HilltopSecurities

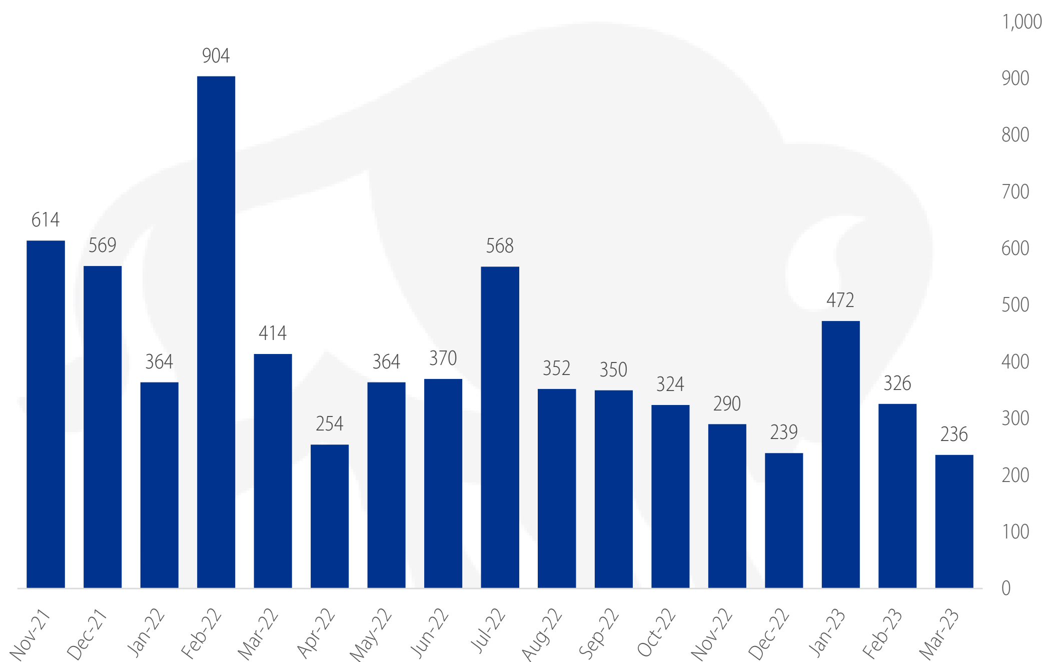
Odds of May Rate Hike Rise on Mixed Jobs Report

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

There were few headline surprises in the solid-enough March employment report, although key underlying numbers point to softening ahead. The establishment survey showed U.S. companies added +236k jobs to nonfarm payrolls in March, essentially matching forecasts after revised gains of +326k and +472k in the previous two months. The private sector contributed +196k jobs to the March total, the fewest number in three years, while governments chipped in +47k, mostly on the state and local side.

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Once again, a majority of the payroll gains were found in the service sector, with leisure and hospitality (+72k) and health and education (+65k) making significant contributions in March.

Once again, a majority of the payroll gains were found in the service sector, with leisure and hospitality (+72k) and health and education (+65k) making significant contributions in March. The goods-producing side was lackluster with construction (-9k) and manufacturing (-1k) shedding jobs last month.

The unemployment rate, generated from the separate household survey, unexpectedly slipped from 3.6% to 3.5% as the number of Americans reporting they'd found work last month (+577k) exceeded the number entering the labor force (+480k).

With the (slight) increase in the labor force participation rate and the recent decline in job openings, there is reason to expect wage growth will continue to moderate going forward.

However, Fed officials have made it clear they're focused more on wage growth and the labor force participation rate. Both of these measures moved in the right direction last month. Average hourly earnings climbed +0.3%, matching the median forecast, and declined from +4.6% to +4.2% on annual basis, the slowest pace since July 2021.

The participation rate rose from 62.5% to 62.6%, the highest level in three years, and within 8/10th of the pre-pandemic peak. In theory, wage inflation should cool as the gap between available jobs and jobseekers narrows. With the (slight) increase in the labor force participation rate and the recent decline in job openings, there is reason to expect wage growth will continue to moderate going forward.

Bond yields are higher *in very light holiday trading*, as the futures market resets the odds of one more quarter point Fed rate hike to 70% at the May 3rd FOMC meeting. This heightened expectation is probably based more on the drop in headline unemployment and still solid payroll gains.

Bond yields are higher in very light holiday trading, as the futures market resets the odds of one more quarter point Fed rate hike to 70% at the May 3rd FOMC meeting.

Next week, when traders return, the focus will shift to the March inflation and consumer spending releases. The CPI report (arguably the most important of the monthly numbers) is on tap for Wednesday, PPI Thursday and retail sales Friday. This will be the last set of major releases Fed members will see before voting in early May.

Market Indications as of 9:59 A.M. Central Time

DOW	*Closed*
NASDAQ	*Closed*
S&P 500	*Closed*
1-Yr T-bill	current yield 4.59%; opening yield 4.43%
2-Yr T-note	current yield 3.97%; opening yield 3.81%
3-Yr T-note	current yield 3.73%; opening yield 3.59%
5-Yr T-note	current yield 3.48%; opening yield 3.36%
10-Yr T-note	current yield 3.38%; opening yield 3.29%
30-Yr T-bond	current yield 3.60%; opening yield 3.54%

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.

© 2023 Hilltop Securities Inc. | All rights reserved | MEMBER: NYSE/FINRA/SIPC