Weekly Commentary

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Slower rate cut forecast

If we had a volatility index for the nonfarm payroll report, it would have been high throughout 2024. The number of jobs the US economy added each month fluctuated dramatically, both in terms of data and expectations, and December put an exclamation point on it. Consensus was for an addition of around 160,000 jobs; we got 256,000 instead. Furthermore, the Labor Department reported that the unemployment rate and annualized average hourly earnings remained strong, at 4.1% (from 4.2%) and 3.9% (from 4.0%), respectively compared to November.

The unexpectedly robust data suggests the Federal Reserve might have begun to ease rates too early or proceeded too rapidly—or both. In the December Federal Open Market Committee meeting's Summary of Economic Projections, policymakers muted their previous exuberance that they had slain inflation. They indicated that only 50 basis points worth of cuts likely would be forthcoming in 2025, fewer than they predicted earlier in 2024. After Friday's blowout December jobs report, the futures market is betting on only one quarter point cut this year.

If the labor market settles down on a plateau near the December amount or thereabouts, look out: the Fed might not cut at all this year. Investors in the money markets and cash managers should have smiles on their faces.

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