upside-Down Cake



*Get the most out of seasonal fruit with this simple cake.*

Serves 8

#### **Ingredients:**

1/2 cup (1 stick) plus 1 tablespoon unsalted butter. Save the wrapper to butter the pan.  
4 firm, ripe plums, each cut into 8 wedges (No plums? Try peaches, apricots, or nectarines.)  
1/4 cup plus 2/3 cup white sugar  
1 cup all-purpose flour

3/4 teaspoon baking powder  
1/4 teaspoon baking soda  
1/4 teaspoon Kosher salt  
1 large egg, room temperature  
2/3 cup whole fat sour cream or whole milk yogurt  
1 teaspoon pure vanilla extract

**Directions:**

1. Pre-heat your oven to 350° F. Grease an 8-inch cake pan with the butter wrapper or additional butter and line it with parchment paper.
2. In a skillet, melt 1 tablespoon of the butter over medium heat and add the sliced plums and 1/4 cup sugar. Toss the fruit in the butter and cook 3 to 4 minutes until the plums soften and the juices become syrupy.
3. Pour the fruit into the pan. Using a spoon or spatula, arrange the plums in overlapping circles on the bottom. Pour any remaining pan juice over the top.
4. Whisk together the flour, baking powder, baking soda, and salt in a small bowl.
5. Using a mixer, beat the remaining butter and sugar until whipped. Mix in the sour cream, egg, and vanilla until fully combined. Gradually add in the dry ingredients, beating the batter only until just incorporated.
6. Pour the cake batter over the plums without disturbing the bottom layer of fruit.
7. Bake the cake about 50 to 55 minutes until the center is done and a toothpick comes out clean (or with only a few crumbs).
8. Allow the cake to cool in the pan for one hour before carefully inverting onto a large plate. Peel the parchment paper off carefully.
9. Serve warm or at room temperature with vanilla ice cream or simple whipped cream.

Recipe adapted from Sara Quessenberry | RealSimple.com<sup>17</sup>



**Summer Wedding? Remember These Tax Tips**

If you or someone you love is getting married this summer, keep these important tax issues in mind. Taking care of them now can help reduce your stress at tax time.

**Change names:** IRS rules require that the names and Social Security numbers on your tax return match your Social Security Administration records. To formally change your name, file Form SS-5, "Application for a Social Security Card," with the Social Security Administration.

**Change tax withholding:** A marital status change means you must give your employer a new Form W-4, "Employee's Withholding Allowance Certificate." You should also meet with a tax professional to determine how your combined income affects your tax liabilities.

**Change filing status:** If you're married on or before December 31, you are married for the whole year for tax purposes. You and your spouse can choose to file your federal income tax return either jointly or separately each year. You may want to ask a tax professional to run the numbers to see which status results in the lowest tax liability.

For more information about filing taxes as a newlywed, consult a tax professional in your area.

Tip courtesy of IRS.gov<sup>18</sup>



### **Don't Slouch!**

Many golfers overlook the importance of great posture and get too comfortable over the ball. Slouching and arching the back makes it very hard to make consistent shots because you're not able to move athletically through the stroke. Ask a partner to watch your setup and make sure that you're keeping your back straight (but not rigidly straight) and flexing your knees slightly at address.

Tip courtesy of Doug Hammer, PGA | Golf Tips Mag<sup>19</sup>



### **Add Some Peanut Butter to Your Diet**

While peanut butter isn't a low-calorie food, it's packed with protein, heart-healthy fats and minerals critical to bone density and blood pressure. If you're looking for natural sources of potassium, magnesium, protein, and monounsaturated fats, try natural peanut butter without any added sugar, salt, or oil. Here are some easy ways to add peanut butter to your diet:

- Peanut butter with carrots and celery
- Savory Thai satay meat skewers
- Peanut butter smoothies
- Peanut butter oatmeal

Tip courtesy of AARP<sup>20</sup>



## **Avoid At-Risk Seafood**

Overfishing of many of the world's most popular fish and shellfish has led to the degradation of many wild seafood populations and habitats. Help the environment by eating sustainably harvested or raised seafood. The Monterey Bay Aquarium and the Blue Ocean Institute both offer online guides and smartphone apps that make it easier to make greener buying decisions.

Tip courtesy of The Nature Conservancy<sup>21</sup>

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*Please share this market update with family, friends, or colleagues.*  
*We love being introduced!*

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Diversification does not guarantee profit nor is it guaranteed to protect assets.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The S&P U.S. Investment Grade Corporate Bond Index contains U.S.- and foreign-issued investment-grade corporate bonds denominated in U.S. dollars.

The SPUSCIG launched on April 09, 2013. All information for an index prior to its Launch Date is back-tested, based on the methodology that was in effect on the Launch Date. Back-tested performance, which is hypothetical and not actual performance, is subject to inherent limitations because it reflects application of an Index methodology and selection of index constituents in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than, back-tested returns.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The Employment Cost Index (ECI) is a quarterly measure of the change in the price of labor, defined as compensation per employee hour worked. It is prepared by the Bureau of Labor Statistics.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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<sup>1</sup> <http://finance.yahoo.com/q/hp?s=%5EGSPC&a=04&b=31&c=2016&d=05&e=3&f=2016&g=d>

<http://finance.yahoo.com/q/hp?a=04&b=31&c=2016&d=05&e=3&f=2016&g=d&s=%5EDJI%2C+&q=1>

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<https://www.msci.com/end-of-day-data-search>

<sup>2</sup> <http://www.cnbc.com/2016/06/03/the-us-may-have-actually-lost-jobs-in-may-economist-says.html>

<sup>3</sup> <http://www.businessinsider.com/verizon-strike-jobs-report-2016-6>

<sup>4</sup> <https://research.stlouisfed.org/fred2/graph/?g=4Dic>

<sup>5</sup> <http://www.usatoday.com/story/money/business/2016/06/04/dismal-jobs-report-blamed-weather-trump-and-more/85364144/>

<sup>6</sup> <http://www.usatoday.com/story/money/business/2016/06/04/dismal-jobs-report-blamed-weather-trump-and-more/85364144/>

<sup>7</sup> <https://research.stlouisfed.org/fred2/graph/?g=4Dic>

<sup>8</sup> <http://www.businessinsider.com/average-hourly-earnings-growth-may-2016-2016-6>

<sup>9</sup> <https://research.stlouisfed.org/fred2/graph/?g=4DsD>

<sup>10</sup> <https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1> [Accessed June 4, 2016]

<sup>11</sup> <http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

<sup>12</sup> <https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1>

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<sup>13</sup> <http://www.foxbusiness.com/markets/2016/06/01/u-s-auto-sales-slumped-in-may.html>

<sup>14</sup> <http://www.foxnews.com/us/2016/06/01/us-construction-spending-tumbled-in-april.html>

<sup>15</sup> <http://www.foxcarolina.com/story/32132329/us-factory-orders-up-19-percent-in-april-best-in-6-months>

<sup>16</sup> <http://www.businessinsider.com/personal-income-and-spending-april-2016-5>

<sup>17</sup> <http://www.realsimple.com/food-recipes/browse-all-recipes/plum-upside-down-cake-0000000017219/index.html>

<sup>18</sup> <http://www.irs.gov/uac/Newsroom/Summer-Weddings-Mean-Tax-Changes>

<sup>19</sup> <http://www.golftipsmag.com/instruction/shotmaking/lessons/target-golf.html?start=2#.U8KuEI1dVsI>

<sup>20</sup> <http://www.aarp.org/health/healthy-living/info-2016/peanut-butter-heart-health-photos.html>

<sup>21</sup> <http://www.nature.org/greenliving/gogreen/everydayenvironmentalist/eat-seafood-like-a-caveman.xml>