Bond Rally Continues on Unexpectedly Soft Employment Report

The October employment report showed unexpected, *but welcomed*, labor market moderation. The financial markets have interpreted the apparent softening as an indication that the Fed's tightening efforts are adequate, and expect no more rate hikes will be required.

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Nonfarm payroll rose by just +150k last month, below the +180k median forecast and quite a bit slower than the +276k average over the previous year. In addition, downward revisions reduced the August/September count by a combined -101k.

October payroll gains were concentrated in healthcare (+58), government (+51k), construction (+23k), social assistance (+19k) and leisure and hospitality (+19k). The manufacturing sector shed -35k jobs in October, although the Bureau of Labor Statistics (BLS) indicated the vast majority of these departures were strike-related. Transportation and warehousing payrolls were also down during the month (-12k).

The unemployment rate, calculated through a separate household survey, rose from 3.8% to 3.9%, *the highest since January 2022*. The number of unemployed Americans actively seeking work edged up to 6.5 million. According to BLS data, this is nearly +850k higher than six months ago, which indicates sidelined workers have increasingly reentered the labor force. Another 5.4 million people would like to work but had not looked for a job within the last 30 days. The labor force participation rate, which includes currently employed workers as well as those activity seeking a job, actually slipped for the first time in 11 months.

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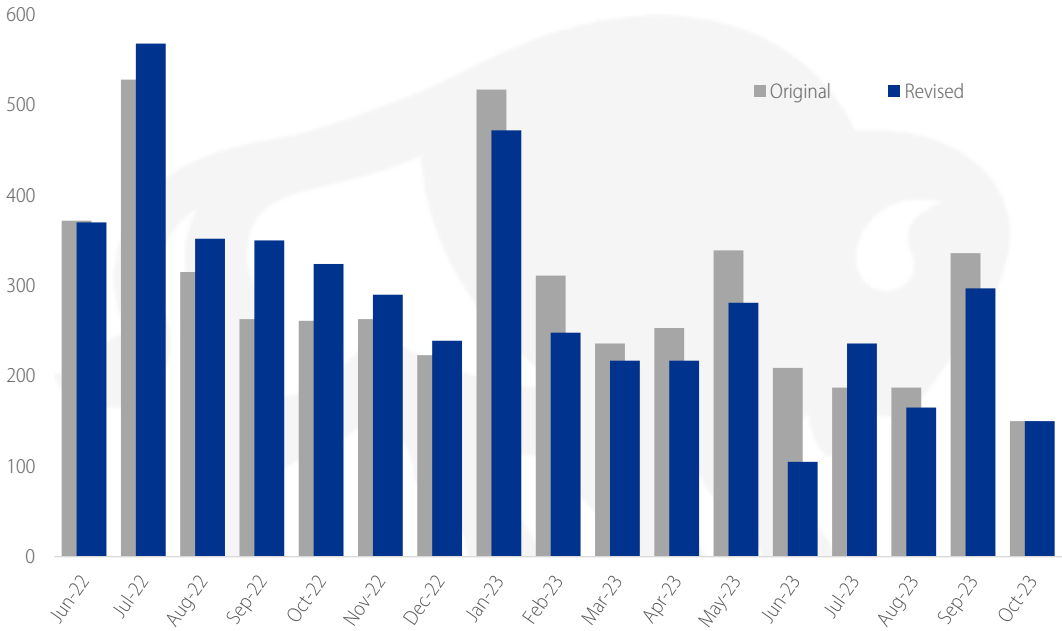
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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Average hourly earnings, an important indicator of wage inflation, rose by just +0.2% in October and +4.1% year-over-year, the smallest annual increase since June 2021. Much of the second-tier data also pointed to a softening labor market. In particular, the average workweek declined, as did manufacturing overtime.

On the whole, this report is unlikely to cause Fed officials to pivot away from their current tightening bias, but it does support a continued pause. The bond market, which anticipates future Fed moves, is extending a significant 4-day rally which has driven the 10-year yield down by a stunning 45 basis points since Tuesday.

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Market Indications as of 9:03 A.M. Central Time

DOW	Up 179 to 34,018 (HIGH: 36,800)
NASDAQ	Up 129 to 13,423 (HIGH: 16,057)
S&P 500	Up 40 to 4,358 (HIGH: 4,797)
1-Yr T-bill	current yield 5.31%; opening yield 5.38%
2-Yr T-note	current yield 4.87%; opening yield 4.99%
3-Yr T-note	current yield 4.65%; opening yield 4.78%
5-Yr T-note	current yield 4.50%; opening yield 4.64%
10-Yr T-note	current yield 4.54%; opening yield 4.66%
30-Yr T-bond	current yield 4.71%; opening yield 4.81%