

# THE WEEKLY NOTE

A market commentary.



## CONTINUING JOBLESS CLAIMS DROP BUT RE-HIRING REMAINS CHALLENGED

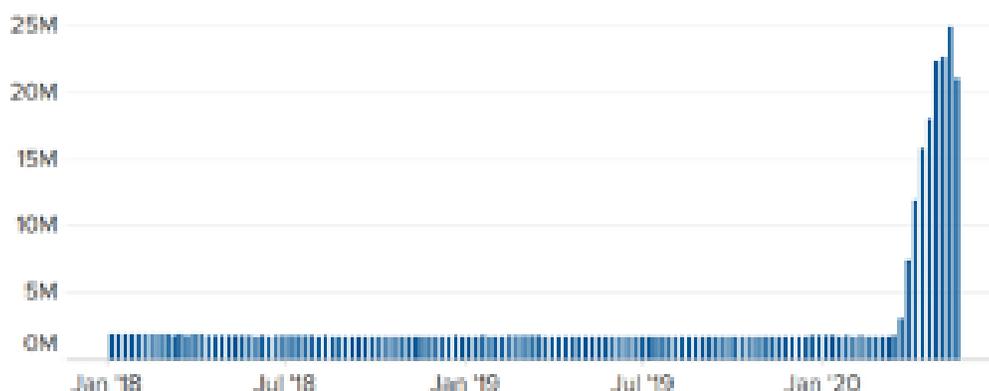
Monday, June 1st, 2020

Continuing jobless claims showed their first decline since this pandemic started, dropping 3.86 million to 21 million in last week's report. Continuing claims measures those that have filed for unemployment benefits for at least two consecutive weeks and is lagged a week. This drop may be a sign that at least some employees have started to return

to work in states that have re-opened their economies. As we have noted previously, much of the pace in this economic recovery is going to be dependent on how quickly lost jobs can be reclaimed. The Federal Reserve's beige book for May, which summarizes trends in the 12 regional reserve bank economies, showed some concerning trends

### Continuing claims down from prior week

Weekly continued claims for unemployment insurance



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in the 12 regional reserve bank economies, showed some concerning trends on re-hiring. Notably, that many employers who wanted to re-hire workers were met with challenges despite the highest number of potential unemployed candidates since the Great Depression. Here are a few highlights.

*Richmond Federal Reserve:* Some employers expressed difficulties retaining or rehiring workers because they had child or elder care responsibilities, or because it was more financially beneficial to collect unemployment insurance.

*Atlanta Federal Reserve:* Several employers noted concern that the generosity of unemployment benefits may make it difficult to attract workers once demand

improves especially among lower paid jobs.

*St Louis Federal Reserve:* Reopening firms were limited by labor shortages, which they ascribed to increased unemployment benefits, personal health concerns, and childcare responsibilities leading potential workers to stay home.

*Boston Federal Reserve:* A majority of contacts noted that for some people, unemployment benefits could outweigh a salary, providing less incentive to find a job.

Certainly, the emergency policies instituted during this crisis were essential to support those most impacted by this pandemic; however, the potential delays in

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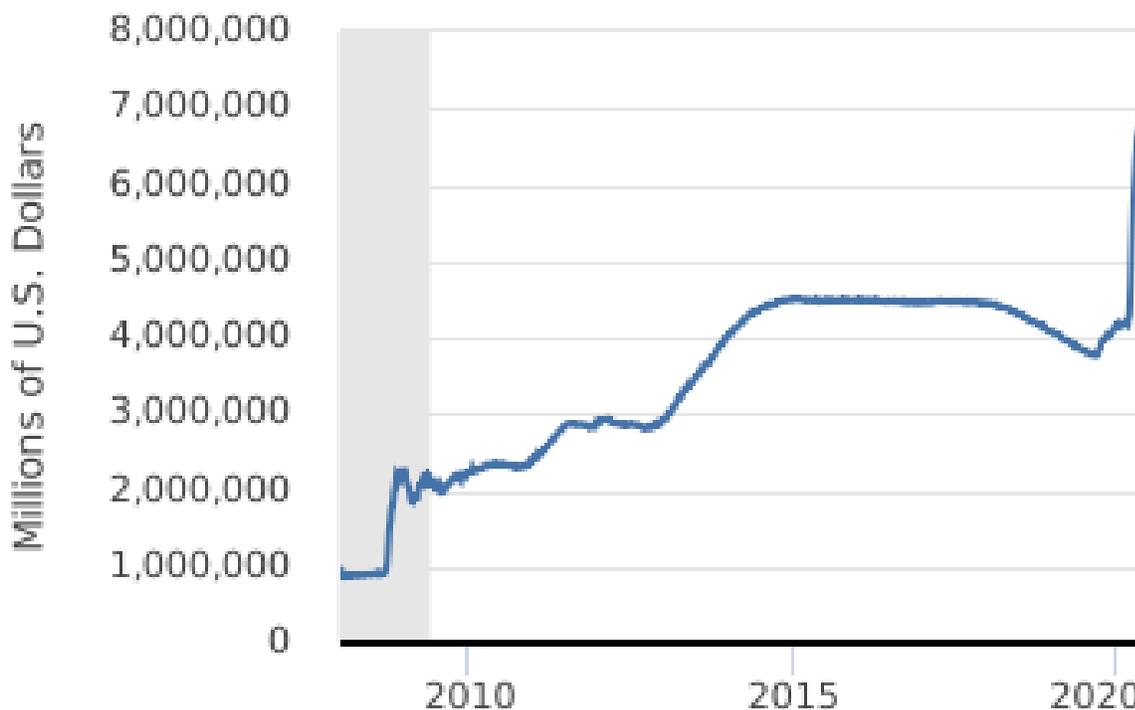
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getting people re-hired because of the relative advantages or needs to stay at home must be factored into future stimulus policies. Otherwise, this could result in a spike in wage inflation which could further restrict the pace of hiring.

Employment is following the broader trends that show the economy has likely passed the depths of the crisis, but doubt remains regarding the trajectory of the recovery. It may seem that the stock market is extrapolating a V-shaped recovery, which it

**FRED** — Assets: Total Assets: Total Assets (Less Eliminations From Consolidation): Wednesday Level



Source: Board of Governors of the Federal Reserve System (US)

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well could be, but stocks are also factoring in the copious levels of liquidity that have been injected into the system by the Federal Reserve. The Fed's balance sheet has ballooned to over 7 trillion, jumping 2.5 trillion in just the past two months.

A part of the recent increase has been from the purchase of corporate bond ETF's, which has helped to stabilize the bond market. As credit spreads tighten, it also allows companies to borrow to bolster balance sheets which, in turn, supports their stock prices. All this factors into how the stock market has recovered in recent months.

Still, there is only so far you can kick the can down the road. The next phase of policies needs to factor in not just temporary relief,

but also how you start to stimulate for recovery and growth in the months and years ahead without magnifying the level of inflation risk that already seems to be lurking in shadows.

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