RBC Wealth Management™

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Dear Readers,

Friday's strong non-farm payroll number (up 151,000 vs. consensus expectations of 60,000) finally got media pundits to pay attention to several factors I have been writing to you about for some time now: *average weekly hours worked, average hourly earnings and temporary employment gains.* CNBC even showed charts illustrating the gains in hours worked and hourly earnings. Weekly hours worked bottomed at 33 in June of 2009 and was 34.3 in October. The manufacturing work week rose to 40.3 hours vs. 39.1 a year ago and overtime rose to 3 hours from 2.5 per week. Hourly earnings increased to $22.73, a gain of 1.7% year over year. Since December, 2009 non-farm payrolls have risen by 874,000 and temporary help services has added 451,000 since the low in September, 2009. Businesses generally expand the work week, pay for overtime and hire temporary workers before they start permanent hiring in earnest. These are all good signs of news to come over the next year.

Additionally, the Fed announced up to $600 billion in quantitative easing through June 2011, with bond purchases of $75 billion per month. This program may be expanded in size and extend into 2012 if necessary and comes on the heels of the $1.7 trillion purchased between November 2008 and March 2010. Quantitative Easing part 2 is intended to keep interest rates low, raise inflation and inflation expectations, lower the dollar to make U.S. goods more globally competitive, and raise asset prices - including stocks. The Fed will keep at this until unemployment shows real signs of falling to acceptable levels and economic growth returns to historic norms. Cyclical sectors of the economy are likely to outperform for some time to come (Consumer discretionary, manufacturing, materials etc.).

Since 1900, the average post recession rally has lasted about 700 trading days (there are 252 in a year). So far, we are around 400 trading days into this recovery. In the 1990's the rally for the DJIA and S&P 500 lasted for almost 2,000 trading days. I continue to believe that both the economic recovery and the stock market rally are still in their early stages and we have a long stretch of better than expected results ahead of us.

Regards,

Terry