Unexpected Labor Strength Drags Yields Higher

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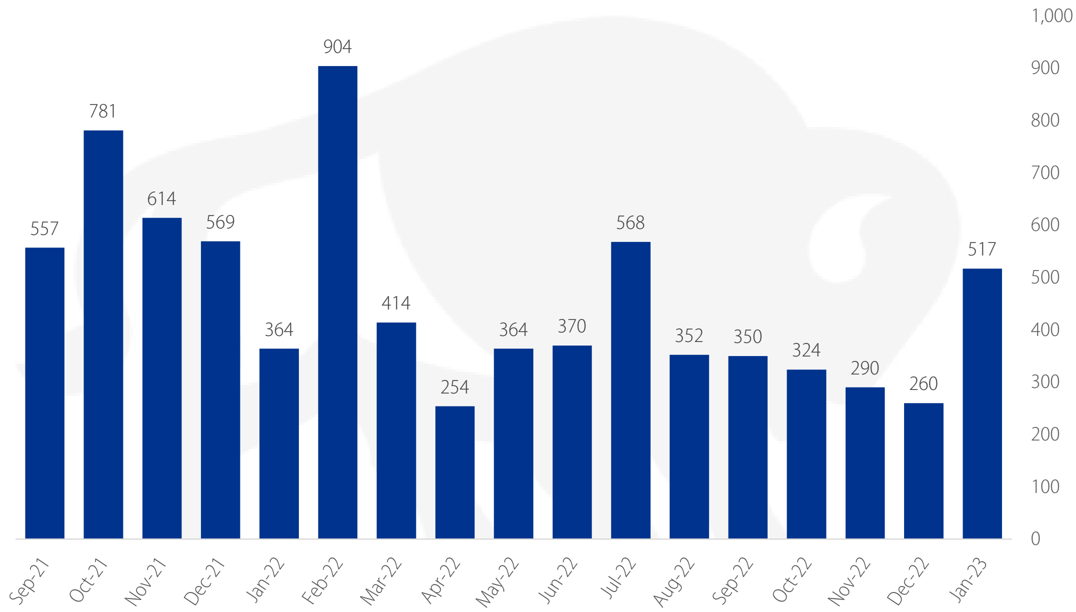
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

The January employment report was an absolute stunner, as U.S. non-farm payrolls nearly tripled forecasts while the headline unemployment rate fell to a new 54-year low. *The notion of near-term recession suddenly sounds absurd.*

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The additions to payrolls were broad-based last month. Sectors adding significant jobs include leisure and hospitality (+128k), professional and business services (+82k), government (+74k), healthcare (+58k), construction (+25k), transportation and warehousing (+23k) and manufacturing (+19k). The leisure and hospitality sector has now returned all but 495k jobs to its pre-pandemic count. All other major sectors have since exceeded pre-pandemic levels.

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The labor force participation rate ticked up from 62.3% to 62.4%, matching the highest level since the pandemic began, but still a full point below the February 2020 pre-pandemic level. The majority of increase was concentrated in the 18-34 age group.

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Hourly earnings were up +0.3% in January, and +4.4% year-over-year, down from a revised +4.8% and *the lowest since August 2021*. The Fed can take some solace in the fact that wages are cooling a bit, but little else.

The average workweek climbed to a 10-month high, suggesting underlying labor demand isn't likely to disappear anytime soon.

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Adding to the frustrating economic resiliency is the January ISM non-manufacturing report (also released this morning). The composite service sector index unexpectedly climbed *well into expansion territory*, rising from a revised 49.2 to 55.2 as the forward-looking new orders index exploded upward from 45.2 to 60.4.

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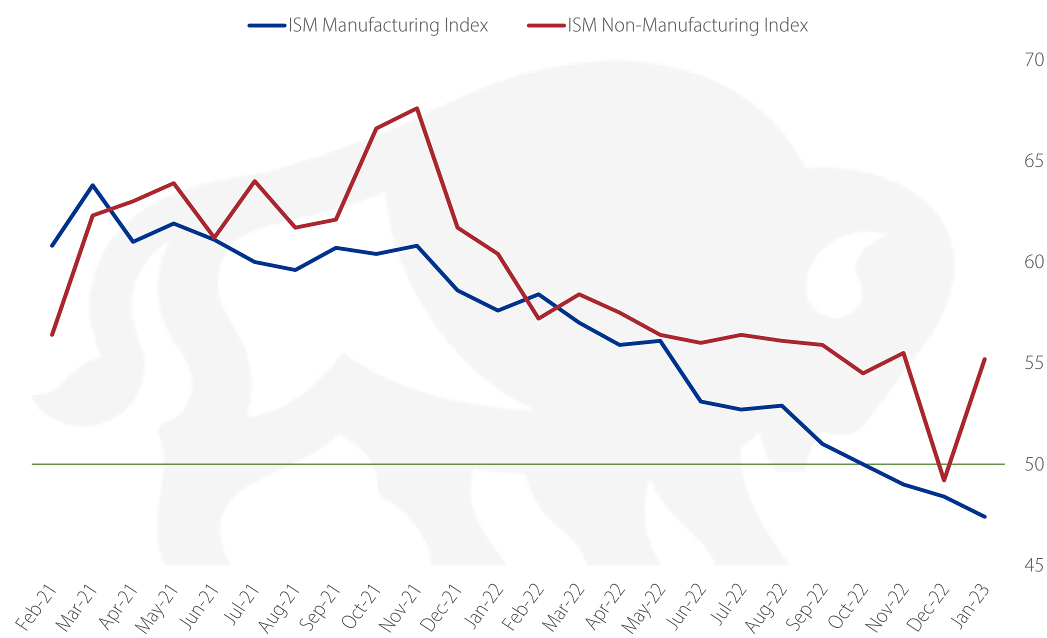
ISM Purchasing Managers Index



Source: Institute for Supply Management

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Bond yields have jumped significantly, with the two-year Treasury note up 19 bps to its highest level in a month, while the 10-year yield is 15 bps higher in early trading.

Market Indications as of 9:32 A.M. Central Time

DOW	Down -10 to 34,044 (HIGH: 36,800)
NASDAQ	Down -48 to 12,153 (HIGH: 16,057)
S&P 500	Down -14 to 4,166 (HIGH: 4,797)
1-Yr T-bill	current yield 4.73%; opening yield 4.56%
2-Yr T-note	current yield 4.28%; opening yield 4.09%
3-Yr T-note	current yield 3.95%; opening yield 3.76%
5-Yr T-note	current yield 3.66%; opening yield 3.48%
10-Yr T-note	current yield 3.54%; opening yield 3.39%
30-Yr T-bond	current yield 3.65%; opening yield 3.54%