

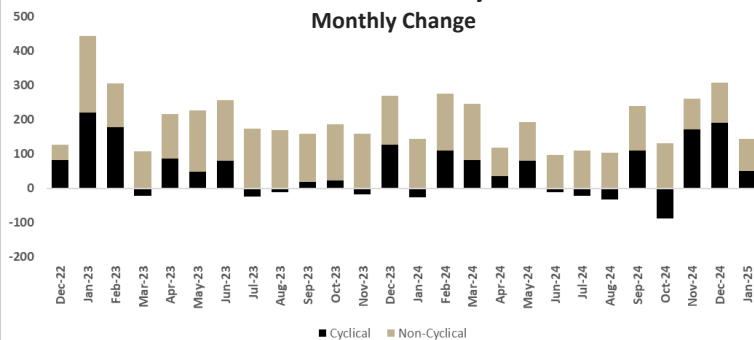
Why the Job Market Will Keep the Fed Biased Toward Rate Cuts

On first glance, last week's January jobs report signaled continued momentum for the U.S. economy and the job market. While the number of new jobs created last month declined from December, the report's other details assured most investors that the job market continues to be strong. For example: November and December payrolls were revised higher by 100,000; hourly wages grew at an accelerated monthly rate of 0.5%; and, the unemployment rate fell from 4.1% to 4.0%. The market's initial reaction to the report was to strengthen its conviction that the Federal Reserve will continue its pause on reducing interest rates, perhaps even into the fall.

The initial response to January payrolls report was a logical one, but a closer look suggests that that job market is not as strong as it seems. Perhaps no data point illustrates this underlying weakness that the composition of new jobs created. In 2024, the U.S. economy produced nearly two million new jobs. Most of these new jobs (73%) were in the government (including education) and health care sectors—that is, sectors relatively immune to the economic cycle. However, relatively slow growth in cyclical sectors such as construction and manufacturing suggests that the job market may not be as strong as it seems.

The market's expectations of Federal Reserve interest-rate policy have shifted wildly over the past year, frequently in response to monthly payrolls reports. Those expectations might shift again—toward more rate cuts—when a more balanced view of the job market takes hold.

U.S. Non-Farm Payrolls
Monthly Change



Source: Bureau of Labor Statistics, Bloomberg, as of January 31, 2025.

Economy

Last Week	This Week
- ISM Manufacturing PMI (Jan.): 50.9 -- the first expansionary reading since March 2023.	- Consumer Price Index (Jan.): 2/12
- JOLTS (Dec.): 7.6 million openings, falling 400K from November.	- Producer Price Index (Jan.): 2/12
- ISM Services PMI (Jan.): 52.8, slight deceleration from December. 60.4 in prices paid.	- Industrial Production (Jan.): 2/14
- Payrolls and Unemployment (Jan.): 143k new jobs, slowing from December. November and December revised higher.	- Retail Sales (Jan.): 2/14

Equities

Index	Level	Returns (%)					
		1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	6066	1.22	3.25	3.25	22.31	12.86	14.31
Russell 1000 Growth	4150	1.78	2.71	2.71	25.91	16.20	17.85
Russell 1000 Value	1906	0.49	4.70	4.70	18.43	8.14	9.46
FTSE High Dividend Yield*	473	0.92	4.31	4.31	21.36	9.45	10.58
S&P Small and Mid Cap	17840	0.31	2.52	2.52	15.06	7.29	10.16
MSCI EAFE	2388	2.28	5.67	5.67	10.80	4.99	6.51
MSCI EM	1108	3.26	3.24	3.24	14.58	-0.74	2.98

Index	NTM P/E	NTM P/E (20Y med)	Div Yield	S&P Sector Returns YTD	
				YTD (%)	IT
S&P 500	22.3	15.3	1.3	8	
Russell 1000 Growth	29.5	17.7	0.6	6	
Russell 1000 Value	17.2	13.4	2.2	4	
FTSE High Dividend Yield*	13.1	13.1	4.1	2	
S&P Small and Mid Cap	16.1	15.5	1.7	0	
MSCI EAFE	14.9	13.4	3.1	0	
MSCI EM	12.3	11.1	2.7	-2	

* Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income

Index	Yield	Returns (%)					
		1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.85	0.30	0.91	0.91	3.70	-0.96	-0.51
U.S. Int. Gov/Credit	4.58	0.13	0.66	0.66	4.32	0.83	0.74
U.S. Corporates	5.30	0.28	0.92	0.92	4.58	-0.32	0.01
High Yield	7.24	0.28	1.46	1.46	9.59	4.84	4.32
Municipals (1-10)	3.15	0.37	1.15	1.15	2.50	1.40	1.01

Key Rates	Last	Levels (%)					
		1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	4.28	4.22	4.24	4.24	4.66	1.51	1.45
10-yr Treasury	4.50	4.51	4.57	4.57	4.32	1.94	1.63
30-yr Treasury	4.71	4.75	4.78	4.78	4.46	2.24	2.09
SOFR	4.35	4.33	4.49	4.49	5.31	0.05	1.57
6-mo. CD rate	4.36	4.35	4.33	4.33	5.33	0.80	1.62
Prime Rate	7.50	7.50	7.50	7.50	8.50	3.25	4.75
30-yr fixed mortgage	6.93	6.95	7.28	7.28	7.25	4.00	3.60

