

---

# CLASH OF THE TITANS

Kevin Flanagan – Head of Fixed Income Strategy  
02/06/2019

Are we beginning to see the Clash of the Titans? The U.S. economy versus the [Federal Reserve \(Fed\)](#) and the bond market—who would you put your money on? Right now, I'd go with the U.S. economy, because I don't think the expected slowdown is going to be as worrisome as the bond market, and now perhaps the Fed, seems to be expecting. To support my case, I present last week's jobs report.

- First, the government shutdown did not impact the establishment part of the report (payrolls, hourly earnings, workweek), although it did affect the household survey (unemployment rate, civilian labor force).
- Total nonfarm payrolls rose by 304,000, or 139,000 more than the consensus forecast. Yes, the prior two months were revised down by a combined 70,000 (annual benchmark revisions), but even so, the January numbers were solid, with job gains posted essentially across the board. The three-month average gain came in at 241,000 versus the prior 12-month period's average gain of 221,000.
- Average hourly earnings rose only 0.1% for the month, placing the year-over-year rate at 3.2%, which maintains the all-important “3” handle.
- The unemployment rate did tick up 0.1 percentage point to 4%, but the Bureau of Labor Statistics highlighted that this figure was impacted by the shutdown, leading me to believe that it will most likely get reversed next month.
- The [ISM Manufacturing PMI](#) report came in better than expected at 56.6, well above the 50 line of demarcation between expansion and contraction (unlike the eurozone's disappointing numbers).
- The UST [10-year yield](#) has risen a few [basis points](#) as a result, but the Treasury market is still basking in the glow of this week's [FOMC](#) meeting and Powell's comments at the presser, specifically, “the case for raising rates has weakened somewhat.”
- Let's talk about Powell's comment for a minute. Ah yes, the dangers of too much Fed-speak (there is a presser now after every FOMC meeting). Really, the FOMC policy statement said it all, removing forward guidance and inserting “patient.” why then, did Powell feel the need to go further? Perhaps he was just trying to allay market fears and not have a repeat of his December performance (we all know how that worked out). But what if upcoming data make Powell walk back his comment? Uncertainty and [volatility](#) quotients get elevated, underscoring there was no reason to make the statement in the first place.

## Conclusion

I believe the U.S. economic data will still trigger at least one rate hike this year and

the UST 10-year looks like it will be trading in the broader 2.50%–3.25% range. Nearer-term, perhaps we could narrow that to 2.50%–2.90%.

Our fixed income solution for this rate environment: UST floating rate and yield-enhanced barbell strategy.

*Unless otherwise stated, all data is sourced from Bloomberg, as of 2/1/19.*

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

view the online version of this article [here](#).

**IMPORTANT INFORMATION**

**U.S. investors only:** Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

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

**ISM Purchasing Managers' Index**: Represents the health of the manufacturing sector based on new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI above 50 signifies expansion while below 50 signifies contraction.

**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.

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

**Volatility**: A measure of the dispersion of actual returns around a particular average level.&nbsp;