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You are now allowed to breathe! The jobs data was not spectacular and labor force participation rate remains pathetic. We are concerned as to signal from the bond market – rates not seen since the Napoleonic wars! Do not worry - deflation is better than a wage increase. European banks are standing on a mountain of bad loans – time to clean house!

You are now allowed to breathe!

And so once again, we can recommence breathing following the release of the US jobs report. The increase in employment was well below the consensus forecast and wage growth was not spectacular and largely driven by minimum wage increases. This is not the Renaissance of a "leave it to beaver" middle class.

We are creating jobs with third world wages in a country with first world prices! Still you might just become a billionaire!

The US economy seems to have turned into a somewhat creaky machine creating largely third world pay jobs in a country with first world prices. This may explain why consumers are hesitant. Still, we are told that consumption is about to erupt in a "step function" progression. Might we add – shades of Herbert Hoover and prosperity around the corner?

With regard to labor participation rates, the legions of potential workers who have been "exited" shows little sign of abating. Apart from this everything is just awesome!

Not surprisingly the equity futures are down. We are hearing reports that the stock market is "searching for a bottom". Without wishing to strike a facetious note, it spent several years in this worthy endeavor during the Great Depression. We remain somewhat agnostic as to the prophetic powers of the jobs report as we see jobs growth and rate of economic expansion and wages as having long divorced.

With unemployment at these levels retail sales should be hitting all-time highs! The labor markets is clearing out of desperation, as more and more unemployed are accepting lower paid jobs with less security and no benefits. In the middle ages all worked, their lives were not cheerful! Can the US transition to domestic driven growth?

The key angle with regard to the US economy is its apparent inability to transition with regard to growth drivers. Can or will services and consumers take over from manufacturing? US consumers appear still intent on de-leveraging and place little faith in low inflation as a substitute for real wage increases.

Stock market returns to being a carry trade

With macro-data disappointing, investors are increasingly focused on monetary policy as the last way out. Markets are once again hanging on to every utterance from the Federal Reserve hinting at a delay in further rate increases. The stock market has



reverted to at best be a “carry trade”, where still low bond yields make stock dividends appear attractive.

Who is right – stocks or bonds?

We have often commented on the gap between the stock market and the bond market. Stocks have signaled cautious optimism, with PE ratios in developed economies well into two digits. While some see in this the counsel of despair – everything else gives you zero – others by means of creative arithmetic discern value.

Plane still on run-way - Rostow and stages of economic growth – where are you?

Bond rates are collapsing in the US in the absence of the buyer of first and last resort – the Federal Reserve. In developed economies abroad, bond returns are in many cases negative.

Investors are running scared of the possibility that the global economy shall continue to taxi down the runway without taking of.

They are eschewing cash – once the refuge of the cautious - and going for sovereign debt. We see investors as starting to accept bond non-returns completely out of any normal dictates of asset allocation. This is not a normal situation.

Are we seeing “systemic collapse” bank stock prices without the systemic risk?

We are continuing to follow the European bank saga, where banks are being buffeted by ever greater capital requirements, slow moving economies, less flow business and – in certain cases – massive exposures to brittle industry sectors. Stocks are trading at financial crisis levels and in many cases below book value. These are “systemic prices” despite loud protestations that the global economy is making progress.

The restructuring in the European banking sector is not over, with the amount of rubbish loans cluttering up balance sheets at mind boggling levels.

Global economy facing binary choice between bad and worse

The recession talk keeps getting louder, with the two camps squaring off with their respective arguments. We remain one of the last believers in the quaint concept that economic growth actually counts. On this score, we are less concerned as to a recession – contraction followed by expansion – than by perpetual “suspended animation” growth. The global economy is facing a binary choice between the bad and the worse.



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Jean Ergas is the Chief Economist for Tigress Financial Partners LLC (Member FINRA, MSRB, SIPC) based in New York City.

He is an Adjunct Assistant Professor at New York University's School of Professional Studies and an Adjunct Faculty member at Manhattanville College. In 2014 he received the award for teaching excellence from NYU School of Professional Studies.

He is fluent in English, French, German, Italian, Spanish and Portuguese. He also has a certificate in Arabic – from NYU School of Professional Studies.

His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M. Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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