

Markets React to Unexpected Job Loss While Crude Oil Soars

The February employment report delivered a huge downside surprise this morning, abruptly shifting the labor market narrative from improvement to deterioration while further complicating Fed policy decisions for 2026.

The Bureau of Labor Statistics (BLS) reported nonfarm payrolls unexpectedly fell -92k last month, below expectations for a +55k increase, while previous month revisions shaved off another -69k. The recalculation pulled the December payroll count down to -17k, marking the third negative reading in the last five months, reinforcing a cooling trend that has become more apparent as revisions skew lower. Over the past three months, U.S. companies have now added an average of just under +6k jobs per month.

Health care employment fell -28k in February, after a +77k January increase. The surprising decline in the sector responsible for a majority of last year's otherwise poor payroll gains, was largely due to a strike at Kaiser Permanente that sidelined over 30,000 workers. Information services continued a year long slide with an -11k decrease, reflecting ongoing restructuring tied to technology and AI related efficiencies. DOGE cuts continued to weigh on federal government payrolls, down -10k last month and -330k since October 2024.

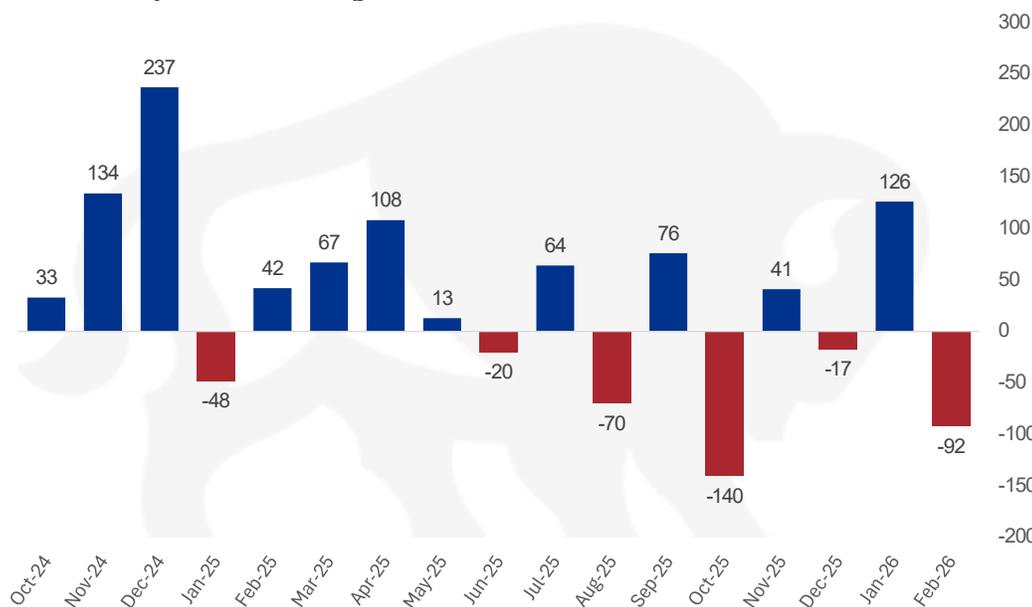
Payroll declines in leisure and hospitality (-27k), transportation and warehousing (-11k) and construction (-11k) were likely affected by freezing weather during the survey period. Manufacturing payrolls fell -12k in February, resuming a year-long decline after a hopeful +5k gain in January.

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Non-Farm Payrolls Total Change (in thousands)



Employers appear increasingly cautious in the face of trade uncertainty and labor strikes. This caution has likely increased in March as employers consider recent military action in the Middle East.

Source: Bureau of Labor Statistics

In the separate household survey, the number of employed Americans fell by -185k while the labor force participation rate dropped from a previously reported 62.5% in January to 62.0%, *the lowest since December 2021*. The headline unemployment rate climbed from 4.3% to 4.4% *but would have been higher if the participation rate had not fallen*. And average hourly earnings rose from an annual pace of 3.7% to +3.8%, adding wage inflation concerns to the mix.

In sum, the February employment report signals a labor market that may have shifted from simply cooling to contracting. Employers appear increasingly cautious in the face of trade uncertainty and labor strikes. This caution will likely rise in March as employers consider recent military action in the Middle East.

Fed officials have been in a tough spot for a while, and today's data further complicates policy decisions. Tepid payroll growth and softer labor participation would typically argue for rate cuts, but annual wage growth nearing +4.0% supports the ongoing pause.

Unexpected labor market weakness might normally prompt a significant bond market rally, but long treasury yields are higher once again this morning. The reason is the sharp rise in oil prices. WTI crude has topped \$89 this morning, up from \$67 a week earlier. Higher energy prices have a tendency to filter through the entire economy over time, reversing what was expected to be a downward trend in inflation. The latest round of 15% across-the-board import tariffs will further stoke inflation expectations.

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Market Indications as of 9:49 A.M. Central Time

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| DOW | Down -595 to 47,359 (HIGH: 50,188) |
| NASDAQ | Down -224 to 22,525 (HIGH: 23,958) |
| S&P 500 | Down -72 to 6,759 (HIGH: 6,979) |
| 1-Yr T-bill | current yield 3.53%; opening yield 3.57% |
| 2-Yr T-note | current yield 3.55%; opening yield 3.58% |
| 3-Yr T-note | current yield 3.57%; opening yield 3.60% |
| 5-Yr T-note | current yield 3.72%; opening yield 3.73% |
| 10-Yr T-note | current yield 4.15%; opening yield 4.14% |
| 30-Yr T-bond | current yield 4.78%; opening yield 4.76% |

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