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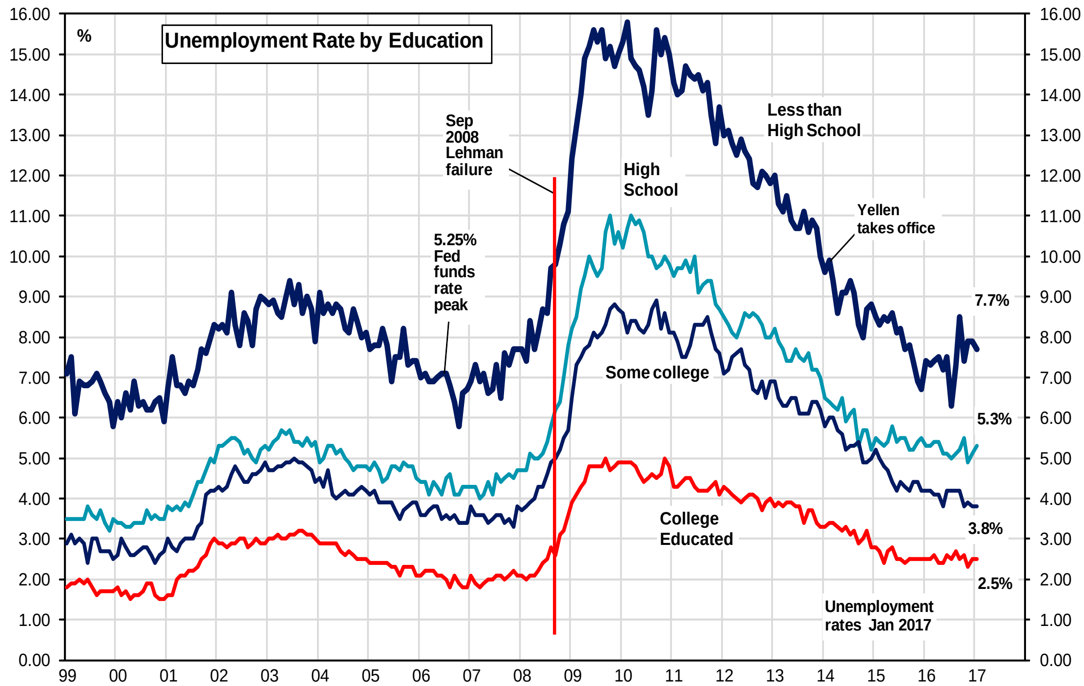
THE HAVES AND HAVE NOTS



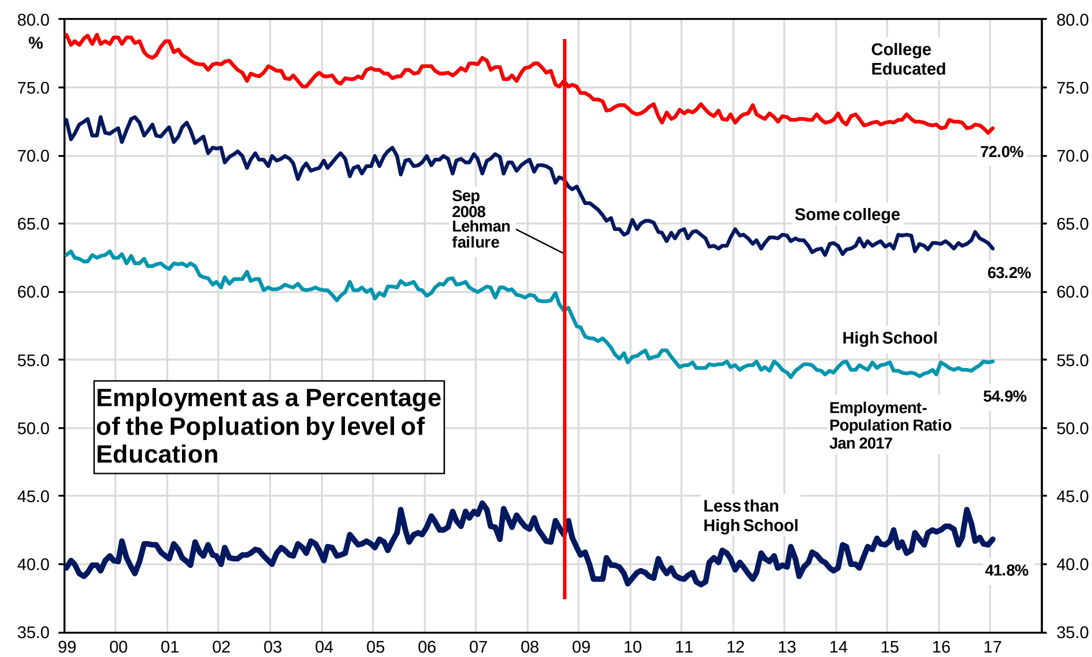
Until we make America great again, we thought we'd take another look this week at who is in and who is out. Of the labor force. You're in the game, in the labor force, either employed or unemployed (and actively looking for work in the last four weeks) or you've dropped out. You've dropped out and maybe voted for change on November 8 last year. We think the drop outs will never come back and Washington should not be gearing up its macro policies to help the economy. For their sakes. The drop outs. Most of these are aging baby boomers anyway. And the economy doesn't need it. Fiscal stimulus. The economy is at full employment and that's that for this cycle. But President Trump and Fed Chair Yellen think alike (all great minds do) sensing there is still something wrong out there in the land thinking that these labor force dropouts (95 million strong) show economic stress in the country. Well if you think times aren't good now just wait for when the unemployment rate starts shooting higher, like it does in recessions, then you'll realize these times right now really were good. Were as good as it's going to get for the macro economy. If we aren't in a recession, don't worry about it.

The unemployment rates by level of education have all fallen back to pre-recession levels. It does no one any good to point at the 7.7% unemployment rate for those with less than a High School education and spin a story of economic distress out there in the country. Fiscal stimulus is not needed to bring down the unemployment rate of those with less than High School to say the 3.8% unemployment of those with some college or an associate degree. The economy is not unwell. The employment problems for those with less education, these are problems that cannot be answered by tweaking the business cycle.

The Unemployed 25-yrs+ by Education Level

Jan 2017	Less than		Some	College	
Millions	High School	High School	College	Graduate	Total
Population	23.252	61.214	57.849	73.538	215.853
Employed	9.725	33.580	36.563	52.925	132.793
Unemployed	0.808	1.863	1.444	1.346	5.461
Rate %	7.7	5.3	3.8	2.5	3.9
Particip rate	45.3	57.9	65.7	73.8	64.1
Emp-pop ratio	41.8	54.9	63.2	72.0	61.5
Labor Force	10.533	35.443	38.007	54.271	138.254
Not in LF	12.719	25.771	19.842	19.267	77.599

The employment-population ratios for all education classes did fall during the recession, there was economic stress around 2009 certainly and people lost jobs and there was less employment relative to the population. But this economic indicator does not move that much which tells us, other than in a big shock event like the "Great Recession," the employment-population ratio moves more for long-run reasons not cyclical reasons. It may never rise again in fact as the twenty year wave of baby boomers continues to drop out and retire.



Conclusion: the reality is the Haves and Have Nots in terms of edjucation have both seen their lives improve since the recession ended way back in June 2009. The unemployment rates are back down to where they were in the housing bubble years, pre-Lehman, regardless of whether you bring a hammer to work every day or whether you sit at a desk all day checking your email waiting for 5 o'clock to come. You can guess that maybe some workers have dropped out along the way and are no longer working or actively seeking employment. But the level of employed people by education relative to the population has not changed all that much either. Our view is the labor market is as strong as its going to get for this cycle. Drop-outs won't become Drop-ins. Faster economic growth, assuming the incoming Administration's pledge can be achieved, will not bring about more jobs. The economy is stronger than Washington thinks.

MARKETS OUTLOOK

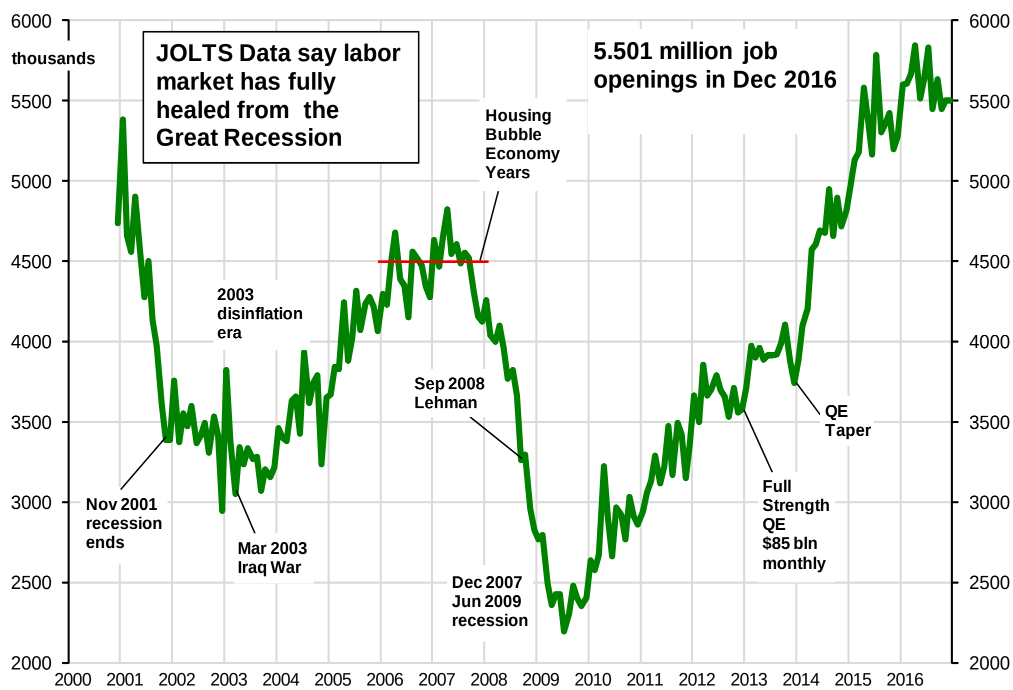
	30-Dec 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
30-Yr Bond	3.07	3.10	3.10	3.20	3.40	3.60	3.70	3.80	4.00	4.10	4.10	4.20	4.30
10-Yr Note	2.45	2.40	2.50	2.70	3.00	3.20	3.40	3.50	3.70	3.80	3.90	4.00	4.10
5-Yr Note	1.93	2.00	2.10	2.40	2.70	3.00	3.20	3.30	3.50	3.60	3.70	3.80	4.00
2-Yr Note	1.19	1.60	1.80	2.00	2.20	2.50	2.75	2.85	3.10	3.30	3.50	3.50	3.70
3-month Libor	1.00	1.25	1.50	1.70	1.95	2.20	2.45	2.70	2.95	3.20	3.45	3.45	3.70
Federal Fund Rate	0.75	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.25	3.50
2s/10s spread	126	80	70	70	80	70	65	65	60	50	40	50	40
Libor/funds spread	25	25	25	20	20	20	20	20	20	20	20	20	20

Bonds rallied this week closing at a yield of 2.41% versus 2.47% from the week before on employment day with 227K payroll jobs. The rally started Monday with the news that the Euro zone was breaking up again (Spain and Italy yields jumped). The new fear was related to the French elections. Yields came back up on Thursday morning when Trump said his tax cuts plans were coming in the next 2-3 weeks.

Other News This Week

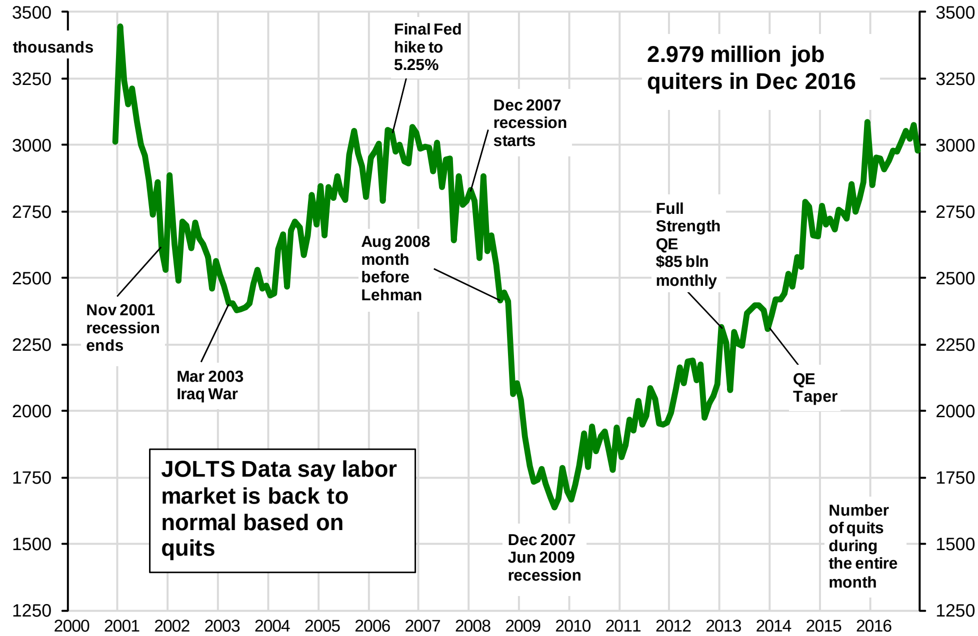
More fake news: Job openings data show plenty of work out there

Jolts data. There is a move on down in Washington to create additional jobs, but the need to do so flies in the face of the latest job openings data where 5.5 million jobs are currently available. Available as in right now. Companies would hire 5.5 million workers in the next 30



days if they could find the right person. 5.5 million jobs for hire means the labor market could not be any better. There are 7.6 million unemployed in the country behind that 4.8% official unemployment rate. There's nothing wrong with the economy. There is work out there, it's just that the unemployed do not have the skills companies require or they live in different geographic regions or something because historically there has rarely been more jobs available out there than there is right now. The new Team in Washington has created economic advisory panels to tell them how to boost employment and help speed economic growth, but the reality is the labor market has never been this strong. No other new Administration has tried to boost the economy with fiscal stimulus proposals this late in the economic cycle before. The stock market is at new all-time highs on hopes for a better tomorrow. We don't want to talk down the stock market rally, but at some point reality is going to dawn on investors that the economy has already hit its peak where everyone who wants a job can get a job. The risk is that the Trump administration fiscal measures will never get off the ground, not because Congress and the President cannot agree, but because the economy simply does not need the boost to output in order to create jobs. There are more jobs available out there than Washington officials think.

Yellen favors the Quits Data-says it shows confidence



Analyst Certification

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