
WELL I TOLD YOU ONCE AND I TOLD YOU TWICE...

Kevin Flanagan – Head of Fixed Income Strategy
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The New Year has certainly been filled with its share of geopolitical headlines right from the start, from Middle East tensions to continued impeachment talk. Friday marked the first “real” data day for the bond market, with the release of the final jobs report for CY 2019. Once again, there do not appear to be [recession](#) winds on the horizon. Here are some talking points:

- On the political front, we continue to see how escalating and/or scaled-down tensions in the Middle East can be bond market moving in nature, but impeachment is, and more than likely will continue to be, more of a non-event...assuming, of course, the expected outcome of Senate acquittal holds.
- Back to the data: Total nonfarm payrolls rose by +145,000 in December vs. a consensus estimate of +160,000. This modest miss combined with only a slight downward revision (-14,000) to the prior two months’ tallies underscores the continued solid labor market setting.
- For 2019, the average monthly gain for payrolls came in at +176,000, compared to 2018’s +223,000. Not too shabby, considering where the jobless rate resides and all the trade and geopolitical uncertainty out there last year.
- The unemployment rate stayed at the 50-year low of 3.5%, with the alternative jobs measure, civilian employment, rising a healthy +267,000.
- Wages were the disappointment, as the year-over-year rate for average hourly earnings dropped 0.2 pp to +2.9%, the first sub-3% reading since July 2018.
- The latest jobs report should have no meaningful impact on the money and bond markets. The [UST 10-Year yield](#) dropped a [basis point \(bp\)](#) or two, as of this writing, and resides at the lower end of our 1.75%-2.25% band.
- Nor will it affect [Federal Reserve \(Fed\)](#) policy, at least for the time being. We’re in the “on hold” camp, while [Fed Funds Futures](#) still see the chance for one more [rate cut](#) this year, but readings just above the 50% threshold don’t show up until the November [FOMC](#) meeting.

Conclusion

The bottom-line message for bonds is: steady as she goes. The December 2019 jobs report falls right in line with our baseline outlook for the U.S. economy, as well as [interest rate](#) and [credit spread](#) trends. Our two main fixed income takeaways for 2020 investing are the barbell approach and screening for credit quality.

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

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DEFINITIONS

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

Treasury yield: The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

Basis point: 1/100th of 1 percent.

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

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.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Credit spread: The portion of a bond's yield that compensates investors for taking credit risk.