

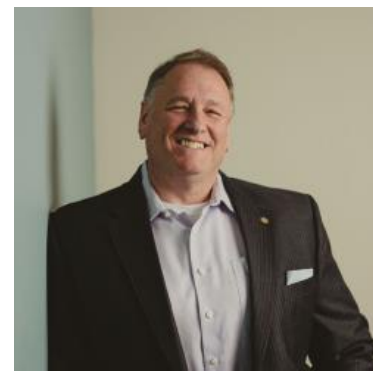
MBS & TREASURY MARKETS

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The Day Ahead: It's The Economy

While financial news outlets continue focusing on politics and Trump's cabinet picks, the bond market is expressing anxiety about the risk that economic data continues coming in hotter than expected. Even when it comes to the Fed, monetary policy has been and will continue to be dictated by incoming data. So what's up with the data?

In not so many words, the jobs report that came out in early October was a major shock, both because it was very strong and also because it revised the previous 2 reports quite a bit higher. It singlehandedly changed the entire labor market outlook from one of "apprehension about the labor market" to "apprehension about the economy being too strong to warrant the Fed's rate cut outlook."



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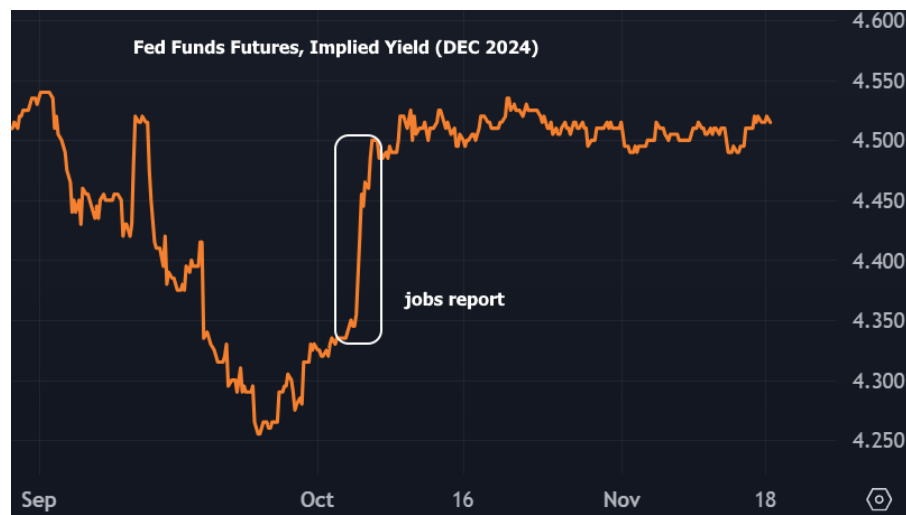
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Fed funds futures show exactly the same thing.



And shorter term Fed Funds Futures show exactly where the focus was:



Looking ahead, this week and next represent a bit of a lull in the data cycle. In addition, there is always a risk of illiquidity-driven volatility surrounding the Thanksgiving holiday--especially since this installment also happens to be "month-end." We wouldn't be reading much into any moderately-sized price movement over these two weeks. After that, the first 2 weeks of December will be critically important to shaping the next wave of momentum.