10-year U.S. government bond yield logs biggest daily gain in more than two years

Treasury yields surged on Friday, trimming their weeklong decline, after the jobs report showed the labor market remained healthy despite the growing pessimism over the economy's fortunes.

At the same time, Fed Chairman Jerome Powell suggested the central bank would follow a more patient approach to raising rates in acknowledgment of Wall Street's concerns over the Fed's tightening.

The 10-year Treasury note yield TMUBMUSD10Y, +0.00% rose 10.4 basis points to 2.661%, marking its biggest daily rise since Nov. 2016. The benchmark maturity recorded a weeklong decline of 7.9 basis points, however. The 30-year bond yield TMUBMUSD30Y, +0.00% advanced 7.1 basis points to 2.974%, trimming its weeklong decline to 7.4 basis points. Both long-dated maturities came off their January lows. Yields move in the opposite direction of bond prices.

The 2-year note yield TMUBMUSD02Y, +0.00% climbed 9.7 basis points to 2.488%, marking its biggest one-day rise since Feb. 2015. The short-dated maturity trimmed its weeklong fall to 4.6 basis points.

The Bureau of Labor Statistics said the U.S. economy had added 312,000 jobs in December. Economists polled by MarketWatch had forecast a reading of 182,000. The unemployment rate rose to 3.9% from 3.7%, while average hourly earnings rose by 0.4%

The stronger-than-expected jobs number could alleviate fears the U.S. economy is at risk of slipping into a recession over the next two years. Investors say continued employment gains could elicit further rate increases from the Fed in 2019. The Dow Jones Industrial Average DJIA, +1.38% and S&P 500 SPX, +1.32% jumped sharply, easing appetite for haven assets like government paper.

"The Fed is very much zeroed into the dual mandate. The current employment rate is below their long-run estimates. That fuels the Fed's conviction inflation is coming, and they should be raising rates. Investors are spooked by that formula," said Michael Arone, chief investment strategist for State Street Global Advisors.

Powell alleviated such concerns, however, by acknowledging the economy's strength while saying the Fed would be flexible in raising interest rates. He also said the central bank's balance sheet reduction could be altered if it sparked problems in financial markets.

"This was a chance for Powell to show leadership at the Fed and push for a change in attitude after the Fed was criticized for being tone-deaf," said John Vail, chief global strategist at Nikko Asset Management.

Yields started the session higher after Bloomberg News reported that a U.S. delegation would visit Beijing for a new round of trade talks on Monday and Tuesday. It would mark the first face-to-face negotiations since President Donald Trump's meeting with China's leader Xi Jinping in early December.

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