UBS

For UBS marketing purposes

Following the payroll figures for August, it appears we might be days away from the beginning of the Fed's easing cycle (UBS).

August payrolls clarify the Fed cut, but not the magnitude

09 September 2024, 3:50 pm EDT, written by UBS Editorial Team

The recently released non-farm payrolls data for August showed an increase of 142,000 jobs, falling short of the median expectation of 165,000. Additionally, there were downward revisions to the figures of previous months, further suggesting a slowdown in the labor market.

Yet the household survey showed positive signals, with the unemployment rate edging down to 4.2%, from 4.3% in July, along with a healthy increase in total employment. Clearly, the overall data was somewhat mixed. At this point, there is little doubt among market participants that the Fed will cut in its 18 September meeting; yet the info we have at hand does not clarify whether the magnitude of the move will be a cut of 50bps or of 25bps.

The argument for a 50bps cut highlights the overestimation of payrolls data
For context, the Bureau of Labor Statistics (BLS) recently revealed that between April 2023 and March 2024, non-farm payroll data was overestimated by 818,000 jobs. This translates to an average monthly overestimation of approximately 68,000 jobs. Consequently, some claim that initial payrolls figures may not paint the clearest picture and that the labor market might be weaker than it seems.

Yet the Fed values a data-dependent approach
However, until the FOMC decision, we also await August CPI and retail sales. In our view, the latest labor market figures are not enough to clarify the exact move the Fed will make in its next meeting. Yet what we can state with a high degree of conviction is that the beginning of the easing cycle appears to be just a few days away.

From an investment standpoint, it is crucial to focus on the trajectory of monetary policy rather than the exact magnitude of rate cuts. Whether the Fed begins with a 25bp or 50bp cut, the key is that rates will come lower and that a more

accommodative policy is set to take hold. As a reference, our base case, which embeds a soft-landing scenario, calls for the Fed to cut interest rates at each of its three remaining meetings in 2024, with 100 basis points of reductions in total.

Bottom line

We believe the current environment of disinflation, falling interest rates, and moderate economic growth is constructive for both equities and bonds. Even for those concerned about potential stronger-than-expected macro weakness, we remind them that the benefit of the current rates level is that the Fed has considerable room to add stimulus if conditions warrant it.

Within equities, we recommend focusing on quality companies, as they should benefit from strong competitive positions, resilient earnings streams, and exposure to structural growth drivers. We remain most preferred on the sectors of information technology, financials, and utilities.

On the fixed income front, we reiterate that a lower rate environment should erode the appeal of short-term liquidity positions. We therefore recommend redeploying excess cash or money market funds into high-quality bonds, such as investment grade corporate bonds and agency MBS.

Main contributor: **Alberto Rojas**, Investment Strategist, CIO Americas

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2024. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.