This morning the monthly job openings and labor turnover (JOLTS) report was released, and it came in significantly shy of expectations. While Bloomberg’s consensus estimate was for 6.925 million job openings, the actual number came in at 6.423. It is important to keep in mind that this is December data, so it doesn’t yet reflect the impact of the coronavirus on business operations.

Historically job openings are pretty tied to the unemployment rate. As job openings decline, hiring declines and then ultimately the shedding of jobs begins, driving the unemployment rate higher. The sequence is visible in the 2006-2009 period, where job openings peaked in April 2006 and the unemployment rate troughed 8 months later in December. Is this sequence playing out again?

The stock market historically has a pretty close relationship to the health of the labor market. As indicated earlier, a peak and decline in job openings has been a precursor to an increase in the unemployment rate, but it also has been a precursor to a decline in stocks.
In the last cycle, stocks peaked in November 2007, roughly 18 months after the peak in job openings. Job openings peaked in November 2018, so if this relationship holds, stocks may start to discount a less rosy labor market and economy.

Interestingly, stocks stopped outperforming bonds about a month before the peak in job openings. The SPY/TLT ratio peaked on October 8, 2018 and has underperformed since then. This one-variable model goes a long way in explaining relative asset performance and hence is helpful in asset allocation decisions. This model suggest stocks could underperform long-duration US Treasury bonds by 25% just to catch up to the current level of job openings. Any further deterioration in job openings would suggest the potential for greater underperformance.
Today’s huge miss in job openings should be a JOLT to investors who understand the historic relationship between the economy and asset prices.

As of 12/31/2019, the iShares 20+ Year US Treasury ETF (TLT) was held in the Knowledge Leaders Strategy.

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