

NFP Instant Reaction - Bad for Bonds, Good for Stocks?

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The report should be bad for bonds and I expect yields to drift higher.

Total jobs were ok (199k) and downward revisions weren't too bad (-35k).

Hourly earnings ticked up and we saw average hours worked edge up as well (typically indicators of labor strength).

The Labor Force Participation Rate actually increased a touch (62.8% - something that the Fed and I would like to see go higher).

The Household Survey added a staggering 747k jobs! That is why the unemployment rate dropped from 3.9% to 3.7% despite the ho-hum net jobs added and the uptick in the participation rate. On the other hand, the Household Survey lost 348k jobs last month and has been lagging behind the Establishment Survey for what seems like years.

The data should reduce the probability of cuts next year and push back the timing. Treasury yields should push higher further out on the curve. But the move should be "modest" by recent standards. The 10-year should probably drift back towards 4.3% (maybe a touch higher), but this data isn't "that good". This data gives Powell the opportunity to sound hawkish next week (which he always tries to do) and the market could actually believe it (which doesn't always happen).

How will equities and risk assets respond?

Given the "addiction" that risk assets have had to Fed cuts (hearing a lot of Fed put chatter), the initial reaction is likely to be lower stocks and wider spreads – **I like buying any dip.**

On the cusp of "bad news is bad"

As we've argued, the markets are at risk of seeing "bad news" as bad somewhere below 4.3%. Treasuries can only get that low if there is a real risk of a hard landing. While I'm still in the camp of a hard landing, today's data does not support that. So, if equities are being held back because of growth fears (which is my belief over the past few days), then this data should free up risk assets to rally. **The relief from a hard landing scenario will outweigh marginally higher bond yields.**

This data should be good for the laggard outperformance trade!

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