"IT'S THE WORKING, THE WORKING, JUST THE WORKING LIFE"

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With the post-Brexit fallout seemingly in the rearview mirror, at least for now, the money and bond markets have turned their focus back to the fundamentals. More specifically, conjecture surrounding Fed policy decisions has been an integral force within the U.S. Treasury (UST) arena of late. Obviously, the market's outlook regarding the potential for any Fed rate action has been, and will continue to be, viewed through the prism of the monthly employment reports, with last week's data being no exception. On a headline basis, the September jobs report did not meet consensus forecasts, as the increase for nonfarm payrolls was less than expected and the unemployment rate actually ticked up by 0.1 percentage point to 5%. It should be noted, however, that the increase in the jobless rate was actually due to a surge in the civilian labor force. The subpar performance for new job creation was the second in a row following a rather robust performance in the June/July period. On the wage front, the year-over-year gain for average hourly earnings, once again, moved up to the upper end of the recent band.

Source: Bloomberg, as of 10/07/2016. Past performance is not indicative of future results.

Perhaps the most important takeaway from the September jobs numbers is that they most likely keep alive the potential for a Fed rate hike before year-end. Fed Funds Futures implied that the probability for the December FOMC meeting stood at roughly 63%, as of this writing, or little changed from the post-September Fed convocation. Based upon recent Fed commentary, it would appear that as long as upcoming employment data does not visibly soften, the voting members are unlikely to view the tenor of last week's numbers as a deterrent to considering another rate increase. Certainly, the UST market greeted the jobs report in just such a fashion. In fact, it seems as if the UST 10-Year yield is in the process of moving back into the trading range that was in place prior to the June Brexit vote. Although the worst-case scenarios following the Brexit vote

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have failed to materialize as of yet, investors should not let their guard down on this front. Indeed, UK prime minister Theresa May has stated that Article 50 of the Lisbon Treaty will be invoked by the end of March 2017, setting the stage for potential heightened uncertainty. In the meantime, Treasury yields have moved higher, with the 10-Year registering a nearly 20 basis point (bps) back-up. As of this writing, the UST 10-Year yield has been straddling the 1.75% level, a development that has not been witnessed since early May, and is roughly 40 bps above its July 8 all-time low. To provide some additional perspective, the UST 10-Year trading range from Feb. 11 of this year (the peak risk-off day) until June 23 (Brexit vote) was placed at 1.57%–1.98%. It is interesting to note how this pre-Brexit trading range lines up from a technical perspective. Utilizing Fibonacci retracement levels for the last year reveals that the 1.5674% reading represents a 23.6% move, while the 1.9711% reading stands at a 61.8% retracement. Another consideration is the various moving averages for the UST 10-Year. By straddling the 1.75% level, the UST 10-Year has moved above both the 50-day and 100-day moving averages and stands right at the precipice of the 200-day measure of 1.7487%. **Conclusion** This recent price action in Treasuries seems to be telling us that without a safe-haven bid and/or a further plunge in G-7 sovereign debt yields, the UST market needed to recalibrate its own rate mechanism to reflect the possibility of a Fed rate increase by the end of 2016. ***Unless otherwise noted, data source is Bloomberg, as of 10/7/2016.***

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Brexit : an abbreviation of "British exit" that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Basis point : 1/100th of 1 percent.

Fibonacci retracement : A technical analysis tool displaying percentage lines which look at support and resistance levels, potentially signaling short-term price/yield reversals. The concept of retracement suggests that after a period of market movement, prices/yields can retrace a portion of their prior pattern before returning to their original trend.

Safe-haven : Characterized by being a potentially desirable focal point of investment flows during periods of increased volatility and market risk. Safe-haven is not synonymous with risk-free.

G-7 Countries : France, Germany, Italy, Japan, United States, United Kingdom, and Canada.

Sovereign Debt : Bonds issued by a national government in a foreign currency, in order to finance the issuing country's growth.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.