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# Global Strategy

**INVESTMENT TEAM**

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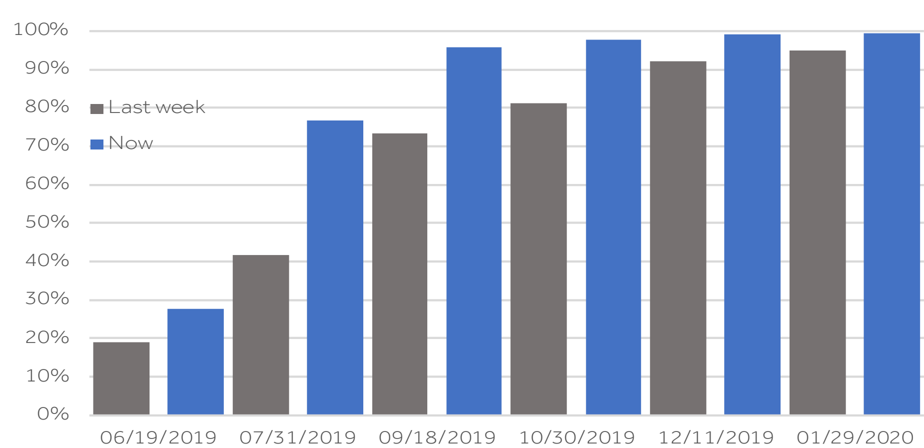
## Don't Talk To Me About Work

The US Payrolls report on Friday last week was unquestionably disappointing. Both the Payrolls and ADP reports (released the day before) showed much weaker levels of job creation. Consequently, the bond market continued to price for the increased probability of a Fed rate cut, bringing forward that prospect to the July meeting. As of Friday, the bond market had a July cut priced at 77%, failing that, near certainty for a September cut. While the equity market appeared to ignore these data, it was most likely buoyed by the prospect of further stimulus. We remain of the view that the economy is more robust that the high frequency data suggest, and that a recession is not around the corner. That said, if the labour market continues to slow at this rate, we would arrive at a different assessment. Until then, expect more positive returns from equities, and likely lower rates too.

The details of the report failed to deliver any comfort, not only did the headline gain of 75k jobs miss all estimates (175k expected), but the two-month revision also subtracted a further 75k jobs. The average monthly jobs gain so far this year is 164k, compared to 235k through 2018. Average hourly earnings were also weaker than expected and down a touch on the year, and for the third month running, but the unemployment rate remained at the near 50-year low of just 3.6% The report shows that the labour market is clearly slowing down, but that does not mean that a recession is necessarily around the corner. In fact, we continue to expect higher wage growth to drive up inflation and interest rates before the end of this cycle, so maybe these numbers are an indication of the cycle being extended. Remember we saw a similar slowdown at the start of 2016, where job creation averaged just 156k a month. Crucially, jobs are still being created, so not the time to panic.

Figure 1: Probability of a US rate cut (market implied), now versus last week




*Source: Bloomberg, Canaccord Genuity Wealth Management*