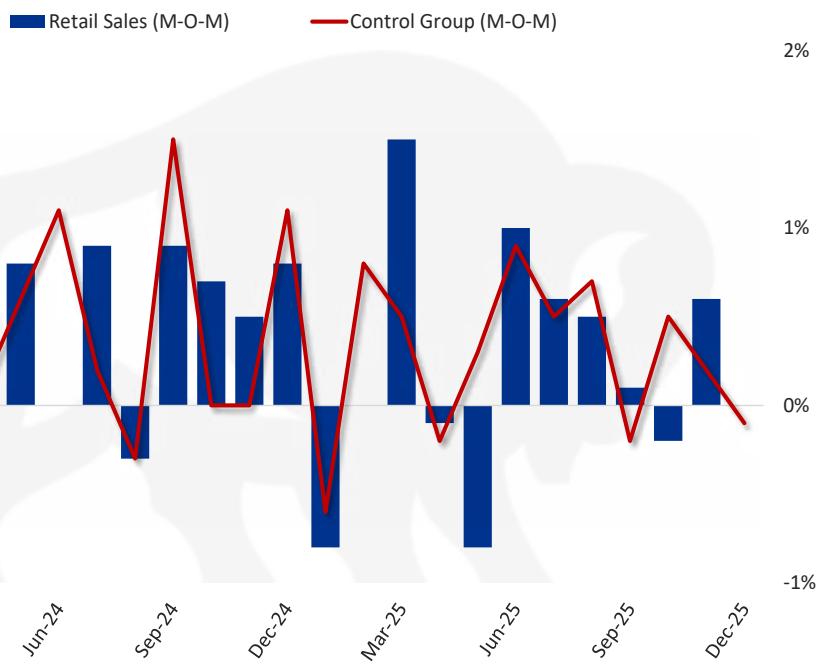


Bond Yields Fall as Both Spending and Compensation Cool

Bonds rallied this morning, sending Treasury yields lower across the curve on news that consumer spending had stalled in December while wage growth continues to cool. The combination of fading demand paired with a deceleration in compensation growth hints that Fed officials may need to resume rate cuts sooner than June.

Retail sales were unchanged in December following a solid +0.6% November gain, reducing much of the shine from the 2025 holiday shopping season. The unexpected weakness fell well below the +0.4% median forecast and was widespread across major sales categories. The control group, which factors out sales at auto dealerships, gasoline stations, home improvement stores and eating and drinking establishments, was -0.1% in December, while the previously reported November increase was revised downward from +0.4% to +0.2%. Since control group sales are used to calculate GDP, Q4 economic growth will be lower than previously anticipated.

Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

The ongoing series of partial government shutdowns has resulted in a haphazard calendar of government data releases. According to the Census Bureau, the January retail sales report has no scheduled release date at this time. However, a substantial drop in January auto sales suggests consumer weakness has carried over into the new year.

In other news this morning, the employment cost index (ECI) continues a four-year softening trend with a lower than expected +0.7% increase in fourth quarter worker compensation. This pulled the annual growth rate down from +3.54% at the end of Q3 to +3.36%, the slowest pace of worker comp since June 2021.

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The combination of fading demand paired with a deceleration in compensation growth hints that Fed officials may need to resume rate cuts sooner than June.

The FOMC paused its easing policy in January, awaiting more clarity. Although Fed officials are expected to hold the overnight rate steady at the March meeting, the probability of a reduction in late April has risen from 25% a week ago, to almost 50%. If economic growth and inflation continue to abate, there will be increased pressure to cut more aggressively in the second half of the year.

If economic growth and inflation continue to abate, there will be increased pressure to cut more aggressively in the second half of the year.

Market Indications as of 10:52 A.M. Central Time

DOW	Up 216 to 50,352 (NEW HIGH)
NASDAQ	Down -26 to 23,213 (HIGH: 23,958)
S&P 500	Up 4 to 6,969 (HIGH: 6,979)
1-Yr T-bill	current yield 3.40%; opening yield 3.41%
2-Yr T-note	current yield 3.45%; opening yield 3.48%
3-Yr T-note	current yield 3.52%; opening yield 3.55%
5-Yr T-note	current yield 3.70%; opening yield 3.74%
10-Yr T-note	current yield 4.14%; opening yield 4.20%
30-Yr T-bond	current yield 4.78%; opening yield 4.85%

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