Weekly Market Review

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The Week Ending December 4, 2020

Positive reports of stimulus negotiations in Washington D.C. sent the S&P 500 Index to another positive week. Even on Friday, when the November jobs report disappointed and showed slowing growth in the labor market, the index went on to trade at a record high. While the stock market and economy are related to each other, a perfect correlation does not exist. As CNBC contributor Josh Brown explains, the economy and stock market are like walking your dog. The dog is the stock market, walking back and forth, stopping to sniff, running too far ahead, or falling behind. All while the human, the economy, continues to walk in a straighter line, might step to the side here and there or stop to talk to neighbors (recessions), but overall, they consistently move forward. Like the stock market and economy, the dog and human are related and move in the same long-term direction, but how they get there can be a totally different path. This is what we are currently experiencing; the stock market is looking to a brighter, post-COVID future and trading higher, while the economy continues to face the woes of COVID-19.

November's jobs report was the latest economic data point to show weakness in the current recovery. Companies added jobs last month, but at a slower rate than prior months. Even with jobs being added, workers are still filing initial unemployment claims at an alarming rate. Last week marked 37 weeks since the pandemic began impacting the U.S. labor market. In that time, almost 70 million workers have filed for unemployment. A minimum of 700,000 workers has filed for unemployment per week in those 37 weeks, with 22 weeks being over 1 million workers filing. For comparison, during the 2008 Financial Crisis, the worst week for unemployment claims was 665,000.

The unemployment rate has been a misleading component of the labor market this year. Currently, the unemployment rate sits at 6.7%, down from an April high of 14.7%. Since May, the economy has added about 12 million jobs but has experienced 35 million workers filing for unemployment. So, how can the unemployment rate fall by such a large amount? Well, the unemployment rate is based on the labor force participation rate, or the number of unemployed workers looking for a job. This rate has fallen significantly since the pre-COVID period. Simultaneously, the number of discouraged workers, or those not looking for a job, therefore not included in the labor force participation rate, has been increasing, leading to a deflated unemployment rate. As conflicting data points appear, remember the economy is on the human's more consistent path. Like dogs, the stock market can take detours and have a differing way of getting to a similar long-term path.

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