



Basis Points – June 11, 2019

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Above the Fold

Bullish momentum continued late last week into Monday as the U.S. and Mexico came to terms on a border security agreement, and much-lower than expected jobs growth further increased the odds of more aggressive rate hikes by the Fed (Federal Reserve). The Fed uses jobs data as a barometer for the current and projected health of the economy.

Stocks began their move higher Friday after the Bureau of Labor Statistics (BLS) reported that just 75,000 jobs (seasonally adjusted) were added in May — a far cry from the 185,000 new positions that were expected. The BLS also revised March and April jobs data lower by a total of 75,000.

While it may seem counterintuitive that a slowing jobs market should drive stocks, most investors seem to believe that cheap money (lower interest rates) would do more to stimulate the economy than the pace of hiring, especially given the fact that the unemployment rate, at 3.6%, is so low. Today's jobs market is also different, as many Americans turn to "gigs" like driving Uber, online research or even paid computer hacking to earn income, even though they might not be counted as "employed."

Later Friday, President Trump announced that a deal has been struck with Mexican officials to help stem the tide of record illegal border crossings and avert tariffs on Mexican exports that were set to begin Monday. The accord will have a 90-day checkpoint, at which time the U.S. will ensure that terms are being met.

What's Ahead

Now that investors know the economy isn't bulletproof, and that the Fed stands ready to act on interest rates, they will likely turn to inflationary metrics like the Consumer Price Index (CPI), due out tomorrow morning. If inflation remains at bay, the Fed may be more likely to lower rates — and CPI is a core reading for prices. Investors expect top-line CPI growth to cool to 0.1%, with core CPI expected to rise 0.2%.

Three Things

1. *Aerospace Mega Merger* – United Technologies, maker of Pratt & Whitney engines, and Collins Avionics have agreed to merge with defense tech giant Raytheon Co. to create Raytheon Technologies, a mega aerospace and defense company that will be second only to Boeing by revenue.
2. *Fill 'Er Up* – Crude prices have declined roughly 20% over the last six weeks, which in turn has helped halt the rise in gasoline prices during what is normally a high season for fuel. Despite the summer driving season being in full-swing, the average price of regular unleaded stands at \$2.76, 18 cents less than it was this time last year.
3. *Everyone vs. Fortnite* – As the online game Fortnite continues to dominate, Microsoft said it plans to push its new videogame-streaming initiative in the fall. The service will allow gamers to stream any Xbox One game to a mobile device. Google (Alphabet) will also launch its new game-streaming service called Stadia in November.

Did You Know?

Raytheon was founded in 1922 in Cambridge, Mass., as the American Appliance Company and was popularized by creating the S gas rectifier tube, which helped to make home radios cheaper and easier to own and operate. The company also supplied 80% of the magnetron tubes used in U.S. and British radars during World War II.

United Technologies was created in 1929 when William Boeing and Frederick Rentschler (of Pratt & Whitney) teamed up to form a holding company that would unite aviation businesses to serve both military and civilian purposes. Over the years, the company acquired control in several aircraft manufacturers and formed a new management company called United Airlines, Inc. (yes, the same one that flies today).

After the air mail scandal of 1934, the government forced the breakup of United Aircraft and Transport and separated the manufacturers into the United Aircraft Corporation, which became United Technologies.

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