

## Upbeat Economy, Beaten Down Markets

Equity markets on Friday provided no indication that the April jobs report exhibited the best growth in payrolls since January of 2012, or second best since the US escaped recession in mid-2009. With payroll numbers as strong as reported, which showed a net 288 thousand American's finding work, the expectation would be for swift gains in the equity markets, and given the negative correlation witnessed between gold and equities in the last 12 months, gold to sell off. Even though some negatives can be found with Friday's report, the broad based strength would expect for a rally in risk assets to ensue. And given that was not the case, it begs the question of whether equities remain in correction territory.

It's important to highlight the positives in Friday's numbers because there is without question evidence that the US labour market is strengthening, and it is at a result of the efforts of the US Federal Reserve. Of the 288 thousand payroll positions added, 273 thousand came from a strengthening private sector. The remaining 15 thousand came from a government that has somewhat consolidated following the forced sequester and budget cuts. Therefore, it continues to suggest that those that have the skills to move back into the labour force and will be able find work. That, however, is not so much the concern.

The concern remains that the US Federal Reserve won't be able to find a solution for the record 92 million Americans who are not represented in these upbeat job numbers. The labour force participation rate is at its lowest level since February of 1978. That translates to the largest share of the American population not to participate in the job market in 26 years. And

there is a continuing debate and contribution of academic research that attempts to pinpoint why the participation rate is dropping, particularly when policy goals would be for it to move in the other direction. But there is not a concise explanation of whether it is at the result of an aging population seeing more retirees, or discouraged workers who are fed up looking for work and lose hope.

This begs the question of whether this dichotomy in the American economy between those who are able to find work and those who are not can only continue, and perhaps worsen. Job creation through the first four months of this years has averaged well over 200 thousand positions a month, which are strong numbers even accounting for the extreme winter conditions expected to stall the economy. Even initial estimates for Q1 GDP (reported last Tuesday) are being forgotten as expectations are for them to be revised higher as a plethora of evidence shows the strength of American corporations and consumers. But then looking at the markets, why aren't they once again taking out their all-time highs?

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