SILVER LININGS

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Well, that's two for two in terms of a better-than-expected U.S. jobs reports. As we saw last month, the June numbers released last week also exceeded expectations. I'm all for silver linings, but the crater that was dug in March and April was so deep, we still have a long way to go to get back to where we were in February. Also, the recent increase in COVID-19 cases and attendant effects on reopenings could make it a bit choppier going forward, but I still see the overall trend as one of improvement. Here are the key points:

- Total nonfarm payroll rose by 4.8 million in June vs. a consensus estimate of 3.2 million—silver lining
- The May/June combined payroll gain is now at about 7.5 million; the March/April combined job *losses* were 22.2 million; we've thus recouped only about one-third of the incurred job losses
- Like the May figures, robust job gains were found in the hardest-hit service sector, with leisure & hospitality, retail trade and education & health services standing out; manufacturing and construction posted strong increases as well
- The unemployment rate dropped another 2.2 percent, to 11.1%; the April peak was 14.7%—February was 3.5%
- Once again, another surge in the civilian labor force was more than absorbed by sizable employment gains—silver lining

In other news…

- Last week's ISM Manufacturing report posted a solid performance, with the overall index rising to its highest reading since April 2019 and eclipsing the 50 threshold, the level needed to signal an expansion—silver lining

U.S. Rate Watch

- The UST 10-Year yield has been stuck in a range, albeit a visibly lower one than the last jobs report. Just four weeks or so ago, the yield hit 0.95% but more recently has traded in the 0.60%–0.75% range
- January 2021 Fed Funds Futures are no longer flirting with negative rates, but the June 2021 contract isn't giving up that easily
- We don't see the Federal Reserve (Fed) "going negative," and yield curve control (YCC) is still being "studied"

Conclusion

It sure would be nice if we could get to a traditional summer lull in the money and bond markets. One interesting aspect of recent data releases is that the results on a graph show a clear V-shape. However, looks can, at times, be deceiving… I'm thinking the reasonable case scenario will be more of U-shaped recovery.

Unless otherwise stated, data source is Bloomberg, as of July 2, 2020.

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DEFINITIONS

Interest rates : The rate at which interest is paid by a borrower for the use of money.

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

Fed fund futures : A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

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

Yield curve control (YCC) : Involves targeting a longer-term interest rate by a central bank, then buying or selling as many bonds as necessary to hit that rate target.

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