

## Services Sector Stalls as Shutdown Delays Key Jobs Data

With the September BLS jobs report delayed due to the government shutdown, markets turned to private data earlier in the week for guidance. The ADP report showed a surprising loss of 32k private-sector jobs, with August revised into negative territory. While we covered this in detail previously, the continued weakness in private payrolls reinforces the narrative of a softening labor market and supports expectations for a potential Fed rate cut this month.

No payrolls data meant all eyes were on the ISM Services Index today. The headline index fell to 50.0, the lowest reading since January 2010 and right at the threshold between expansion and contraction. The figure was weaker than all estimates in a Bloomberg survey of economists. Business Activity dropped to 49.9, marking the weakest level since the early pandemic days of May 2020. New Orders slipped to 50.4, barely holding in expansion territory, while the Employment Index remained in contraction at 47.2, its fourth such reading in the past six months. Prices Paid stayed elevated at 69.4, continuing a 10-month streak above 60 and signaling persistent inflationary pressures.

The report suggests slowing demand and cautious hiring, even as consumer spending remains resilient. With services comprising nearly 80% of U.S. GDP, this softness could weigh on Q4 growth expectations and further influence Fed policy discussions later this month. The combination of weak labor signals and deteriorating service-sector momentum paints a picture of an economy losing steam.

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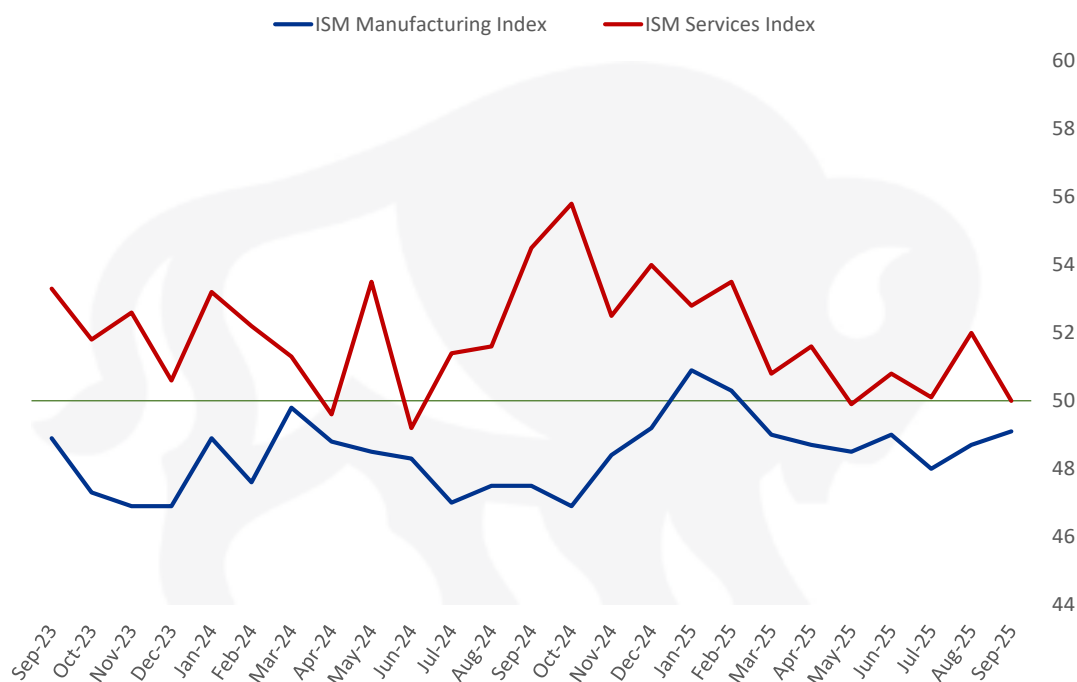
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### ISM Purchasing Managers Index



*The combination of weak labor signals and deteriorating service-sector momentum paints a picture of an economy losing steam.*

Source: Institute for Supply Management

Looking ahead to next week, markets would typically be watching for the Trade Balance report on Tuesday, which provides insight into net exports and their contribution to GDP. However, with the government shutdown expected to continue, it's unlikely this release will be available. Similarly, Thursday's Initial Jobless Claims, a timely gauge of labor market stress, may also be delayed, especially critical in the absence of the September jobs report. Friday's preliminary University of Michigan Consumer Sentiment survey, which is privately produced, is still expected and will offer an early read on household confidence amid rising uncertainty.

As the government shutdown persists, these economic data releases will be delayed, leaving markets to rely on private data and sentiment indicators. In the meantime, the bond market continues to price-in economic softness. According to the CME Fed Watch Tool, the odds of a Federal Reserve rate cut at the October 29 FOMC meeting have now reached 100%. The shutdown, combined with deteriorating labor and services data, has sharpened the focus on monetary policy as the Fed seeks to avoid falling behind the curve.

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## Market Indications as of 2:55 P.M. Central Time

DOW	Up 243 to 46,763 (NEW HIGH)
NASDAQ	Down -60 to 22,784 (HIGH: 22,844)
S&P 500	Up 9 to 6,725 (NEW HIGH)
1-Yr T-bill	current yield 3.64%; opening yield 3.61%
2-Yr T-note	current yield 3.58%; opening yield 3.54%
3-Yr T-note	current yield 3.59%; opening yield 3.55%
5-Yr T-note	current yield 3.72%; opening yield 3.67%
10-Yr T-note	current yield 4.12%; opening yield 4.09%
30-Yr T-bond	current yield 4.72%; opening yield 4.69%

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