

What a Goldilocks Jobs  
Report Means for the Fed  
and Investors

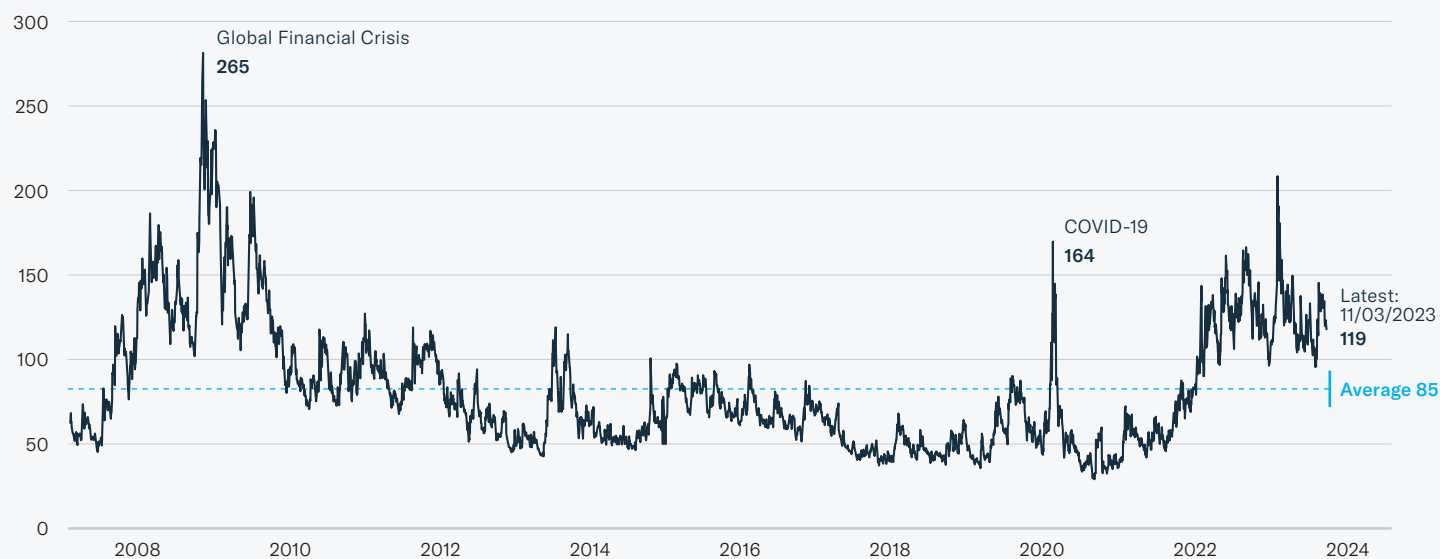
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There is a common saying among investors that markets take the stairs up and the elevator down. This is because the long-term trends that drive markets higher tend to be slow moving and compound over time, whereas the events that create short-term panic tend to be sudden and unexpected. At the same time, history shows that even new market lows tend to be higher than previous peaks. In other words, markets often take the stairs up several floors before riding the elevator down one or two levels. For long-term investors, understanding this dynamic in the current environment is critical to staying focused on important financial goals.

A more technical way to frame this dynamic involves the distinction between returns and volatility. Returns are simply the gains that investors experience in their portfolios which, ideally, should be measured over time frames that capture the growth in asset prices across important phases of the market and business cycle. In contrast, volatility measures how much prices swing over days, weeks, or months. These swings often reflect the gap between reality and expectations for investors. Given that expectations can shift wildly in both directions, it should not be surprising that market prices fluctuate as much as they do.

## 1. Bond market volatility has been elevated

**BOND MARKET VOLATILITY**  
ICE BofAML MOVE Index since 2007



Source: Cleareconomics, Intercontinental Exchange. 2007 to November 3, 2023.

The past few weeks prove this point. The recent market correction only pulled the S&P 500 back to levels last reached in May before then spurring the strongest rally of the year in early November. This is because investors feared the worst when rates jumped in late October before new data showed that the backdrop is more balanced than expected - one in which inflation is slowing and economic growth is steady but decelerating enough to appease Fed policymakers.

While investors often focus on stock market volatility, using measures such as the CBOE Volatility Index (VIX), the volatility of interest rates and the bond market has been far more severe since the beginning of 2022. The 10-year Treasury yield, for instance, has made multiple roundtrips within a range of 4.5% to 5% since September. The accompanying chart shows the MOVE index of bond market volatility which has been elevated for over a year and a half. Fortunately, recent economic data have led interest rates to fall once again, calming markets.



## The softening of an otherwise strong labor market coupled with improvements in inflation represent the Goldilocks situation investors have been hoping for.

One reason for this is the recent jobs report for October, which showed that hiring slowed. The economy added 150,000 new jobs over the month which is less than the 180,000 that economists had expected. This was also a sharp decline from September's 297,000 new jobs, due in no small part to a drop in manufacturing employment due to factory strikes. Unemployment increased slightly from 3.8% to 3.9% while the labor force participation rate, which measures the percentage of the working age population either working or actively looking for work, declined slightly to 62.7%.

Investors have been anticipating a slowdown in the labor market in response to tighter monetary policy by the Fed. The softening of an otherwise strong labor market coupled with improvements in inflation represent the Goldilocks situation investors have been hoping for. A “soft landing” means that the Fed can pause its rate hikes and, as price pressures decline, possibly consider cutting rates over the next couple of years. Unlike in 2022 when the Fed had to raise rates rapidly, the possible end of the tightening cycle could create more stability and certainty for investors.

Holding rates steady is precisely what the Fed did again at its November meeting. The Fed recognized that there have been important improvements to the inflation story while the overall economy has been healthier than expected. This is not to say that market volatility is behind us - it never is, after all. On the contrary, it highlights that markets and investors often get ahead of themselves whether it's due to inflation, the Fed, financial stability in China, Washington politics, or dozens of other factors. In all of these cases, it's more important for investors to understand the bigger picture than try to react to every news headline.

*Indexes are unmanaged and it's not possible to invest directly in an index. The **S&P 500 Total Return Index** is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The **ICE BofAML MOVE Index** is a measure of U.S. interest rate volatility that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. The **CBOE Volatility Index (VIX)** is a measure of implied volatility, based on the prices of a basket of S&P 500 Index options with 30 days to expiration.*

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