

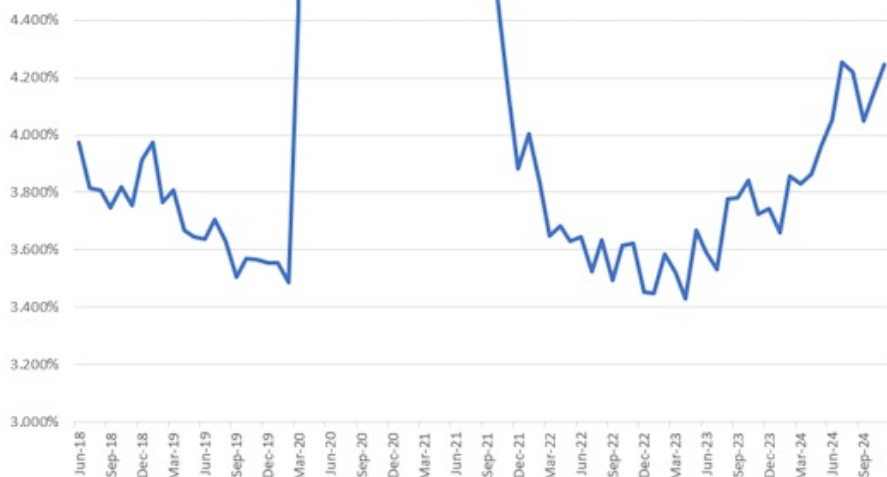
## The Day Ahead: Why Are Bonds Rallying Despite a Seemingly Decent Jobs Report?

We all know that today's jobs report is the most important economic data on an given month. We also know that a higher payroll count tends to be bad for bonds/rates. So why are bonds rallying despite payrolls coming in at 227k versus a 200k forecast? First off, in the realm of nonfarm payrolls (NFP), this is a small enough beat to be considered "as expected."

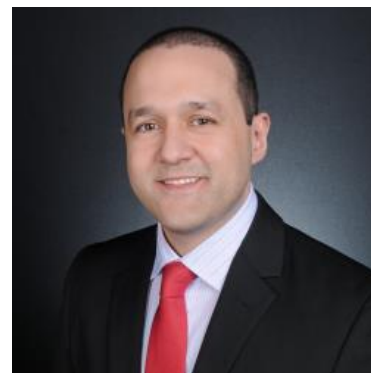
Perhaps more importantly, traders assumed that last month's incredibly small 12k NFP would be revised much higher. Instead, it was only revised up to 36k. Finally, the combination of the labor force participation rate and unemployment rate suggests the actual level of unemployment was 0.2% higher than last time.

Even without the additional context from the labor force participation rate, the unemployment rate trend seems clear.

Unemployment Rate, Unrounded



The counterpoint is that 4.2+ is still historically low, but this isn't a data series that tends to reverse course so quickly once a new trend gets underway.



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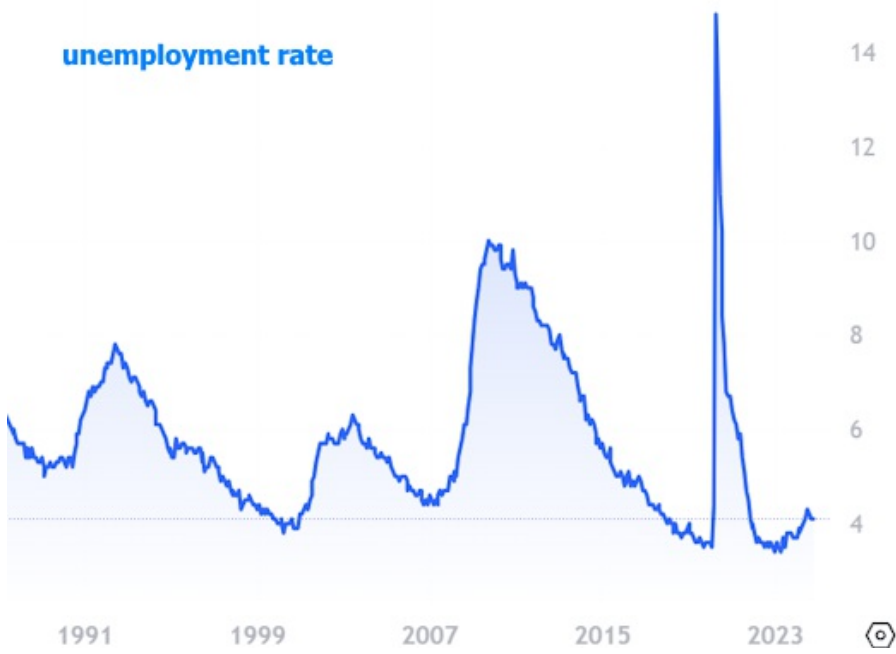
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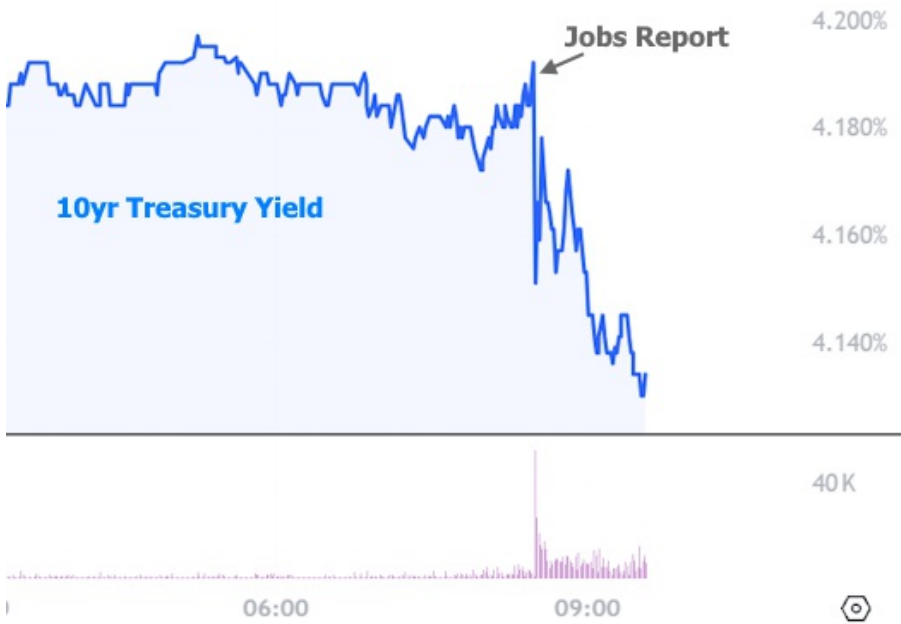
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**unemployment rate**



These mitigating factors are more than enough for traders to look past the modest beat in the headline NFP number.



The counterpoint to this morning's rally is that it's just not that big as far as NFP-driven rallies go--not even as big as Wednesday's ISM/Powell combo.



The reaction has been more compelling with respect to Fed rate cut expectations, helping quite a bit to increase the odds of a December cut. Notice the lack of a reaction in Fed Funds Futures to Wednesday's data in the chart below. This is just an interesting observation about what matters to the Fed rate outlook and what doesn't.

