Hot Jobs Report Wraps a Volatile Week

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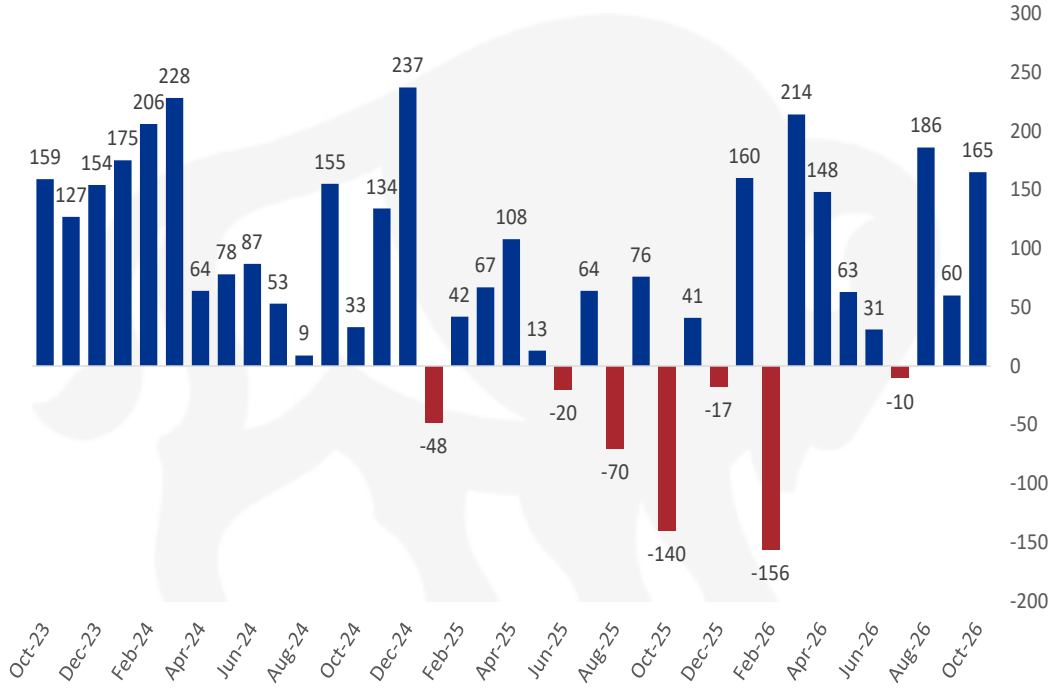
It's been quite a ride in the markets this week, with both stocks and bonds bouncing around following the midterm elections along with sector rotation and a flight to quality against concerns surrounding the AI trade. To quickly recap, stocks rallied on Wednesday following the elections before reversing yesterday as tech stocks came under pressure. Concerns surrounding elevated valuations and whether the AI-driven rally may be losing momentum contributed to the broader selloff. Markets are attempting to stabilize this morning, with the Nasdaq rebounding while Treasury yields have moved higher.

This morning, we received the October jobs report from the BLS, which was a hot one. Nonfarm payrolls surged by 165k compared with expectations of just 70k. Looking at Bloomberg's survey of economists, not one of the 79 surveyed projected a payroll gain as high as 165k. Also of interest, the prior two months were revised higher by a net 84k, a significant bump following last month's downward revisions. Private payrolls increased by 159k, while manufacturing added 19k jobs. The closely watched three-month average increased to 137k, well above estimates of the pace needed to keep employment stable. Job creation was led by professional and business services, health care, and transportation and warehousing.

The household survey was also better than expected. The unemployment rate unexpectedly declined to 4.1% from 4.2%, while household employment increased by 463k, marking a third consecutive sizable gain. Labor-force participation edged higher to 61.9%, indicating the unemployment rate declined even as more people entered the labor force.

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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2.

One area of concern was the broader underemployment rate, which increased to 7.9% from 7.6%. The number of people working part time for economic reasons increased by 339k to 4.8 million, suggesting some workers continue to have difficulty finding full-time employment or are seeing their hours reduced.

As strong as the number of jobs were, they already feel somewhat stale. The Fed is expected to raise rates in December, and today's jobs data only strengthens the case for policymakers to remain focused on inflation. The big question for markets right now is how the recent AI selloff plays out and whether weakness in tech spreads into a deeper market decline. A significant tightening in financial conditions would present a new challenge for the Fed as it balances persistent inflation against weakening financial markets.

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Next Tuesday should be a big day for markets and the Fed, as the BLS releases October CPI, providing the first major look at inflation for the month. The monthly readings will be especially important, with core CPI expected to slow to 0.3% following September's hot 0.6% increase. Headline inflation is also expected to moderate to 0.2% from 0.3%. Year-over-year readings will not be available because the 2025 government shutdown prevented the BLS from collecting a full October 2025 CPI report. After today's strong jobs numbers, another hot inflation reading would put more pressure on the Fed and keep yields elevated. Alternatively, a softer reading could provide some relief following what has been a volatile period for yields.

Market Indications as of 9:52 A.M. Central Time

DOW	Up 111 to 51,634 (HIGH: 54,349)
NASDAQ	Up 440 to 24,755 (HIGH: 27,600)
S&P 500	Up 42 to 7,396 (HIGH: 7,819)
1-Yr T-bill	current yield 4.33%; opening yield 4.26%
2-Yr T-note	current yield 4.53%; opening yield 4.46%
3-Yr T-note	current yield 4.60%; opening yield 4.53%
5-Yr T-note	current yield 4.66%; opening yield 4.60%
10-Yr T-note	current yield 4.86%; opening yield 4.83%
30-Yr T-bond	current yield 5.26%; opening yield 5.25%

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