



Investors focused on this weaker pace of job creation, rather than the more encouraging aspects of the report, including a decline in unemployment and a pickup in earnings growth. (UBS)

The fundamentals for stocks remain positive

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The market took a pessimistic view of last week's US jobs report. This suggests that many investors had hoped for more convincing evidence of economic resilience.

But the release was consistent with our view that the US is headed toward a soft landing. Although jobs growth has slowed, it remains positive. The unemployment rate fell slightly, rounding down to 4.2% instead of rounding up to 4.3% as in July, and is still low by historical standards. Finally, average earnings rose by an annual 3.8%, up from 3.6% in July and faster than the consensus forecast, which will support household incomes.

With the US labor market cooling gradually, the next key focus for investors is likely to be the consumer price index (CPI) due on 13 September, and August retail sales data, released on 17 September—the first day of the Fed's policy meeting. Consumer spending has held up better than expected and has been important in supporting economic growth. At present, we don't expect the fear of unemployment to cause crucial middle-income consumers to sharply reduce their spending.

In addition, we expect the Fed to start supporting the economy with rate cuts, starting later this month and with further easing at both of its two remaining policy meetings in 2024. However, in our view, recent data have not been weak enough to cause the Fed to cut rates aggressively.

How do we invest?

Despite bouts of equity weakness over the summer, stock fundamentals remain positive, in our view. We expect S&P 500 companies to grow earnings by 11% this year and 8% in 2025. And historically, in the absence of a US recession, the index has gained 17% on average in the 12 months following the first Fed rate cut of a cycle.

However, we have advised investors to brace for volatility. With economic and political uncertainty likely to linger, we recommend focusing on quality companies, with strong competitive positions, strong earnings streams, and exposure to structural growth drivers. Such firms should be well-placed, particularly if economic concerns mount.

We also continue to advise investors to position for lower rates. Whether the Fed cuts by 25 basis points or 50 basis points later this month, it should kick off an easing cycle that brings interest rates to levels much lower than today's. With other major central banks also set to continue their easing cycles, cash yields could drop quickly from here. We believe the risk-return profiles of investment grade bonds, diversified fixed income portfolios, and quality equities with high and sustainable dividends are more attractive than cash. We recently moved the US dollar to Least Preferred in our global strategy; meanwhile, we are Most Preferred on the euro, the British pound, the Australian dollar, and the Swiss franc. We expect these currencies to gain against the USD through June 2025.

Finally, we see value in allocations to alternatives for those willing and able to manage inherent risks like illiquidity and a lower level of transparency. Certain hedge fund strategies, for example, have historically demonstrated their ability to stabilize portfolios and generate returns during periods of elevated volatility. Meanwhile, private equity offers investors the opportunity to invest in growing companies that are not listed on public markets, including some exposed to AI.

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Original report - [Equities fall on mixed US jobs data, 9 September 2024.](#)

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