First Trust
Monday Morning OUTLOOK
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Good News is Still Good News

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The stock market sold off hard last Friday and the reason looks clear: job creation was stronger than the consensus expected in February, the fourth straight month of upside surprises in payrolls.

This was a shock to many who expected unusually rough winter weather in February to hold back job growth. According to NOAA, a population-weighted measure of how cold it was around the country (called heating degree days) showed that it was the coldest February, for the most people, since Terry Bradshaw was still leading the Steelers to Super Bowl titles in 1979.

Because even this year's Polar Vortex couldn't stop job growth, many analysts who had thought the Federal Reserve would hold off on rate hikes, finally realized that a June rate hike actually makes sense. So, the way it turned out, good news for the economy was bad news for equities and bond prices.

We think the markets were half right. Good news for the economy *should* have sent bond yields higher. Based on real GDP growth and inflation, the yield on the 10-year Treasury Note should *already* be around 4%. So, as expectations for Fed rate hikes solidify, the entire yield curve will trend higher in the years ahead.

The part we think will get reversed (and then some) is the downdraft in equities. The economy continues on a plow horse course, good news is *still* good news, and the bull market remains intact.

Because the Fed has focused so much on the job market, it has set a high bar for rate hikes. It now looks like the economy is clearing that bar. This is a reason for equities to move higher, not lower.

Nonfarm payrolls are up 3.3 million from a year ago, the fastest pace since 1999-2000. And although average hourly earnings are up only 2% compared to last year, the increase in hours from more people working and longer workweeks means total cash earnings are up 5.3%. And, with consumer prices falling in the past year due to the large drop in energy prices, consumer purchasing power is growing rapidly.

Moreover, despite what you may have heard, the gains in employment are not a bunch of part-time jobs. Part-time employment is essentially unchanged (up a mere 12,000) since the start of the economic recovery in mid-2009, while full-time employment is up more than eight million.

And it's not just jobs. Businesses are also investing. Industrial production is up 4.8% from a year ago with manufacturing output up 5.5%. Auto sales are up 5.4% from a year ago; housing starts up 18.7%. Shipments of "core" capital goods, which exclude defense and aircraft, are up 5.8%, a good proxy for growth in business equipment investment. Commercial construction of office buildings is up 14% from last year while the construction of manufacturing facilities is up 22.5%.

We're not arguing the economy is perfect; far from it. But it is getting better. The Fed, which has been accommodative since 2008, looks finally ready to begin raising rates because they think the economy can handle it. And, they are right. Will anyone seriously argue that a 1% federal funds rate will stop economic growth? It will take a 3.5%, or above, funds rate to slow the economy.

That's a reason to be bullish, not bearish.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-12 / 7:30 am	Initial Claims – Mar 7	305K	**300K**		320K
7:30 am	Retail Sales – Feb	+0.3%	**+0.4%**		-0.8%
7:30 am	Retail Sales Ex-Auto – Feb	+0.5%	**+0.5%**		-0.9%
7:30 am	Import Prices – Feb	+0.2%	**0.0%**		-2.8%
7:30 am	Export Prices – Feb	-0.5%	**0.0%**		-2.0%
9:00 am	Business Inventories – Jan	+0.1%	**0.0%**		+0.1%
3-13 / 7:30 am	PPI – Feb	+0.3%	**+0.2%**		-0.8%
7:30 am	"Core" PPI – Feb	+0.1%	**0.0%**		-0.1%
9:00 am	U. Mich Consumer Sentiment- Mar	95.5	**95.8**		95.4