In a lower rate environment, CIO believes investors should redeploy money market holdings into quality assets, such as investment grade bonds and equities, as returns on cash fall further. (UBS)

US services growth slows; Fed’s Goolsbee calls for more rate cuts

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The headline figure for the S&P Global US Services Purchasing Managers' (PMI) Index came in at 55.4 in September, just above the consensus forecast of 55.3 but down from 55.7 in August. This suggests that the services sector is still growing, albeit at a slower pace.

Notably, employment figures have fallen in four of the past six months, and optimism about the year ahead has dropped to its lowest level since October 2022, reflecting concerns about the election’s impact on the economy and demand. Meanwhile, Federal Reserve Bank of Chicago President Austan Goolsbee emphasized the need for further rate cuts on Monday, citing a decline in inflation and the need to protect the labor market. Goolsbee stressed the importance of preemptive action to avoid being “behind the curve” as labor market risks increase.

Our view: While the pace of growth has softened compared to prior months, the September PMI reading remains well above the 50 mark, signaling continued expansion in the services sector. Furthermore, Goolsbee's comments reiterate our view that recent inflation data signal broad-based disinflation, enabling the Fed to shift its focus to managing the downside risks of the labor market to prevent further weakening. Against this backdrop, we maintain our base case for a soft landing with further rate cuts helping to support growth. In a lower rate environment, we believe investors should redeploy money market holdings into quality assets, such as investment grade bonds and equities, as returns on cash fall further.

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