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Information for Decisions™

Sinai's Economic and Market Perspectives

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Contents

Spring Has Sprung!

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March Labor Market Hugely Strong

The March Employment Report was stronger-than-strong, across-the-board—in *Jobs* (916,000; 780,000 Private Sector, DE Estimated 725,000, Consensus 600,000 plus); *Persons* who found work (609,000, DE 625,000); the *Unemployment Rate* (down to 6% from 6.2%; DE pre- at 6% or 5.9%, Consensus 6%); *wage inflation* down 0.1%; the *Labor Force* up 325,000, *Labor Force Participation Rate* (LFPR) at 61.5 from 61.4 and *Employment-Population Ratio* at 57.8, up from 57.6.

These results reflect a lot of positives—1) Reopenings, 2) unleashing of Pentup Demands; 3) still extremely low interest rates; 4) the cumulative effects of nearly $6 trillion of unprecedented fiscal stimulus; 5) increased optimism for Households and Business; 6) and early Easter and Passover.

The Jobs gains (Nonfarm Payroll) were widespread, across-the-board, with the biggest increases in Leisure and Hospitality (280,000), Construction (110,000), Government-Education (76,000), Trade and Transfer (72,000), Professional Business Services (66,000).

The decline in the Unemployment Rate came from increased Labor Supply (325,000) and Persons finding work (609,000), both signs of labor market strength. Because of so much slack in the labor market, wage inflation fell 0.1% MoM, underscoring the huge declines in labor costs that have occurred over the past year.

Previous months, March and February showed sizable upward revisions.

Since the peak in Jobs and Persons working last February, the net decline is 8.4 million for the former, and the latter, 7.9 million. The net decline in the Labor Force is 3.9 million. Thus, the "Army of Unemployed" remains quite high, at 11.8 million.

There has been, and is, *a lot of Hiring*, vastly speeded up in March but also *a lot of Not Hiring* with still a huge supply of labor, apparently holding down wage inflation.

Fed and Fiscal Policy

Despite the strength and indications of boomlike jobs gains, the Federal Reserve will stand pat on its policy of getting back to full employment, estimated somewhere around 3-1/2% compared with 6% now. And, its key Forward Guidance of lagging higher inflation rather than preempting it will remain.

The fiscal policy stimulus in-place now provides support for the economy and upward momentum over at least the next couple of quarters and into next year, although less so then. Future fiscal stimulus, the just released $2.3 trillion America Recovery Plan, will be controversial and is *not* being assumed currently in DE forecasts.

DE Forecast and Macro Risks

The *optimistic DE Basic Prospect forecast*—6% to 7% growth Q4-over-Q4 2021; 5% for 2022, and 3-1/2% for 2023 *remains* (75% Odds, up from 65%); "Double-Dip" Recession Odds are now close to 0%); Expansion and Boom Odds are at 10%, up from 0%) and Something Else, Odds 15%.

Caveat

The calibration of the potential upside near-term on this very unusual situation with Reopenings; Pentup Demands; increasing optimism; an "Easy" Money-"Loose" Fiscal Policy Mix; and increased economic strength in China and Southeast Asia cyclically speaks to potentially even stronger growth, with the upside potential calibration very tough—but it is surely most likely stronger than weaker.

Earnings and the Equity Market

S&P 500 Op. EPS implications also are on the upside. Current projections are $185 for 2021; $208 for 2022; $220 for 2023—2022 and 2023 revised higher.

At a lower P/E Forward Earnings multiple than previously, steady at 20.5 rather than the previous 21, *Fair Value for the S&P500 currently is 3915, approaching midyear 4035; toward yearend 4265*. At 21 times Forward Earnings, or higher, with that multiple perhaps justifiable by the upside possibility of even stronger earnings on stronger economic growth, current fair value would be 4011, at midyear 4135, near yearend 4375. Upside bounds would be about 5% higher and Downside 10% lower if a Correction.

The DE interest rate projections remain as before, near 2% by Midyear for the U.S. 10-Year Treasury yield and in a 2-3/4% range late this year.

Conclusion

Friday's Labor Market Report reads positive equities; negative fixed income long-duration; positive U.S. dollar.