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Weekly Bond Commentary:

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Fed and labor report soothe markets

After being starved for economic data due to the government shutdown, markets faced a tidal wave of information last week, in addition to the Federal Reserve's first meeting of the new year.

Topping the list of the releases was the monthly employment report. After the surprisingly strong December report released last month, markets were uncertain whether it was a fluke or if January's would confirm the strength of the economy. The answer: a little bit of both. Last month's very strong report was revised lower by a large 82,000 jobs, while the January report showed 304,000 new jobs were added, well above expectations. The unemployment rate ticked higher, from 3.9% to 4%, but job gains were broad-based, with notable bright spots in leisure & hospitality, education & health, construction, retail and manufacturing. Average hourly earnings rose 3.2% over the last year, and the labor participation rate rose to 63.2%, up 0.5% since September. All in all, a solid report.

The Federal Reserve meeting was characterized by the word "patience." After the markets choked on the Fed's December rate hike, Fed Chair Powell seems to have learned his lesson about desiring to continue raising the federal funds rate. He said he would need to see a reason to tighten rates further, and would expect to maintain a large Fed balance sheet, soothing market fears the Fed would let much of its large holdings of government securities (built up over the last decade) roll off. In short, markets got what they wanted from the Fed, and responded appropriately, as stocks gained and interest rates rose.

For the week, Treasury yields fell across the curve, as 2-year yields fell from 2.61% to 2.52%, 3-year yields fell from 2.59% to 2.50% and 5-year yields fell from 2.60% to 2.51%.