NOW THE CALENDAR'S JUST ONE PAGE…AND, OF COURSE, I AM EXCITED

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Can you believe it? Last week's jobs report is the last one to be released in 2020. With the second wave of COVID-19 picking up momentum of late, the tenor of future U.S. economic data could very well begin to show some of the adverse effects. Although the actual data were not outright "bad," I would put the November employment report into the category that some negative signs are beginning to emerge.

At this point, our base case is not a return to the Q2 record-breaking decline in economic activity. However, the momentum that was building coming into Q4 could very well come to an end, with the final month of 2020 and opening month or so of 2021 revealing renewed softness before growth re-emerges in Q2 and beyond. Of course, another round of fiscal stimulus could render any potential softening a limited occurrence, both in time and magnitude.

Econ News

- November economic data has been more mixed of late… Manufacturing and service surveys were down slightly but have remained well into expansionary territory, while jobless claims fell after two consecutive weekly increases
- For the jobs report, total nonfarm payrolls rose +245,000. Private payrolls were almost 100,000 better than that, but both were well below consensus estimates, and the trendline is definitely on the downside
- The unemployment rate dropped 0.2 pp to 6.7%, but that was due to a decline in the labor force. Civilian employment, the other gauge, fell 74,000 following a huge gain of 2.2 million last month

Bond-Land Headlines to Watch

- Perhaps the most noteworthy news in bond land is the UST 10-year's renewed assault on the 1% threshold. As I write this, the yield is knocking on the door and hit 0.98%, right at the next one-year Fibonacci technical analysis level… If it breaks through, 1.13% is next up on this train
- Another piece of noteworthy bond-land news, investment-grade spreads have now completely retraced March's spread widening, coming in at 99 bps; high yield is right behind, retracing 95% of its surge in spread, and resides under the 400 bps threshold

Conclusion

We continue to favor positioning fixed income portfolios to be shorter duration versus the benchmark. Should inflation concerns emerge, investors may also wish to consider a complementary rate-hedged strategy to their portfolio. In addition, screening for quality will remain an important consideration for U.S. corporate bond investing as

downgrades and defaults could continue to rise (lagging indicators) in the months ahead.
Unless otherwise stated, all data sourced is Bloomberg as of December 4, 2020.

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