

Fed Patience Gains Support as Labor Market Softens

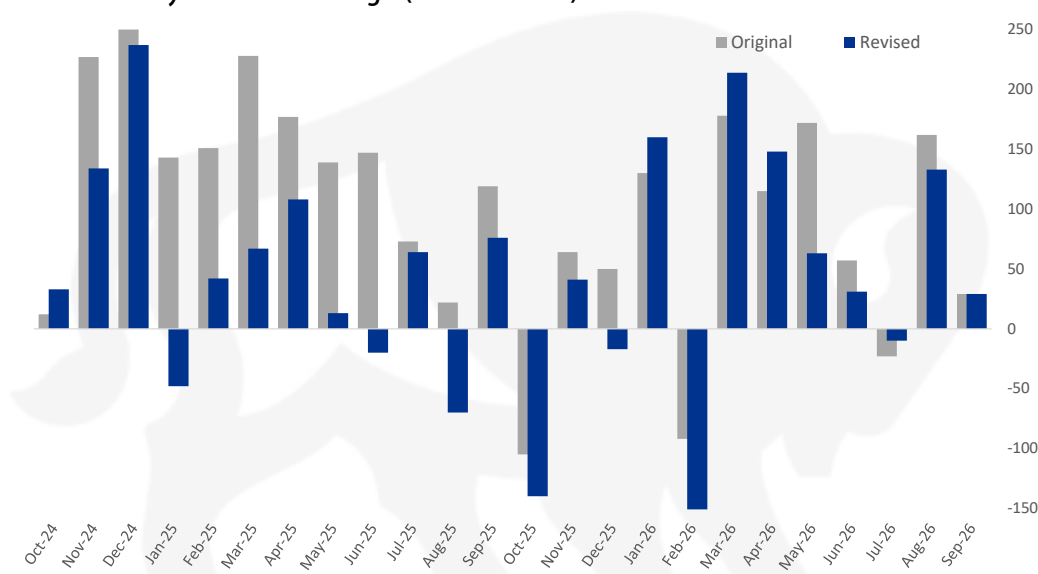
Nonfarm payrolls rose by just +29k in September, well below the +90k median forecast, while prior month revisions reduced the July/August tally by -60k. The previously-reported August employment numbers had been unexpectedly strong across the board, and the payroll count has been extremely volatile over the past year, so it's nearly impossible to gain insight from the latest swing. However, bonds are rallying for the second straight day as whip-sawed investors now expect the most recent bout of labor market softening will allow Fed officials to remain patient at the next FOMC meeting on October 28.

The breakdown of the September payrolls suggests a majority of new jobs were in lower-paying industries. Notable job losses were evident in information services (-10k), financial activities (-7k) and professional and business services (-9k). Healthcare and social assistance (+23k) continued to add workers...but at a slower pace. Other job gains were concentrated in private education and health services (+20k), leisure and hospitality (+10k) and retail sales (+5.8k).

The construction industry, benefiting from massive A.I. infrastructure buildout, continued to improve, adding +11k jobs last month while averaging +10k over the past year. The number of manufacturing jobs rose by +9k in September, bringing the 2026 total increase to a respectable +72k. By contrast, the factory sector shed -68k jobs in 2025.

The unemployment rate rose from 4.1% to 4.2%, although the underlying reason was relatively positive as *more Americans began seeking work*. While the September household survey indicated a solid +406k increase in the number of employed workers, incoming jobseekers pushed the total labor force up +485k. This combined to boost the number of unemployed Americans by +78k.

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2

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Hourly earnings, reflecting more lower-paying service positions and fewer professional jobs, were up by just +0.1% for the month and +3.0% year-over-year. The slowest annual wage gain in over five years suggests consumer spending capacity may be waning. A potential slowdown in both job growth and spending capacity *as the holiday buying season approaches* should provide additional cover for FOMC members to hold steady at a politically-charged late-October meeting just days from the mid-term elections.

The futures market is currently indicating the probability of a 25 bp rate hike four weeks from now at 20%, down sharply from 70% earlier this week. However, the bond market continues to price-in a full percentage point of combined tightening over the next 12 months.

At least a portion of this morning's rally can be attributed to a drop in crude oil prices after the *Group of Seven Nations* announced the release of as much as 100 million barrels of emergency oil and diesel reserve supply. Another contributing factor may be dovish statements made yesterday by Federal Reserve Vice Chairman Philip Jefferson, suggesting the FOMC should be patient in assessing the evolving economic conditions. Jefferson's comments came only days after New York Fed President John Williams said he sees "no need for urgency" as policymakers continue gathering information. Both the vice chairman and New York Fed president are considered influential voting members.

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

DOW	Up 340 to 51,266 (HIGH: 54,349)
NASDAQ	Up 462 to 27,333 (NEW HIGH)
S&P 500	Up 77 to 7,743 (HIGH: 7,799)
1-Yr T-bill	current yield 4.42%; opening yield 4.43%
2-Yr T-note	current yield 4.79%; opening yield 4.80%
3-Yr T-note	current yield 4.91%; opening yield 4.92%
5-Yr T-note	current yield 5.01%; opening yield 5.02%
10-Yr T-note	current yield 5.22%; opening yield 5.25%
30-Yr T-bond	current yield 5.58%; opening yield 5.62%

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