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Weekly Market Commentary
July 6th, 2021

Employment Revs Up, but Slack Remains

Last week's jobs report has all eyes gauging if the first half of the year's positive economic momentum could be sustained in the second half. After two consecutive months of payrolls falling short of expectations, job gains surprised to the upside.

850,000 jobs were added in the U.S. economy, the most in 10 months. However, the Federal Reserve's threshold for "substantial further progress" has not yet been met as the unemployment number continued to increase to nearly 6^ and labor force participation held steady.

While the market interpreted the new job data as "just right" and enough to instill confidence about the recovery, it still was not so strong that it accelerated the Fed's timeline to reduce its accommodation.

Key takeaways:

1. Hiring ramps up as more of the economy reopens

- Job gains of 850,000 were stronger than expected, while payrolls for the previous two months were revised higher by 15,000. About 40% of the gains came from leisure and hospitality, the sector most hurt by the pandemic. While hiring in hospitality has outpaced other sectors over the last five months, it has a lot of ground to make up. Employment in the sector is still down 13% from February 2020. Considering the broad availability of vaccines, increased consumer savings and pent-up demand for in-person experiences, this gap can be viewed as room for further improvement rather than a threat to the labor market recovery.

- Education – another area hit hard by the pandemic – was the second-largest contributor with a 268,000 employment gain. State and local government hiring added the most jobs in 10 months. Robust tax revenue and funds from earlier stimulus bills will likely support further hiring.

- The uptick in the headline unemployment rate is surprising but not particularly concerning. It resulted from a small increase in the labor force and more people voluntarily leaving their jobs. The underemployment rate – which includes part-time workers who want a full-time job – declined to 9.8% from 10.2% in May and 10.4% in April.

2. Workers are not coming back in droves

- As businesses have ramped up capacity to meet increased demand, worker shortages have impacted hiring, holding back the recovery. The most recent Labor Department report showed that open positions in April soared to a record 9.3 million, enough to absorb the entire shortfall in jobs since the pandemic started.

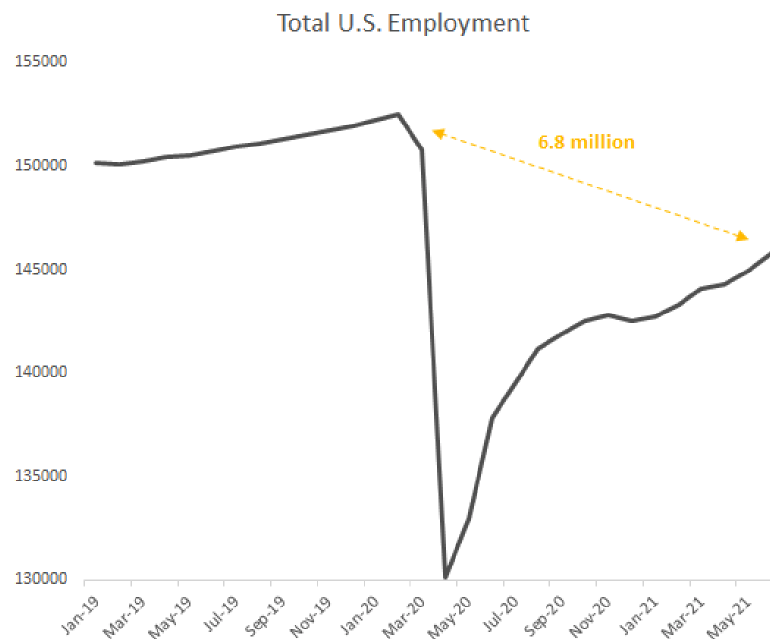
- Strong and accelerating payroll gains signal that the worst of the labor shortages might be behind us. Higher wages could pull more workers back, yet 3.4 million people are still missing from the labor force. The participation rate held steady last month, remaining well short of pre-pandemic levels.

- Enhanced unemployment benefits, lack of childcare and health fears may explain why people have hesitated to rejoin the workforce, even as job openings have risen sharply.

3. June's jobs data does little to change the Fed's outlook.

- One of the biggest risks to the equity market rally is that central banks will tighten policy aggressively and earlier than expected, so the Fed's interpretation of the labor and inflation data is critical. Despite robust gains last month, total employment is still 6.8 million short of its pre-pandemic level. With the numbers a long way from the Fed's goal for full, broad-based and inclusive employment, there is no urgency to push the shifting policy timeline forward.

- The fast job creation gives policymakers confidence to announce tapering – a reduction in the pace of asset purchases – over the next few months. In 2013, the Fed's first hint of tapering triggered a brief pullback in equities and a meaningful rise in long-term rates. Strong equity market returns over the previous tapering period provide some comfort that improving fundamentals can outweigh any policy headwinds.



The graph shows total U.S. employment which is recovering steadily but remains well below peak levels.

After a strong first half, what comes next?

Following Friday's jobs report, the S&P 500 hit its 36th new high for 2021, adding to the positive momentum from the first half of the year. From January through June, the index logged its second-best gain since 1998, with performance driven by the economic reopening, rising corporate earnings and policy support.2

Over the past 80 years, equities rose by 10% or more 24 times in the first six months of the year1. The S&P 500 went on to gain an average of 7% in the second half, with 19 of those instances having positive returns.2 However, the market's rise was not uninterrupted – the average maximum pullback was 9%, almost twice the average decline experienced in the first half of the year.2 The upshot is that returns are likely to moderate going forward, and pullbacks might become deeper, but history suggests that gains are not exhausted.

The less robust-than-expected improvement in the labor market in two of the last three months has likely contributed to the drop in 10-year Treasury bond yields below 1.50%. This in turn has helped tech and growth investments regain market leadership.

Growth will likely slow as the economic cycle moves from recovery to expansion. But it will remain robust in our view, supporting the case for improved performance of cyclical sectors and value-style investments.

(source: Jones, Bloomberg & Morningstar Direct)

Markets For The Week

INDEX	CLOSE	WEEK	YTD
Dow Jones Industrial Average	34,786	1.0%	13.7%
S&P 500 Index	4,352	1.7%	15.9%
NASDAQ	14,639	1.9%	13.6%
MSCI EAFE *	2,309	-1.4%	7.5%
10-yr Treasury Yield	1.43%	-0.1%	0.5%
Oil ($/bbl)	$75.21	1.6%	55.0%
Bonds	$115.35	0.4%	-1.7%

Source: Factset, 7/2/2021. Bonds represented by the iShares Core U.S. Aggregate Bond ETF. Past performance does not guarantee future results. * Source: Morningstar, 7/5/2021.

Jeff Bezos Steps Down as CEO on Monday. Here's What it Means for Amazon's Stock

(source: Barron's, Marketwatch)

Amazon.com founder Jeff Bezos is stepping down as the company's CEO on Monday, the company's 27th birthday. He's handing over the baton to Andy Jassy, a 24-year Amazon veteran who built and ran Amazon Web Services (AWS), the company's dominant cloud-computing business.

As Wall Street analysts like to say, Jassy faces a "tough compare." Bezos was always going to be a tough act to follow, and he's leaving the job on top. (He'll still be executive chairman and the online retailer's largest shareholder, assuming all goes well with his trip to space later this month.)

Amazon's (ticker: AMZN) business sparkled during the pandemic. In the first quarter, sales spiked 44% from a year earlier—the company's best quarterly growth rate since 2011—and net income was $8.1 billion, its largest quarterly profit ever. With demand surging, Amazon hired more than 500,000 people in 2020, boosting its total staff to more than 1.3 million.

AWS sales grew 32% in the first quarter, to $13.5 billion, an annualized run rate of well over $50 billion. That makes Amazon one of the world's largest enterprise computing companies—bigger than Oracle (ORCL), SAP (SAP), or Salesforce.com (CRM). Amazon's online retail business had revenue of $52.9 billion, up 41%. Third-party seller services like fulfillment and delivery were up 60%, to $23.7 billion (roughly the size of FedEx). Subscription services, mostly Amazon Prime, had revenue of $7.6 billion, up 36%, for a run rate north of $30 billion (slightly bigger than Netflix). "Other" revenue—mostly advertising—reached $6.9 billion, up 77%.

Amazon's market value is now $1.7 trillion, which trails just Apple (AAPL) and Microsoft (MSFT) among U.S. listed companies.

Despite the huge numbers, Amazon's stock has actually looked pedestrian for almost a year now. It's up just 6% year to date versus 15% for the S&P 500 index.

Market News, Corporate Earnings, and News & Notes

(source: CNBC)

The honeymoon is over for streaming services: Here's where the major players stand:

While most Americans are breathing a sigh of relief as they return to normal activities outside the home in the wake of the Covid-19 pandemic, the streaming video industry may not be quite as excited for a return to reality.

Fueled by hundreds of millions of people at home, streaming video was one of the big winners of the pandemic, with subscription service usage surging. Americans spent 44% more time streaming video in the fourth quarter of 2020 than they did a year earlier, according to research firm Conviva.

As the pandemic (hopefully) subsides, here's a snapshot of where the biggest players in the streaming wars stand. The figures are based on each company's most recent quarterly earnings report.

Netflix

- 208 million paying subscribers
- 74.4 million U.S. and Canada subscribers
- ARPU for U.S. and Canada: $14.25

Netflix is the gold standard of transparency. The company breaks out paying subscribers and ARPU for its U.S.-Canada region, EMEA (Europe, Middle East and Africa), Latin America and Asia-Pacific. Netflix doesn't take advertising revenue, so it doesn't need to disclose finances related to commercials.

Disney

- Disney+ (including Hotstar): 103.6 million subscribers, $3.99 global ARPU
- Hulu SVOD only: 37.8 million subscribers, $12.08 ARPU
- Hulu SVOD+Live TV: 3.8 million subscribers, $81.83 ARPU
- ESPN+: 13.8 million subscribers, $4.55 ARPU

Disney is somewhat transparent with its figures, but not as clear as Netflix. Disney includes the significantly cheaper -- and faster growing -- Indian streaming service Hotstar in its Disney+ numbers rather than clearly breaking out the number of Disney+ customers. The company also hasn't broken out figures per region yet. The Information reported Friday that Disney+ growth may be stagnating in the U.S. and Canada.

Disney also doesn't clarify how many of its streaming customers are on a free trial, such as the one-year free deal it offers for some Verizon customers.

WarnerMedia's HBO and HBO Max

- 63.9 million global subscribers, 44.2 million U.S. subscribers.
- ARPU: $11.72 per month

There's quite a bit of confusion with HBO's numbers, which AT&T could clarify but has chosen to keep vague. Some pay-TV customers get HBO Max for free because they already pay for HBO. Other AT&T wireless subscribers also get HBO Max included in their bundles. And some HBO watchers don't use -- or haven't discovered -- HBO Max at all.

The company has chosen not to say how many people are specifically using HBO Max. But it has given a solid ARPU number -- highlighting the streaming service's relatively high price (and perceived customer value) to investors.

Of course, AT&T may not have to care for much longer. It's spinning off WarnerMedia to merge with Discovery. The deal is expected to close in the middle of 2022.

Amazon Prime Video

- More than 200 million global Prime subscribers -- 175 million of which "streamed shows and movies in the past year."
- Prime membership cost: $12.99 per month, $119 per year

Amazon doesn't break out a firm ARPU number or a specific Prime member number, but the company is playing a different game than the other streaming services. Most Prime members probably aren't subscribers just for the video, but instead subscribe for free and fast shipping on Amazon packages, Whole Foods discounts, and other benefits. The lack of disclosure around Prime Video isn't as much of a red flag as it may be for the other streaming services.

NBCUniversal's Peacock

- 42 million U.S. "signups."
- ARPU: ?

NBCUniversal -- the parent company of CNBC -- hasn't been particularly transparent with Peacock yet. Its streaming service stands apart from the competition because some versions of Peacock are free. The Wall Street Journal reported last week less than 10 million people pay for Peacock -- either for its $4.99 ad-supported tier or its $9.99 ad-free tier.

NBCUniversal also hasn't broken out an ARPU figure yet, which would help investors weigh the value of a free subscriber against paying customers. NBCUniversal has publicly estimated an ARPU number across its three tiers of $6 to $7 per month.

Investors will also be curious about Peacock's global signups number as it spreads across the world.

ViacomCBS

- 36 million global subscribers, consisting of Paramount+, Showtime, Noggin, BET+ and others
- 50 million global Pluto TV monthly average users
- ARPU: ?

ViacomCBS doesn't break out Paramount+ subscribers, preferring to lump them in with its other streaming services. It also doesn't give an average revenue per user number for Paramount+ or Pluto TV, though CEO Bob Bakish did say Pluto TV advertising revenue will pass $1 billion in 2022. ViacomCBS also hasn't broken out geographic subscribers, though Chief Financial Officer Naveen Chopra said "the significant majority" of new streaming subscribers were U.S.-based Paramount+ customers.

Starz

- 29.5 million global subscribers, 16.7 million of which are streaming
- ARPU: About $6 per month

Starz is often a forgotten service in the streaming wars, in part because it's not an independent company --Lionsgate owns it -- and because its ambitions are more niche. Still, the company's transparency around streaming may suggest it's confident in its future prospects -- or that it wants to be acquired.

Discovery

- 15 million subscribers across all streaming products, 13 million Discovery+ subscribers
- Overall ARPU: About $7 per month
- ARPU for ad-supported Discovery+: More than $10 per month

Discovery was transparent about global subscribers and ARPU in its first quarter earnings, released April 28 -- though it didn't reveal how many of its users signed up through a one-year trial with Verizon.

Discovery also announced it's merging with WarnerMedia. That's a sign CEO David Zaslav realized his streaming service probably wouldn't have the scale on its own to survive. He basically said so

himself.

Merging with WarnerMedia not only gives Zaslav more content to compete with, but also refocuses investor interest. Discovery's streaming performance won't really matter anymore until its deal with WarnerMedia finalizes. Then, the companies must integrate.

Merging arguably bought Zaslav three years of investor goodwill. Take note, struggling streaming players. Take note.

Apple

- Apple TV+ global subscribers: ?
- ARPU: ?

The prize for the least transparency goes to Apple, which has revealed almost nothing about Apple TV+ since launching the service in November 2019. Apple gave away Apple TV+ subscriptions for free for a year -- and then extended those free trials. But many of those trials are ending, and users will need to decide if they want to spend $4.99 per month on the service. Perhaps Apple is waiting to reveal statistics until it starts getting recurring revenue from users.

Then again, there's a reason Apple extended the free trials to begin with -- the service is very light on content, especially with many original series delayed during the pandemic. Apple doesn't have the movie and TV library to compete with the other streaming players, making $4.99 per month offer seem unreasonable.

That's a long-winded way of saying: don't expect too much clarity from Apple in the quarters to come either.

Earnings Highlights This Week

(source: CNBC)

- **Ford's** June sales decline by 26.9% as the company misses second-quarter expectations.
- **GM's** second-quarter sales up nearly 40% but slightly miss analyst expectations.
- **Walgreens** raises forecast but shares fall on fears vaccination boost will fade.
- **Bed Bath & Beyond** turnaround gains momentum, and the retailer's stock is surging.
- **Nike** earnings, sales beat estimates as retailer books record North America revenue.

News and Notes:

Four Ways COVID Has Changed Our Money World Forever - and What it Means to You...

1. **The pandemic has altered shopping habits beyond return**- is the mall dead, we will be getting grocery deliveries forever, etc,?
2. **The hybrid work model is here to stay**- companies will have teams come in to collaborate, brainstorm, etc. and busy work will be done at home.
3. **Remote learning threatens the $670 billion dollar college industrial complex**-colleges experienced the largest drop in cash flow in decades
4. **The great reshuffling is moving wealth to the 'exurbs'** -will people ever relocate back into the big cities?

From the team at J M Brown Financial Partners
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