The Day Ahead: Highest Yields in Over a Year After Super Strong Jobs Report

The morning trading is as straightforward as it is unpleasant. Nonfarm payrolls crushed expectations (256k vs 160k f'cast) and the unemployment rate also improved (4.1 vs 4.2). While the Fed may have downplayed the role of the labor market in guiding the rate outlook at the last meeting, the jobs report will ALWAYS matter to the bond market. If anything, the damage has been fairly limited relative to what it could have been, or even what it had been in the first few minutes after the data. Nonetheless, yields have easily moved to their highest levels over a year.

The market has moved out to June for the next Fed rate cut expectation, and just barely. Yesterday, there was only a 25% chance of no rate cut by June. Today it's 40.3%. Current trading in Fed funds futures suggests only a 43.0% chance of a cut.

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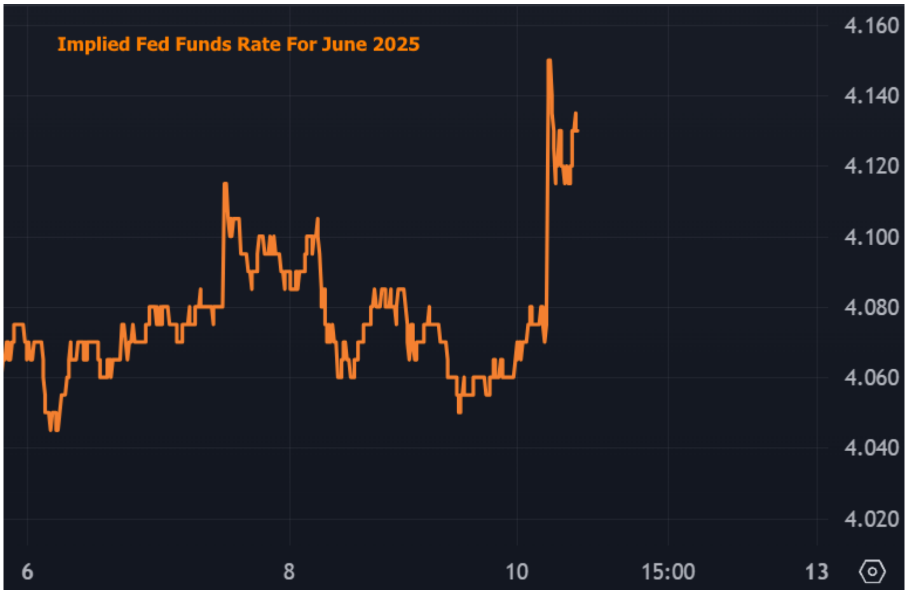

The 10am Consumer Sentiment data provided another hurdle for bonds, mainly due to the big jump in inflation expectations. We'd take this with a grain of salt considering the many unknowns surrounding tariff implementation and impact. Thankfully, it looks like bonds are doing to the same (i.e. not reading too much into it, despite a brief, initial reaction).