Yields Lower as ADP Reports Negative Job Growth

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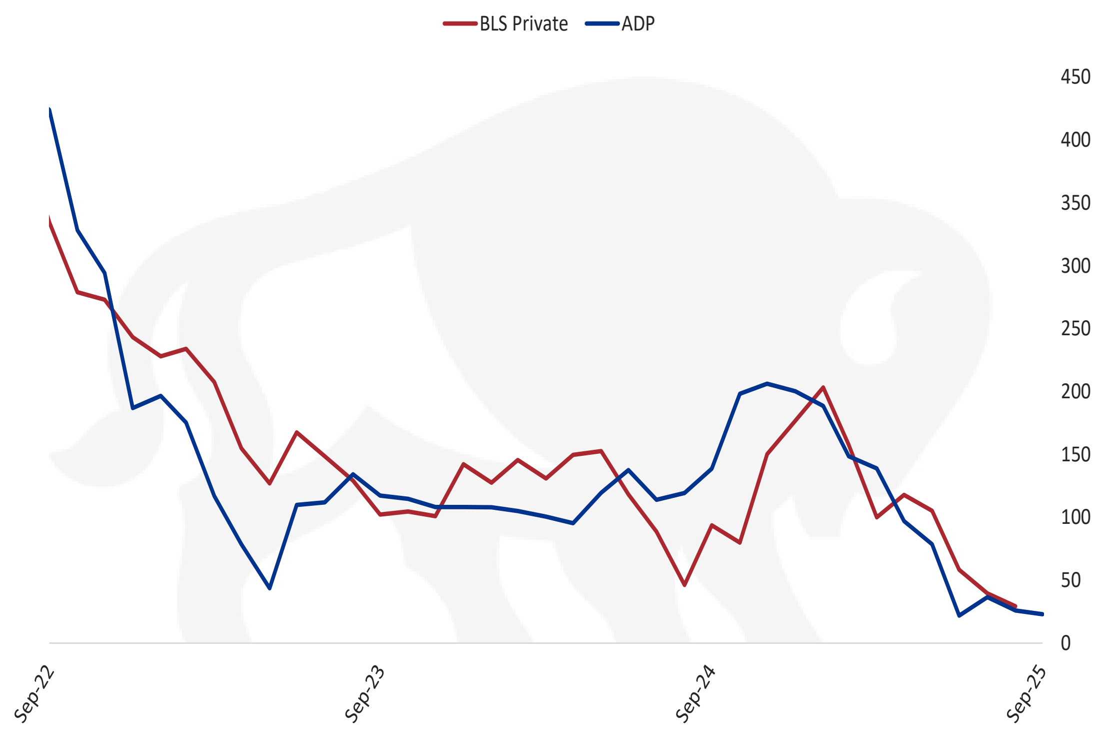
With the September employment report from the BLS likely postponed on Friday morning, the ADP employment report gains value as an indicator. This morning, ADP Research announced the loss of -32k payroll jobs during the month of September, well below the +51k median forecast. In addition, August payrolls were revised sharply downward from +54k to -3k, marking *the first back-to-back reductions in over five years*.

There is a positive correlation between the BLS employment statistics and the ADP data, with the two payroll reports typically differing in any given month, but tracking each other over time, according to a 2019 study by Federal Reserve researchers. With the recent weakness in the ADP numbers worsening, investors have concluded this morning that employment conditions continue to soften. Bonds are rallying in response, as signs of job loss boost the case for an October rate cut.

Private-Sector Job Growth, Three-Month Average



Source: Bureau of Labor Statistics

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Concerns over a government shutdown were realized early this morning. The question now becomes: "*How long will this stalemate last?*" With no debt ceiling to worry about at this time and government funding secured, there's less urgency to reach an agreement. We're expecting nonessential services to remain closed for an uncomfortable period as political rhetoric intensifies, and blame is cast.

In other news this morning from private data sources, the ISM manufacturing survey indicated the U.S. factory sector contracted for the seventh straight month in September.

The composite manufacturing index edged up +0.4 to 49.1 but remained in contraction territory (sub-50). The forward-looking new orders index fell from 51.4 back into contraction at 48.9, while the prices paid index decreased 1.8 points to 61.9, marking the eighth straight month of elevated prices.

Factory manager comments within the ISM report focused heavily on the impact of tariffs:

- "Business continues to be severely depressed. Profits are down and extreme taxes (tariffs) are being shouldered by all companies in our space…" (Transportation Equipment)
- "The tariffs are still causing issues with imported goods into the U.S. In addition to the cost concerns, product is being held up at borders due to documentation issues…" (Chemical Products)
- "Ongoing macroeconomic conditions highlighted by interest-rate management and tariffs continue to impact customer purchasing decisions, resulting in subdued production rates and growing cost concerns on direct material and operations." (Machinery)
- "The semiconductor industry is being impacted by high tariff prices on parts from Korea, China and Europe. Our industry is at a low point right now as we race to get new nanotechnology in the U.S." (Computer & Electronic Products)
- "Steel tariffs are killing us." (Miscellaneous Manufacturing)

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The ISM *services* report, representing a much larger percentage of the U.S. economy, is scheduled for release on Friday.

Market Indications as of 10:48 A.M. Central Time

DOW	Up 129 to 46,527 (NEW HIGH)
NASDAQ	Up 25 to 22,685 (HIGH: 22,789)
S&P 500	Up 2 to 6,691 (HIGH: 6,694)
1-Yr T-bill	current yield 3.63%; opening yield 3.65%
2-Yr T-note	current yield 3.56%; opening yield 3.61%
3-Yr T-note	current yield 3.57%; opening yield 3.63%
5-Yr T-note	current yield 3.70%; opening yield 3.75%
10-Yr T-note	current yield 4.12%; opening yield 4.16%
30-Yr T-bond	current yield 4.72%; opening yield 4.73%