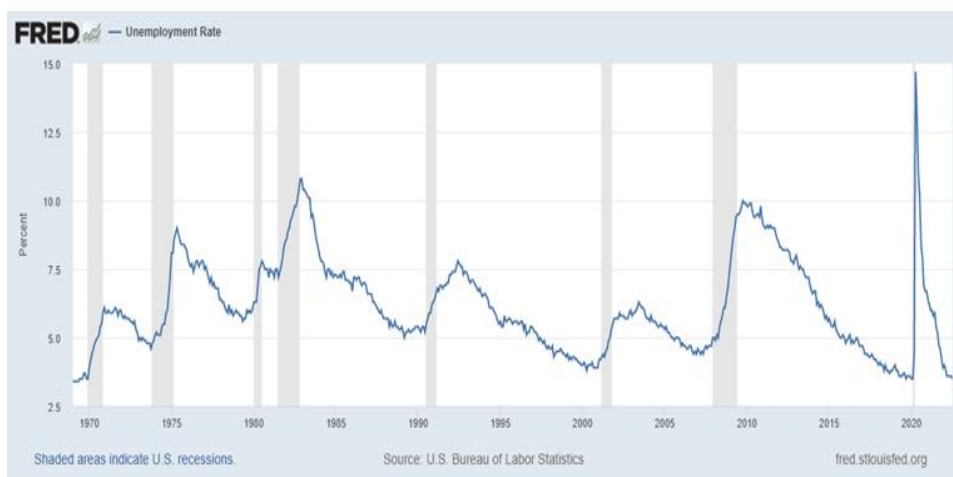
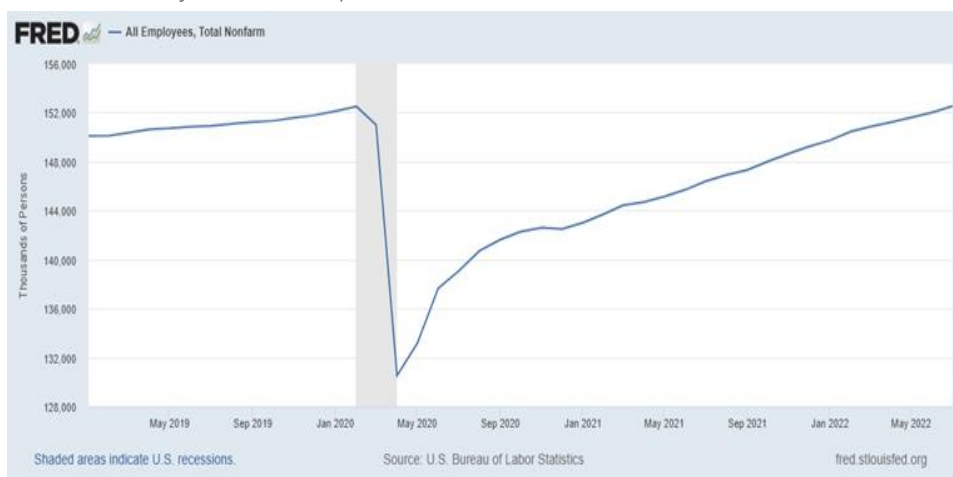


BACK IN THE SUMMER OF '69

Kevin Flanagan — Head of Fixed Income Strategy
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While the ‘are we or aren’t we?’ [recession](#) debate continues (we are, technically), don’t tell that to the U.S. labor market. For the second month in a row, the Employment Situation Report revealed not only resiliency, but a surprisingly solid showing as well. As a result, investors are still left with a confusing economic backdrop for their decision-making process. So, let’s put this latest jobs report into some perspective. Total nonfarm payrolls rose by 528,000 in July, more than doubling the consensus forecast of a 250,000 increase. In addition, the job gains were widespread in both the goods and services sector of the economy. Perhaps the most noteworthy aspect of the labor market data was that the level of nonfarm payrolls has now finally moved back to (actually slightly above) its pre-pandemic, February 2020, level. This feat took almost 2.5 years to accomplish.



Source: St. Louis Fed, as of 8/05/22.

What about the unemployment rate, you may ask? The jobless rate fell 0.1pp to 3.5%, also matching its pre-pandemic level. In fact, you have to go back to 1969 to find a lower reading! For the record, wages remained firm as well, with average hourly earnings posting an annualized increase of 5.2%. This measure has now risen at an annual rate of over 5%

in nine out of the last ten months.

In recent [Fed](#) comments, policy officials continued to push back against the recession narrative, and there is little doubt this jobs report will give the Fed further confidence to raise rates for the remainder of this year. In my opinion, a reasonable scenario would involve an additional 100 [basis points \(bps\)](#) increase for the [Fed Funds Rate](#) as the starting point between now and year-end.

However, it is 2023 that has now become the center of the [monetary policy](#) debate. Notwithstanding the solid labor market data, the money and bond markets are still discounting the possibility of rate cuts next year. This has been another area of push back from Fed officials lately. Keep in mind, it's August, so look out for Chairman Jerome Powell at the annual Jackson Hole conference slated for August 25–27. Fed chairs have used this venue to make comments on monetary policy in the past, and given the fact there is no [FOMC](#) meeting until September 21, it should come as no surprise if Powell uses the platform for this purpose once again.

Conclusion

Needless to say, the [UST](#) market sold off in a visible fashion in response to the strong jobs report. As we've discussed often, and continue to emphasize, [volatility](#) is elevated in the bond market. After dropping to about 2.50% early last week, the [UST 10-Year yield](#) retraced a whopping 30 bps back to over 2.80% following the report. Our credo remains: don't chase duration...

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Recession : two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

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

Basis point : 1/100th of 1 percent.

Federal Funds Rate : The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

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

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.

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

Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.