

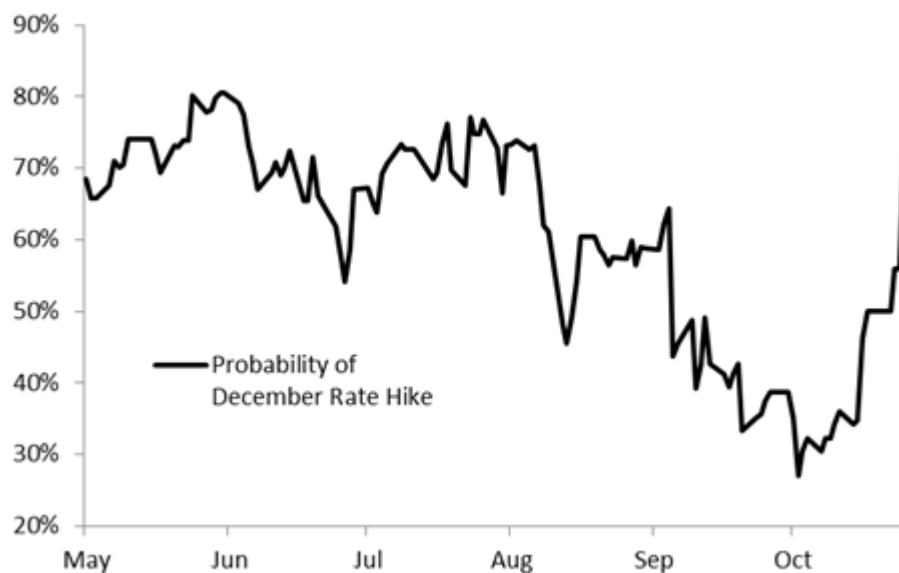
Global Strategy: Bulletin

Global Strategist: Bulletin | November 6, 2015

U.S. Jobs Data Jumps Sharply After Earlier Downward Distortions: Can Markets Live With Good News?

- The U.S. reported 271,000 net new jobs in October, well above consensus expectations. This followed a much smaller 145,000 average gain reported for August and September, which was a full 100,000 below the prior 12-month trend. **Today's data confirmed our strong suspicion that routine *downward distortions* again impacted jobs reports during the summer months.** (Other labor market indicators showed no such slump).
- Monthly employment data are erratic, ambitious, sample-based extrapolations that see substantial revisions over multiple years. Nonetheless, **the Federal Reserve tied its decision to stay on hold late last month to news that U.S. job gains "slowed."** With today's report, the market implied probability of a mid-December Fed tightening rose to 74% from 56% (see figure 1).
- Another employment report will be available for the Fed before its December 15-16 meeting. While markets now believe a decision to tighten has been "cemented," the Fed has many times found reasons to avoid an initial tightening step, even when generally expected.
- The decision to act in December is likely to come down to financial markets and their reaction to U.S. growth resilience. That resilience is likely to push the U.S. dollar higher (see figure 2). U.S. dollar strength may serve as a catalyst for weakness in the most vulnerable, U.S. dollar-sensitive emerging markets in the period just ahead.
- Ultimately, the Fed will have to come to terms with *having impact* if it believes U.S. monetary policy tightening will reduce future risks of a boom/bust cycle. While such a policy course comes with costs, we indeed see a mild tightening cycle as likely to diminish the severity of future economic and market dislocations.

Figure 1: Probability of a Rate Hike in December



Source: Bloomberg as of November 6, 2015.

Figure 2: US Major Currency Dollar Index



Source: FactSet and Bloomberg as of November 6, 2015.

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