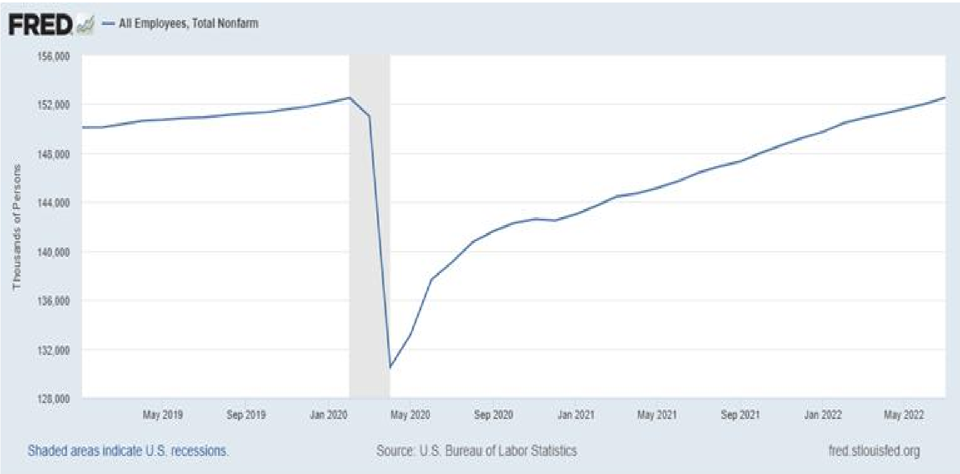
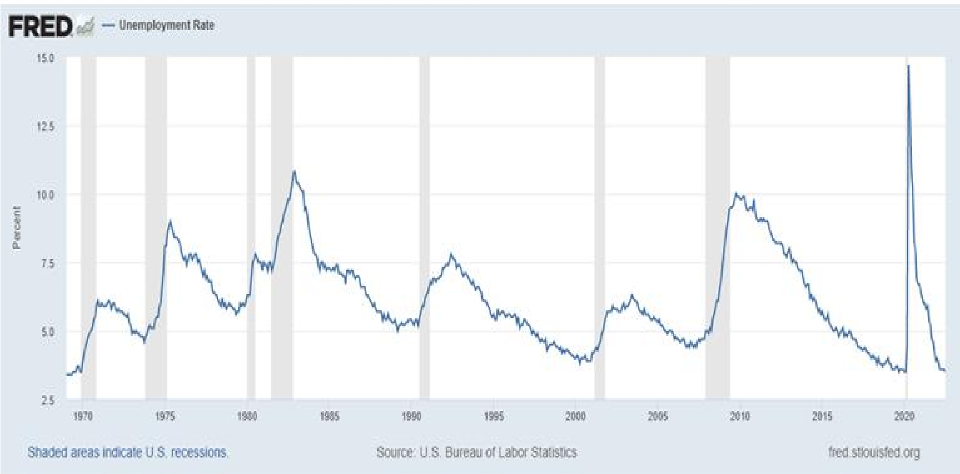
BACK IN THE SUMMER OF '69

Kevin Flanagan — Head of Fixed Income Strategy
08/10/2022

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…

Related Blogs

+ Don't Go Chasing Waterfalls

+ Is It Just a Matter of How Shallow or Deep?

+ Fed Watch: Back-to-Back in the History Books

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

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

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.