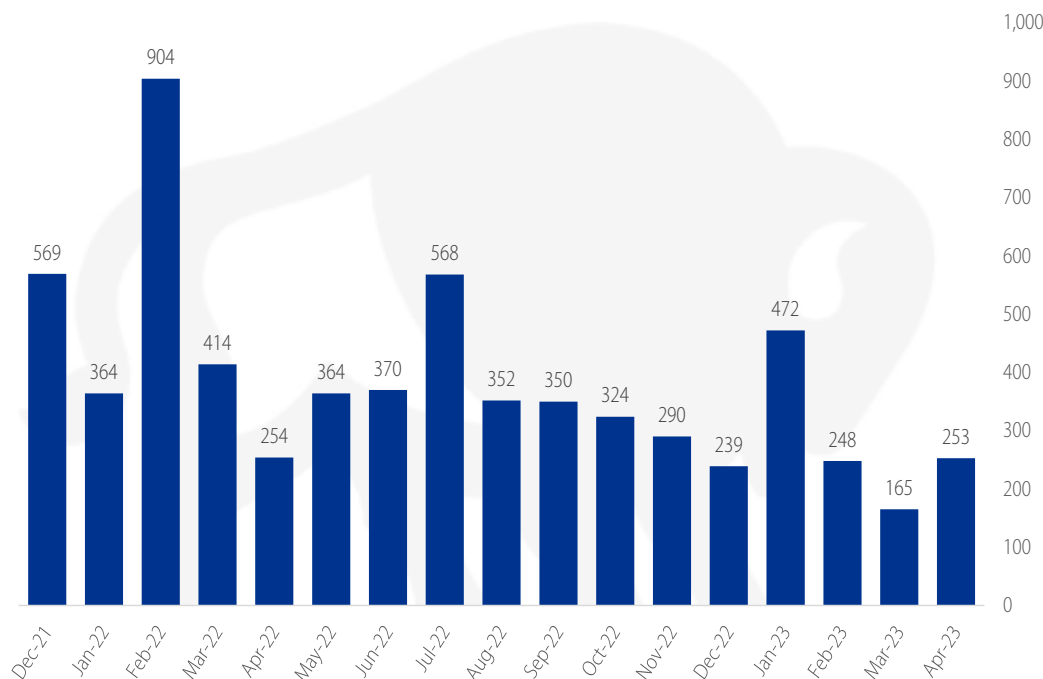


Unexpected April Labor Strength Boosts Bond Yields

The April jobs report didn't cooperate with market expectations for slowing economic growth and retreating wages. U.S. companies added +253k payroll jobs last month, exceeding all but three of 77 forecasts in the Bloomberg survey, while hourly earnings rose by a too-solid +0.5%, and the unemployment rate fell back to a 54-year low. *None of these headlines point to a near-term policy pivot by the Fed.*

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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Non-farm payrolls rose by +253k, well above the +185k median forecast. Private sector payrolls increased by +230k, nearly double the revised March total. Digging deeper into the jobs numbers, both previous month payroll totals were revised lower, with March whittled down from +236k to +165k, and February from +311k to +248k. On one hand, this reduces total payrolls; but on the other hand, the April count just became the highest since January.

Notable April payroll additions were found in professional and business services (+43k), healthcare (+40k), leisure and hospitality (+31k), social services (+25k), local governments (+20k), construction (+15k), manufacturing (+11k) and retail (+8k).

The headline unemployment rate unexpectedly slipped from 3.5% to 3.4%, returning to the lowest point since 1969. The drop results from a slight decline in the total number of workers in the labor force last month. However, the participation rate for prime-age workers (25 to 54-years old) has now climbed *above the pre-pandemic level*. This supports the idea that sidelined workers are predominantly early retirees.

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As of April, there were 5.7 million Americans actively seeking work, while the most recent JOLTS report showed 9.6 million job postings. *Hard to argue the labor market isn't extremely tight.*

Average hourly earnings, perhaps the most important single data point in the report as far as Fed officials are concerned, rose by +0.5% last month, well above the +0.3% median forecast. Over the past 12 months, earnings are up +4.4%. This unexpected increase can be attributed to more of the recent job gains being in the higher income categories.

The bond market is still signaling a series of rate *cuts* beginning in mid-September, but today's employment release appears much too hot to release the brake. Earlier this week, Powell repeatedly voiced concerns over the tight labor market; *today's release indicates it's even tighter.* That doesn't mean job growth and the overall economy won't decelerate in the coming months ... especially given the double-whammy of the debt ceiling crisis and fragile confidence in the banking system.

For now, persistent labor strength supports the Fed's insistence that a pivot isn't likely before early 2024. Rate hikes are probably over, but the pause may be much longer than the markets have anticipated.

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Market Indications as of 9:29 A.M. Central Time

DOW	Up 436 to 33,564 (HIGH: 36,800)
NASDAQ	Up 188 to 12,154 (HIGH: 16,057)
S&P 500	Up 17 to 4,134 (HIGH: 4,797)
1-Yr T-bill	current yield 4.74%; opening yield 4.54%
2-Yr T-note	current yield 3.89%; opening yield 3.79%
3-Yr T-note	current yield 3.62%; opening yield 3.51%
5-Yr T-note	current yield 3.40%; opening yield 3.33%
10-Yr T-note	current yield 3.44%; opening yield 3.38%
30-Yr T-bond	current yield 3.77%; opening yield 3.73%

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