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Potential for K-shaped mandates

Much has been made of the US “K-shaped” economy that mimics a chart of the diverging fortunes of higher- and lower-income Americans. We might have to borrow that term for inflation and employment. Just when these two Federal Reserve mandates seemed to be stabilizing — supporting the recent solid gross domestic product data — they might be heading in opposite directions.

The Labor Department said that, after gaining a revised 126,000 jobs in January, the US lost 92,00 in February. That’s a far cry from the consensus call for a gain of 50,000. Health Care, Construction, Leisure & Hospitality were the sectors posting the largest losses, and the unemployment rate rose from 4.3% to 4.4%. That positive January figure now looks like an anomaly rather than a harbinger of labor market improvement.

Contrast that with inflation. While still technically steady around 3%, the conflict in the Middle East threatens to raise prices around the world. Energy costs have already increased due to concern about interruptions to the flow of oil and gas from the region, but the disruption to trade routes might pressure consumer prices. Much is uncertain. The futures market continues to forecast no rate cut at the Federal Open Market Committee (FOMC) meeting next week (March 17-18). But the impact on monetary policy for the remainder of the year certainly could result in the two Fed mandates moving in opposite directions.

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