Yields Surge Higher on Blowout Jobs Report

Nonfarm payrolls crushed the median forecast in January as U.S. companies added a remarkable +353k jobs, nearly double expectations and the biggest single month gain in a year. Adding to the robust labor picture was a +117k upward revision to the December count, boosting the previous month total to +333k. The combined Dec-Jan gain was the largest since June-July 2022, while the annual revision quietly added another +359k to the 2023 tally.

The word being tossed around to describe this morning's report is "blockbuster." Of the 77 economists offering a payroll forecast to Bloomberg, they all fell short by a wide margin.

Notable January payroll additions were concentrated in professional and business services (+74k), health care (+70k), retail trade (+45k), government (+36k), social assistance (+30k) and manufacturing (+23k). Leisure and hospitality, usually a significant contributor, added just +11k workers last month. The only major sector of the economy shedding jobs in January was mining (-7k).

Hourly earnings, a closely watched inflation indicator, rose +0.6% last month, doubling the expected increase, while the year-over-year wage gain came in higher-than-expected at +4.5%. Some of the earnings increase can be attributed to the disproportional rise in higher paying professional jobs.

The separate household survey told a much different story. The number of Americans employed in January actually fell by -31k while the civilian labor force decreased by -175k, combining to hold the unemployment steady at 3.7% for the third straight

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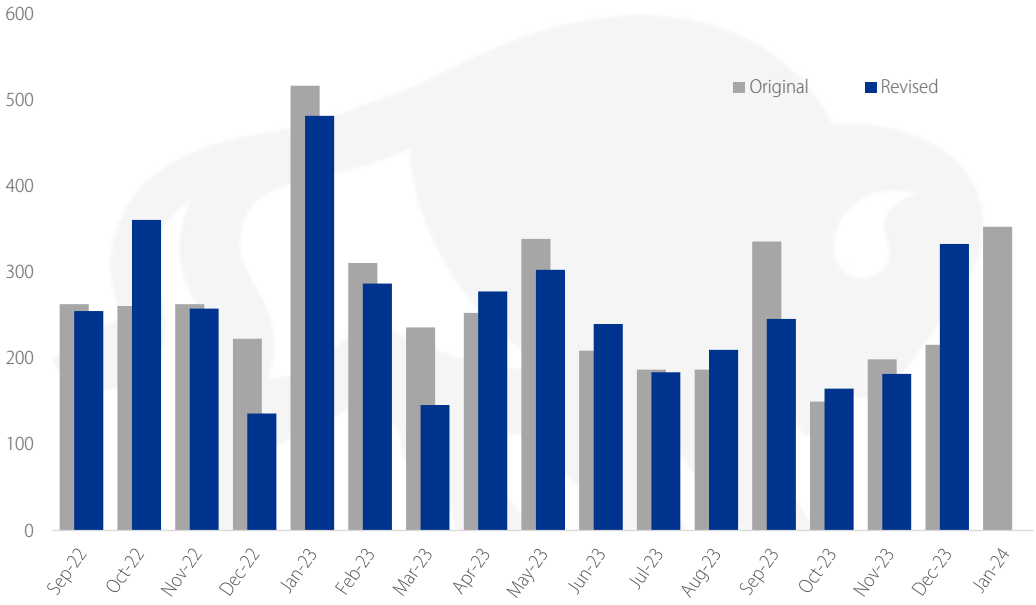
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2

month. The establishment survey commands headlines, but the broader household survey hints at weakness ahead.

Oddly enough, as hot as the labor market has been, millions of workers continue to sit on the sidelines. The labor force participation was unchanged in January at 62.5%, and remains well below the February 2020 pre-pandemic peak of 63.4%.

With the exception of a slight drop in the average workweek and apparent weakness in the (often volatile) household survey, there's little denying that the labor market has defied the Fed's efforts to cool overall demand. As a result, yields are up big in early trading as investors recalibrate future rate expectations. At this point, the bond market has essentially given up on the possibility of a March rate cut, and is much less certain Fed officials will announce an easing move at the May meeting.

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That being said, the Fed's primary focus is clearly on inflation and there will be two more months of CPI/PPI/PCE reports for policymakers to consider before the next FOMC meeting on March 20th.

Market Indications as of 9:20 A.M. Central Time

DOW	Down -115 to 38,405 (HIGH: 38,520)
NASDAQ	Up 127 to 15,488 (HIGH: 15,628)
S&P 500	Up 12 to 4,918 (HIGH: 4,928)
1-Yr T-bill	current yield 4.83%; opening yield 4.67%
2-Yr T-note	current yield 4.38%; opening yield 4.20%
3-Yr T-note	current yield 4.15%; opening yield 3.98%
5-Yr T-note	current yield 3.98%; opening yield 3.81%
10-Yr T-note	current yield 4.02%; opening yield 3.88%
30-Yr T-bond	current yield 4.22%; opening yield 4.12%