

CLASH OF THE TITANS

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Are we beginning to see the Clash of the Titans? The U.S. economy versus the [Federal Reserve \(Fed\)](#) and the bond market—who would you put your money on? Right now, I'd go with the U.S. economy, because I don't think the expected slowdown is going to be as worrisome as the bond market, and now perhaps the Fed, seems to be expecting. To support my case, I present last week's jobs report.

- First, the government shutdown did not impact the establishment part of the report (payrolls, hourly earnings, workweek), although it did affect the household survey (unemployment rate, civilian labor force).
- Total nonfarm payrolls rose by 304,000, or 139,000 more than the consensus forecast. Yes, the prior two months were revised down by a combined 70,000 (annual benchmark revisions), but even so, the January numbers were solid, with job gains posted essentially across the board. The three-month average gain came in at 241,000 versus the prior 12-month period's average gain of 221,000.
- Average hourly earnings rose only 0.1% for the month, placing the year-over-year rate at 3.2%, which maintains the all-important "3" handle.
- The unemployment rate did tick up 0.1 percentage point to 4%, but the Bureau of Labor Statistics highlighted that this figure was impacted by the shutdown, leading me to believe that it will most likely get reversed next month.
- The [ISM Manufacturing PMI](#) report came in better than expected at 56.6, well above the 50 line of demarcation between expansion and contraction (unlike the eurozone's disappointing numbers).
- The UST [10-year yield](#) has risen a few [basis points](#) as a result, but the Treasury market is still basking in the glow of this week's [FOMC](#) meeting and Powell's comments at the presser, specifically, "the case for raising rates has weakened somewhat."
- Let's talk about Powell's comment for a minute. Ah yes, the dangers of too much Fed-speak (there is a presser now after every FOMC meeting). Really, the FOMC policy statement said it all, removing forward guidance and inserting "patient." Why then, did Powell feel the need to go further? Perhaps he was just trying to allay market fears and not have a repeat of his December performance (we all know how that worked out). But what if upcoming data make Powell walk back his comment? Uncertainty and [volatility](#) quotients get elevated, underscoring there was no reason to make the statement in the first place.

Conclusion

I believe the U.S. economic data will still trigger at least one rate hike this year and the UST 10-year looks like it will be trading in the broader 2.50%–3.25% range. Nearer-term, perhaps we could narrow that to 2.50%–2.90%.

Our fixed income solution for this rate environment: UST floating rate and yield-enhanced barbell strategy.

Unless otherwise stated, all data is sourced from Bloomberg, as of 2/1/19.

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Federal Reserve : The Federal Reserve System is the central banking system of the United States.

ISM Purchasing Managers' Index : Represents the health of the manufacturing sector based on new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI above 50 signifies expansion while below 50 signifies contraction.

10- Year Treasury : a debt obligation of the U.S. government with an original maturity of ten years.

Basis point : 1/100th of 1 percent.

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

Volatility : A measure of the dispersion of actual returns around a particular average level. nbsp;.