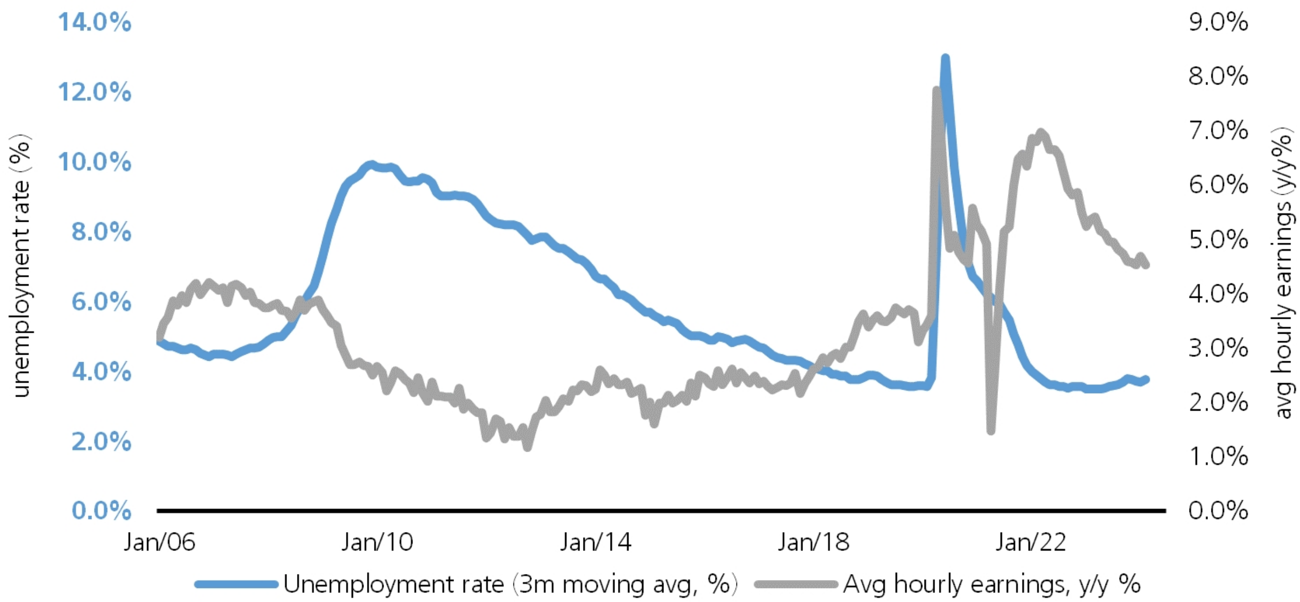
The US labor market is cooling but remains relatively tight and strong.



Haver Analytics, UBS as of 8 March 2024

A mixed US jobs report showed the labor market is cooling but remains relatively tight and strong. We continue to believe Fed rate cuts will begin in June, with a total of three cuts by the end of 2024. (UBS)

Mixed February US jobs report but mid-year rate cut still likely

11 March 2024, 5:13 pm CET, written by UBS Editorial Team

We advise investors to manage liquidity and lock in yields since we expect yields to fall in 2024 — high cash rates will not prevail.

The February US labor report provided a mixed picture on payrolls and unemployment. With a better balance between labor supply and demand, we expect the Fed to begin to cut rates in June. Our base case expectations include three Fed rate cuts, for a total of 75bps by the end of 2024.

Employee compensation remained strong. While the prior two months of data were revised lower, February payrolls came in ahead of expectations. As a result, the three-month moving average for job growth, was lower than what was reported last month, yet remained strong and on a good path.

Higher-than-expected unemployment. Meanwhile, the unemployment rate of 3.9% edged up from 3.7% last month, to the highest level since January 2022 as household employment declined while the labor force increased.

Signs the economy is cooling. Signs of a less robust economy, such as higher unemployment rate and lower wage growth helping to cool inflationary pressure, are signs in the right direction for the Fed to cut rates. With headline PCE inflation at 2.4% in January, the Fed is not far from reaching its official target of 2%.

Rate cuts remain on the horizon after the February jobs release. We believe the Fed will be inclined to see the employment release as evidence that the jobs market is becoming less overheated. During Federal Reserve Chair Jerome Powell's testimony to the Senate Banking Committee, he said policymakers were "not far from" the confidence needed "to begin to dial back the level of restriction." As such, we continue to believe that the Fed will begin to cut rates in June, for a total of three cuts by the end of 2024.

With rate cuts expected in 2024, investors fact potential loss of income. As a result, we recommend a well-diversified liquidity strategy beyond cash and money market funds. We recommend a combination of fixed term deposits, bond ladders, and structured investment strategies to cover expected portfolio withdrawals over the next five years. With US economic growth slowing, and rate cuts on the way, we also recommend exposure to quality bonds to lock in attractive yields.

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