ECONOMY

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Blockbuster jobs report to delay interest rate cut, asset managers say

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Bloomberg

VIEW KEY DATA:

Goldman Sachs Asset Management

A very strong January jobs report may postpone the Federal Reserve's timetable on cutting interest rates, said some asset managers and economists.

Bryce Doty, senior portfolio manager and vice president at SIT Investment Associates, described the jobs data as "stunning," suggesting a strong underlying economy, and that it will certainly delay the timing on potential interest rate cuts by the Fed.

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"Bond yields will rise as investors recalibrate Fed expectations," Doty added.

SIT has $16 billion in AUM.

Lindsay Rosner, head of multisector fixed income investing at **Goldman Sachs Asset Management**, said following the robust jobs data she expects the Fed to keep rates on hold for at least another six weeks. "Whether the Fed (cuts rates) in March (20) or May (1), the pivot has happened and monetary policy will be wind at the sails of fixed income investors in this strong economic environment," she added.

GSAM had $2.8 trillion in assets under supervision as of Dec. 31.

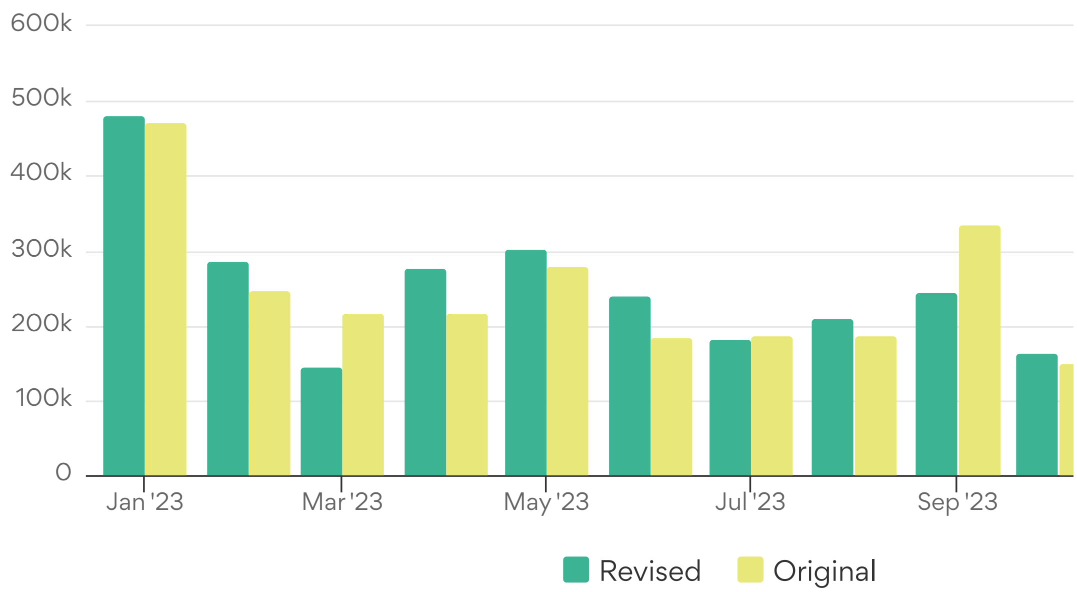
The U.S. economy created 353,000 jobs in January, far above expectations, the U.S. Bureau of Labor Statistics reported on Feb. 2.

The unemployment rate remained at 3.7%.

Economists had expected an increase of 176,500 jobs in January with the jobless rate at 3.8%, according to a survey by FactSet Research Systems, a financial data firm.

Not only did the January payroll data come in strong, but figures for the prior two months were significantly upgraded. The November jobs figure was upwardly revised by 9,000 to 182,000, while the payroll data for December was upwardly revised by a staggering 117,000 to 333,000. With these revisions, job gains in November and December combined were 126,000 higher than previously reported.

Change in nonfarm payrolls



For calendar 2023, payroll employment increased by a monthly average of 255,000.

In January, job gains were especially pronounced in professional and business services, healthcare, retail trade and social assistance sectors, the bureau added in the release.

The Federal Reserve will likely consider the strength of the labor market when it releases its next policy decision on March 20.

As of the morning of Feb. 2, according to CME Group's FedWatch tool, market participants' pricing of fed fund futures indicated there is a 79.5% probability that the central bank will keep rates unchanged at the next meeting on Mar. 20, and only a 20.5% probability it will cut rates by 25 basis points.

However, futures suggest that at the May 1 Fed meeting, there is a 59% chance of a 25 bp rate cut and an 13.4% probability of a 50 bp rate reduction. The odds that the Fed will keep rates frozen stands at 27.6%.

The Fed's key short-term interest rate is currently in a range of between 5.25% to 5.5%, after the central bank elected to hold rates steady at the Jan. 31 meeting.

Phillip Colmar, global strategist at MRB Partners, a research firm, described the payroll report as "very strong."

"Fed Chair Powell went out of his way this week to suggest that disinflation and Fed rate cuts are independent of softer or below-trend economic growth," he added. "However, today's payroll release is problematic for the Fed."

Colmar added that the latest jobs numbers suggest that inflation will bottom out this year well above the Fed's 2% target, limiting the amount of possible interest cuts.

Jeff Schulze, head of economic and market strategy at ClearBridge Investments, also noted that the overall jobs number effectively takes a March rate cut off the table and should raise fresh concerns about the potential for a reacceleration of inflation.

"Overall, this release pushes the timeline for Fed's highly anticipated cutting cycle out into the second quarter, and higher Treasury yields should put near-term pressure on equity valuations," he added.

ClearBridge had $176.6 billion in assets under management as of Dec. 31.

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