
ONCE UPON A TIME...IN D.C.

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I chose this title in honor of the Oscars weekend (although I think *1917* should have won). With impeachment (at least round one) and State of the Union fireworks hopefully receding into the background (for now), a fixed income strategist's dream would be to turn the focus back to the normal course of business that emanates out of Washington, D.C. What are those you ask? How about economic data, the [Federal Reserve \(Fed\)](#), and, in the case of 2020, a presidential election year.

With that in mind, let's turn our attention to the January 2020 jobs report:

Here are some key highlights and thoughts:

- The new year got off to a rather good start for the U.S. labor market as total nonfarm payrolls put in a solid performance, rising 225,000, or 60,000 above consensus forecasts.
- This continued the string of solid showings since June of last year and really calls into question all those 2019 calls for a [recession](#) this year.
- You want more? Weekly jobless claims, a leading indicator, fell to only 202,000 last week (the long-run average is 352,000). It is tough to envision a recession with this labor market backdrop.
- The jobless rate ticked up 0.1 percentage points (pp) to 3.6%.
- Wages bounced back a bit from December's drop with the year-over-year rate rising 0.1 pp to 3.1%.
- We're still in the "on hold" camp for the Fed in 2020. [Fed funds futures](#) still lean more toward two [rate cuts](#) this year (a second half event).
- It is still too early in the game to call, but last week saw coronavirus fears subside for a brief second before re-emerging. Headline risks remain prevalent for the period ahead.
- The [UST 10-Year yield](#) had risen almost 15 [basis points \(bps\)](#) from the recent low of about 1.50%, but then the coronavirus safe-haven bid returned. Get ready for more of this [volatility](#).
- We still think that once coronavirus news has peaked, the UST 10-Year yield will reverse course and head back toward the 2% threshold.
- As of this writing, [high-yield](#) spreads had narrowed about 35 bp from the +390 peak last week, which is almost a 50% retracement from January's widening trend. [Investment-grade](#) spreads are back below the +100 bp threshold after a rather modest widening.

Conclusion

In a follow-up to last week's blog, "Going Viral", [economic data still seem to be taking a backseat to coronavirus news and attendant fears](#). History does tell us that,

hopefully, this factor will be transitory. While the economic impact on the U.S. will need to be monitored, the “good news” is that the January labor market data continued to show that the U.S. economy is in a good position to weather any potential ill-effects.

Unless otherwise stated, data source is Bloomberg, as of February 10, 2020.

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DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Recession: two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Fed fund futures: A financial instrument that lets market participants determine the future value of the Federal Funds Rate.

Rate Cut: A decision by a central bank to reduce its main interest rate, usually to influence rates charged by other financial institutions.

10-Year Treasury: a debt obligation of the U.S. government with an original maturity of ten years.

Basis point: 1/100th of 1 percent.

Volatility: A measure of the dispersion of actual returns around a particular average level.

High Yield: Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securities.

Investment grade: An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.