



## The Day Ahead: Jobs Report Does Nothing to Resolve Fed Rate Cut Debate

At first glance, this morning's jobs report suggested a modest but clearly-defined increase in the likelihood of a 50bp rate cut from the Fed in 2 weeks. Headline nonfarm payrolls came in at 142k vs 160k forecast. In addition, the past 2 months were revised down by a total of 144k. As of today, that leaves the 3 month average NFP at 116k, a far cry from last year's 232k or 2024's YTD 207k. In other words, it's more than just one month of jobs data that suggests a shift in the labor market. Bonds pounced on that fact at first, but trading has been extremely "2-way" since then.

At one point, the AM gains were completely reversed and yields moved well into negative territory. But we're back near the best levels of the day during the 10am hour--perhaps with some credit due to heavy losses in stocks.



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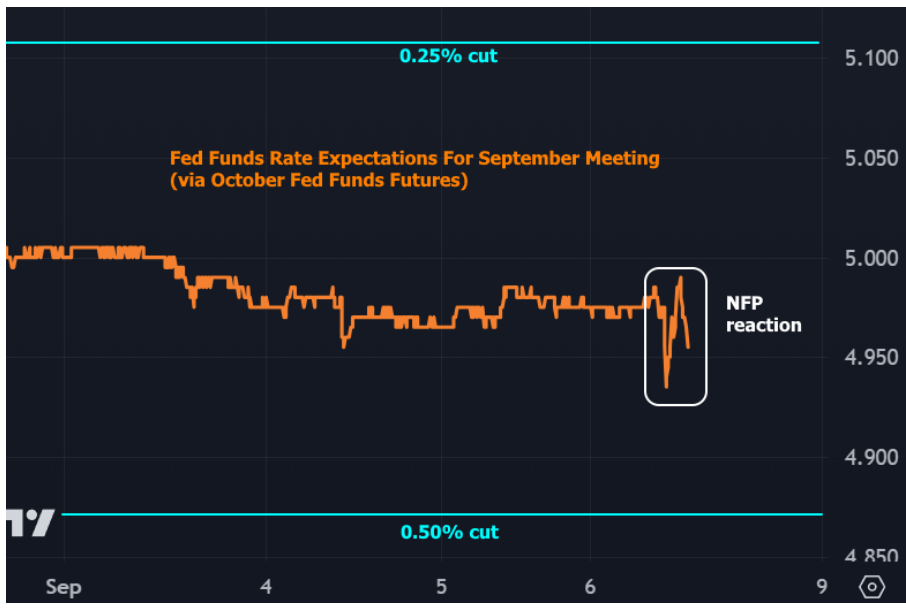




There's more going on here than a simple resolution of heavy positioning among bond traders. There are also real-time changes in the market's expectations for the size of the Fed rate cut. Just look at the volatile swings in September's expected Fed Funds Rate!



But now let's look at the same chart with enough of a y axis to show where the line would need to be in order to convey 100% likelihoods for a 25bp and 50bp rate cut.



Bottom line: there's some volatility in rate cut expectations, but we're far from any meaningful resolution.