Yields Lower on Underlying Labor Data and Bank Concerns

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The closely-watched February employment numbers were mixed, but the markets decided a rise in the headline unemployment rate and slower wage growth was more important than the beat in non-farm payrolls, continuing a huge two-day bond rally.

U.S. businesses reported +311k jobs added to company payrolls last month, after a revised +504k gain in January. Although the headline payroll number was uncomfortably above the +225k Bloomberg median forecast, the remainder of the report was market-friendly. For the moment anyway, it appears the Fed will have latitude to hike in smaller increments going forward.

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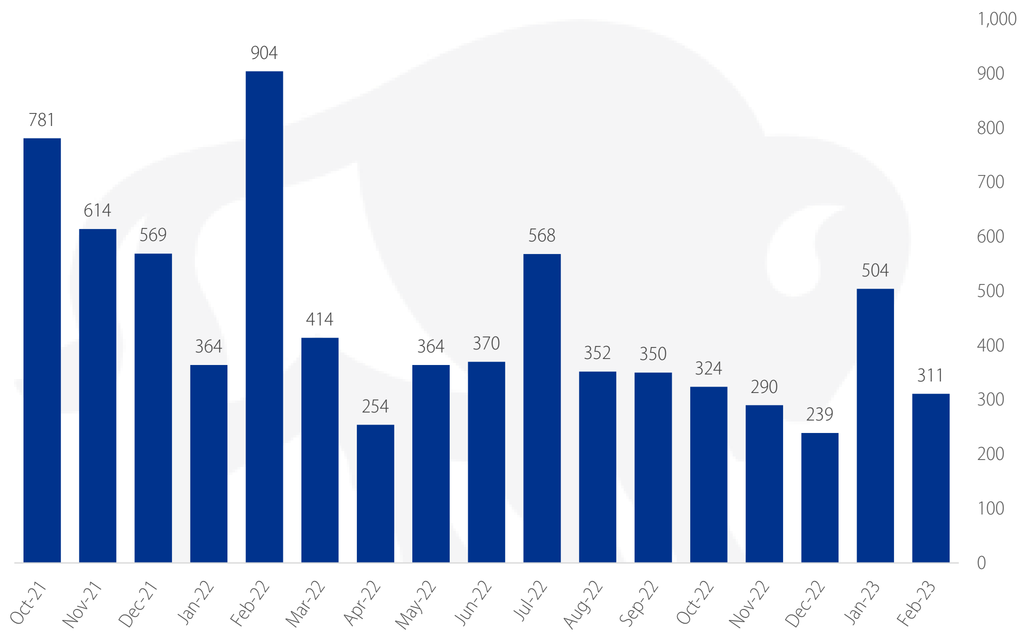
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Significant payroll gains were made last month in leisure and hospitality (+105k), retail (+50k), government (+46k), business and professional services (+45k) and healthcare (+44k). Notable payroll losses were concentrated in information technology (-25k) and transportation and warehousing (+22k).

Nonfarm payroll growth has historically been the most important component of the monthly report from the Bureau of Labor Statistics. However, in the post-pandemic era where posted jobs far exceed available workers, the act of adding more employees to payrolls shouldn't be a negative.

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In the separate household survey, +177k Americans found jobs while +419k entered (or re-entered) the labor force. This boosted the labor force participation rate from 62.4% to 62.5%, *the highest since the pandemic began*. The increase in jobseekers helped push the headline unemployment rate up from a 54-year low of 3.4% to 3.6%.

Average hourly earnings, a major focus for Fed officials, climbed by just +0.2% in February. This was below the +0.3% median forecast and *the smallest monthly increase in a year*, and reflects the fact that the majority of jobs added last month were on the lower end of the wage scale.

In other labor-related news from yesterday, initial jobless claims (first-time filings for unemployment benefits) were reported above 200k for the first-time this year, while continuing claims topped 1.7 million for the first time in over a year. This hints that labor conditions (although still extremely tight), may be cooling a bit.

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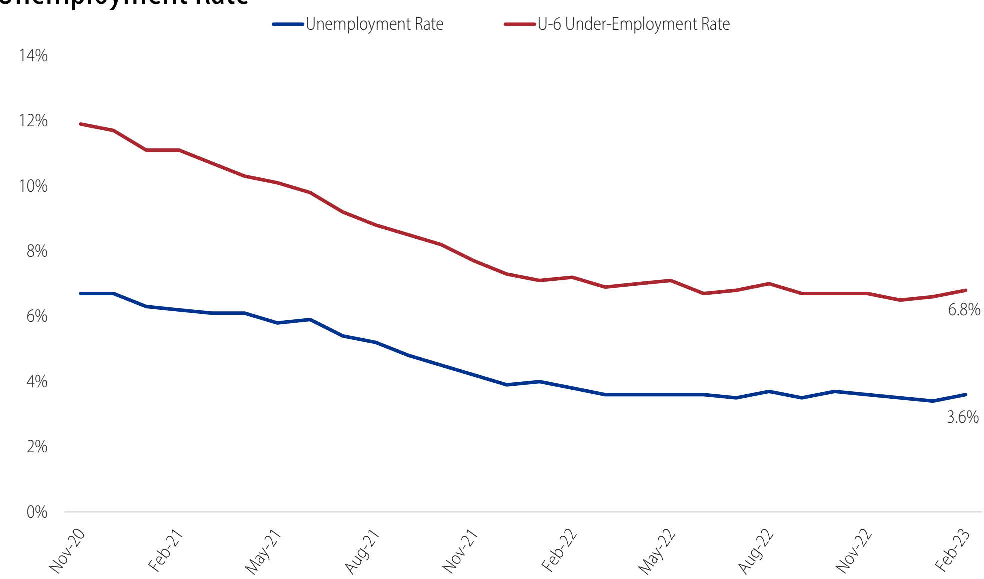
Unemployment Rate



Source: Bureau of Labor Statistics

In all fairness, yields fell significantly yesterday for reasons unrelated to the labor market. On Wednesday, SVB, a Silicon Valley bank, announced it had absorbed a massive $1.8 billion loss on its security portfolio, which had resulted from the rapid rise in interest rates.

Today's employment numbers were . . . a relief. However, next week's CPI report will determine whether the FOMC hikes 25 or 50 basis points in 12 days.

According to CNN, the bank partners with nearly half of all venture-backed tech and health care companies in the United States. As word of financial destress spread, customers panicked and pulled deposits. Frantic efforts by the bank to raise new capital have failed. Investors are rightly concerned that other banks may suffer a similar fate given the Fed's aggressive policy stance. *Just one more consideration for Fed officials as they contemplate their future course of action.*

Today's employment numbers were . . . a relief. However, next week's CPI report will determine whether the FOMC hikes 25 or 50 basis points in 12 days. At the moment, the markets are signaling the smaller hike. In fact, the two-day rally bond rally has extracted 25 bps from total expected tightening this year.

The two-year Treasury note yield, which closed at 5.07% on Wednesday before SVB made headlines, is down to 4.63% this morning. The volatility has been breathtaking.

Market Indications as of 9:58 A.M. Central Time

DOW	Up 47 to 32,302 (HIGH: 36,800)
NASDAQ	Down -42 to 11,296 (HIGH: 16,057)
S&P 500	Down -28 to 3,891 (HIGH: 4,797)
1-Yr T-bill	current yield 4.95%; opening yield 5.11%
2-Yr T-note	current yield 4.63%; opening yield 4.83%
3-Yr T-note	current yield 4.31%; opening yield 4.52%
5-Yr T-note	current yield 3.94%; opening yield 4.17%
10-Yr T-note	current yield 3.69%; opening yield 3.90%
30-Yr T-bond	current yield 3.69%; opening yield 3.85%