

## Bonds Rally on Mixed Labor Report and Dovish Fed Talk

Recent Fed concerns over softening labor conditions had intensified focus on this morning's employment report, queuing up another bond rally in the event of weakness. Markets initially rallied big on slowing payroll growth but reversed course after sifting through stronger underlying numbers...and then rallied again following unexpectedly dovish comments by Fed officials.

U.S. companies added +142k jobs in August, below the median forecast of +165k, while downward revisions to previous months subtracted a combined -86k. The three-month average change in business payrolls, according to BLS data, has declined from +211k a year ago to +116k.

Notable job gains were concentrated in construction (+34k) and healthcare (+31k), although healthcare hires were half the average monthly gain over the past year. Manufacturing lost -24k jobs while retail trade continued to shed workers (-11k).

The company payroll numbers get a disproportionate amount of attention, but the separate household survey actually indicated improvement last month. The total number of employed Americans rose by +168k, *more than twice the July increase*, while the labor force grew by +120k. This combined to drag the unemployment rate down from 4.3% to 4.2%, while the total number of active jobseekers fell by -48k to 7.1 million.

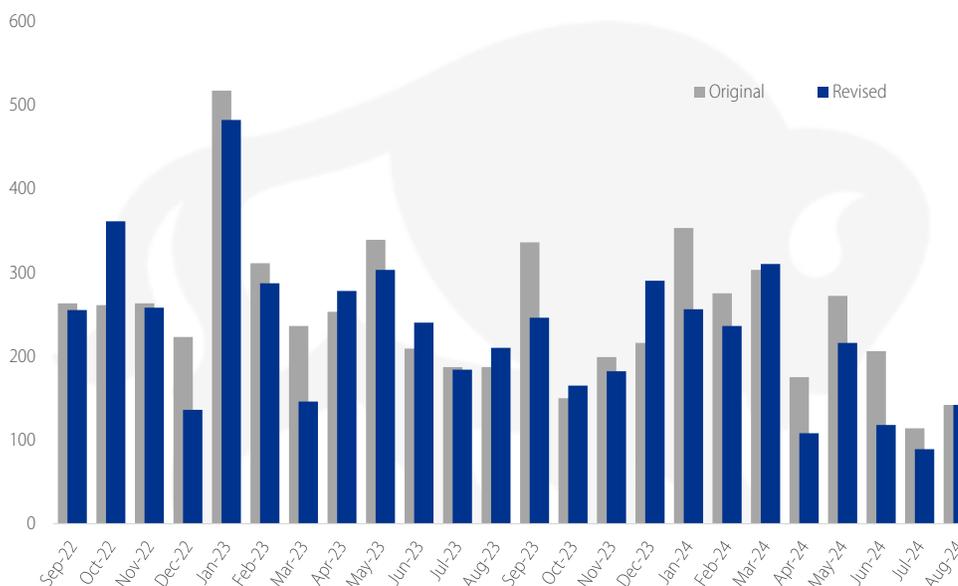
The number of Americans working part-time but preferring fulltime, rose substantially for the second straight month, while the number of workers holding temporary positions fell (again) last month. This is a signal of future labor weakness as employers typically lay-off temp workers before reducing permanent positions.

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### Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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On the inflation side of the report, average hourly earnings climbed +0.4%, more than the +0.3% median forecast and double the July increase. The annual earnings rate climbed from +3.6% to +3.8%, also above forecast.

The initial bond market reaction drove the two-year Treasury note yield down to 3.64%, the lowest since September 2022, but the rally faded as investors looked beyond the soft payroll numbers. With the headline unemployment rate moving lower and wages moving higher, the notion that the labor market is nearing a crash is debatable. The abruptness of the slowdown in hiring by companies is reason for concern, but the number of employed workers is still rising, and headline unemployment is just eight-tenths higher than the all-time low.

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New York Fed President John Williams, speaking this morning, gave a prepared speech that generally stuck to the Fed's script. Williams echoed Chairman Powell's Jackson Hole speech, acknowledging that *it is now time to reduce rates*, although "the timing and pace of rate cuts will depend on incoming data."

Fed Governor Chris Waller followed Williams later this morning with a surprisingly clear message that he is "open-minded" about the potential for a bigger cut in two weeks, telling his audience that the current batch of data no longer requires patience, *it requires action.*"

With the FOMC meeting 12 days away and the 10-day quiet period for Fed officials fast approaching, Waller's comments have pushed yields back down to morning lows.

At this point, the futures market is signaling a 25% chance of a 50 bp cut in September and 150 bps between now and the end of January. The next critical economic release is next Wednesday's August CPI report.

## Market Indications as of 10:36 A.M. Central Time

DOW	Down -316 to 40,439 (HIGH: 41,563)
NASDAQ	Down -382 to 16,746 (HIGH: 18,647)
S&P 500	Down -81 to 5,422 (HIGH: 5,667)
1-Yr T-bill	current yield 4.15%; opening yield 4.19%
2-Yr T-note	current yield 3.67%; opening yield 3.75%
3-Yr T-note	current yield 3.53%; opening yield 3.61%
5-Yr T-note	current yield 3.48%; opening yield 3.54%
10-Yr T-note	current yield 3.68%; opening yield 3.73%
30-Yr T-bond	current yield 3.97%; opening yield 4.02%

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