



US December jobs report

Strong US monthly jobs data could keep upward pressure on inflation

The December US jobs data showed the unemployment rate falling to 4.1% from 4.2% with 256k jobs created during the month, the strongest since March and well above expectations for 165k jobs. Private payrolls increased by 223k during the month, also the highest level since March and above expectations of 140k. Within the Private sector, Goods producing jobs declined during the month by 8k but Services jobs increased by 231k, the strongest level since May 2023. Within Services, all of the major categories were comfortably positive during the month showing a broad-based rise in Services hiring in the economy. With President Trump winning the November elections and the Republicans sweeping Congress, business sentiment has surged higher and this could be one of the reasons for the pick-up in hiring.

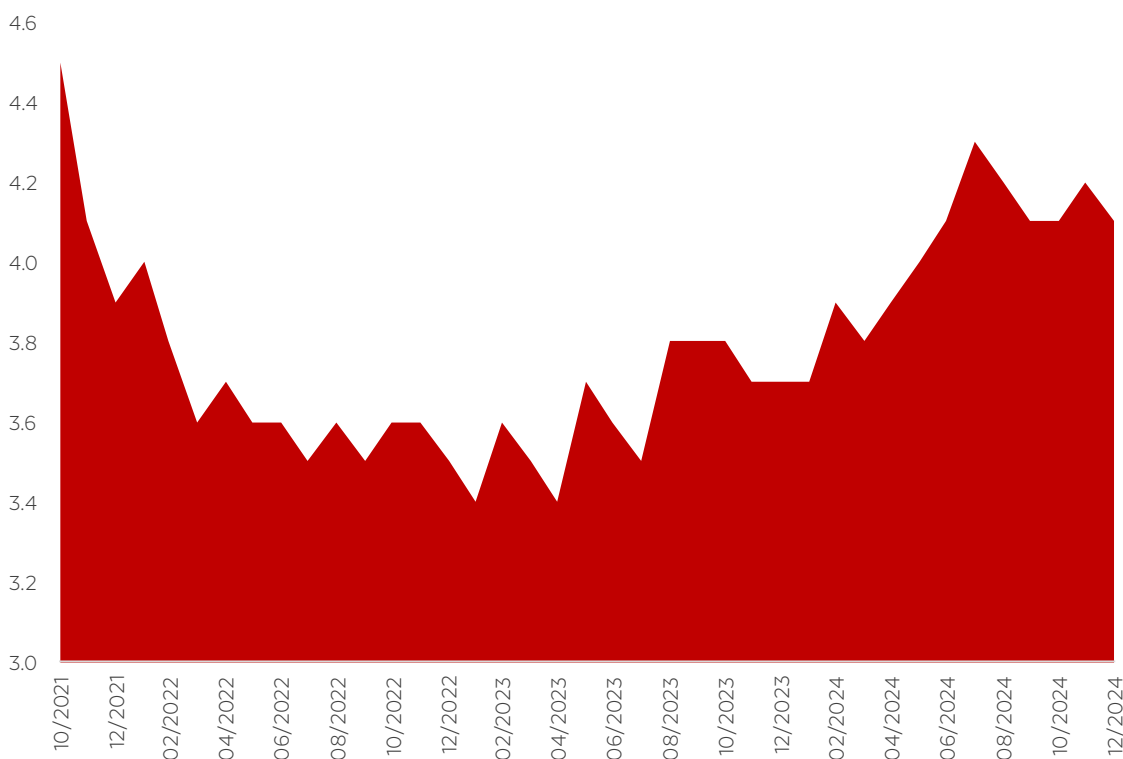
The strong data indicate the US economy remains robust but this also means inflation pressures are continuing. While wage growth did moderate somewhat with Average Hourly Earnings increasing 0.3% month-on-month in December from 0.4% in November and 3.9% year-on-year from 4%, the overall picture is for inflation to remain at higher levels for longer. This is one of the key reasons the US Fed reduced its outlook for interest rate cuts in 2025 from 1.0% in cuts previously to just 0.50% in cuts at its recent December meeting. December CPI inflation data will be released next week (on Wednesday January 15) and market expectations are for Core inflation to moderate to 0.2% MoM from 0.3% and to remain at 3.3% YoY. Any upside surprise to the data would increase concerns that the strong jobs market and strong economy was pushing inflation higher which could force the Fed to reduce its rate cut outlook even further.

Additional economic data released today highlighted the inflation conundrum. The University of Michigan monthly survey showed 1-year inflation expectations rising to 3.3% (the highest since May 2024) from 2.8% the previous month and even more concerning it showed the 5-year inflation expectations also rising to 3.3%. This was the highest reading since a brief surge to 3.4% in 2008 (when crude oil prices had spiked to \$140/barrel) and the highest since 1995 before then. The US Fed has, until now, been confident that longer-term inflation expectations were remaining "anchored" not far from the 2% target. The University of Michigan longer-term inflation expectations survey had increased over the past year to the 3%-3.2% range but with the most recent month rising above this range to 3.3%, the risk is that longer-term inflation expectations are becoming de-anchored. This then risks overall expectations rising and actual inflation eventually rising even further.

The US Fed has grown more confident of a stronger economy, which is supported by the strong jobs data release. But the Fed has also increased concerns on stubbornly high inflation. This is even before President Trump returns to office with a Republican Congress. Most policy proposals by Trump on taxes, spending, tariffs and immigration are likely to add to inflation and this could make the Fed's job even more difficult. The

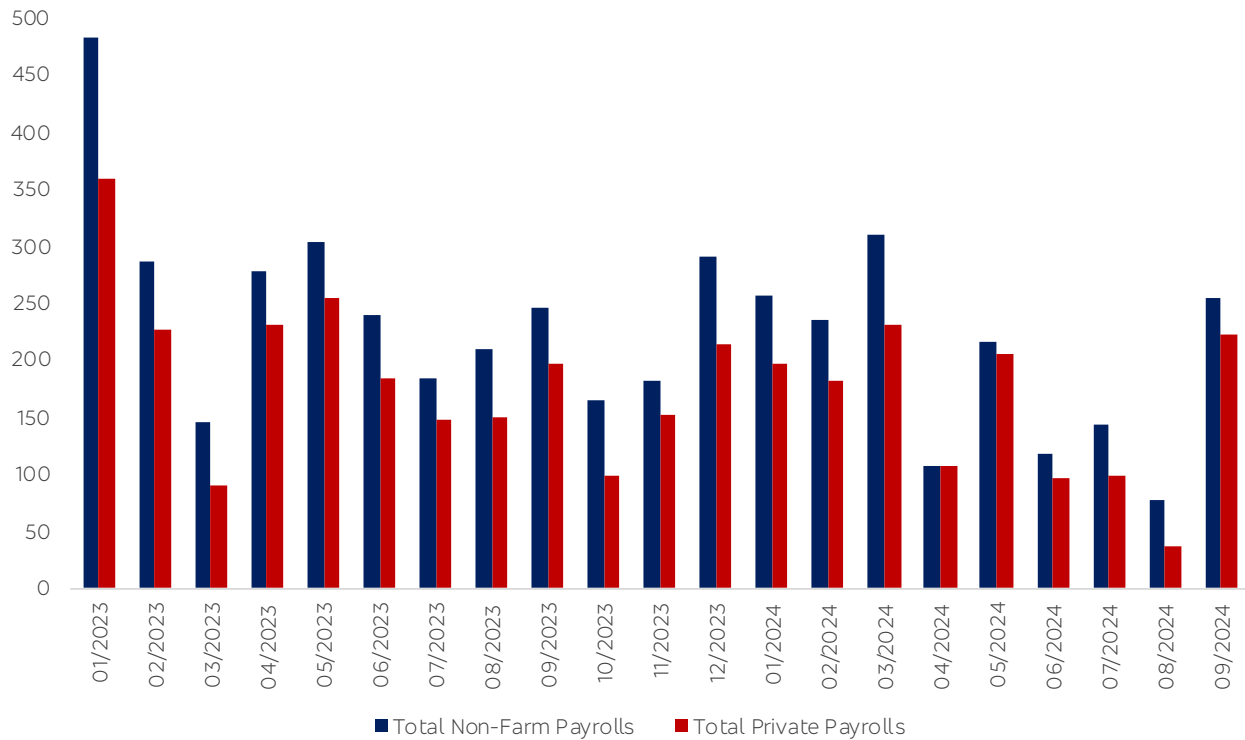
end result has been a strong rise in US Treasury yields with the 10-year yield now at 4.75%, up from 4.3% before the election. We believe Treasury yields, especially at longer maturities can go even higher with the 10-year yield likely to reach the 5% range if Trump's proposals are indeed seen as inflationary. This has also had an impact on the equity markets recently as higher yields are generally negative for equity valuations. President Trump will officially enter office in just over 1 week and we should know more details of his plans and how these will impact the US and global economy and financial markets.

Unemployment rate drops back to 4.1%

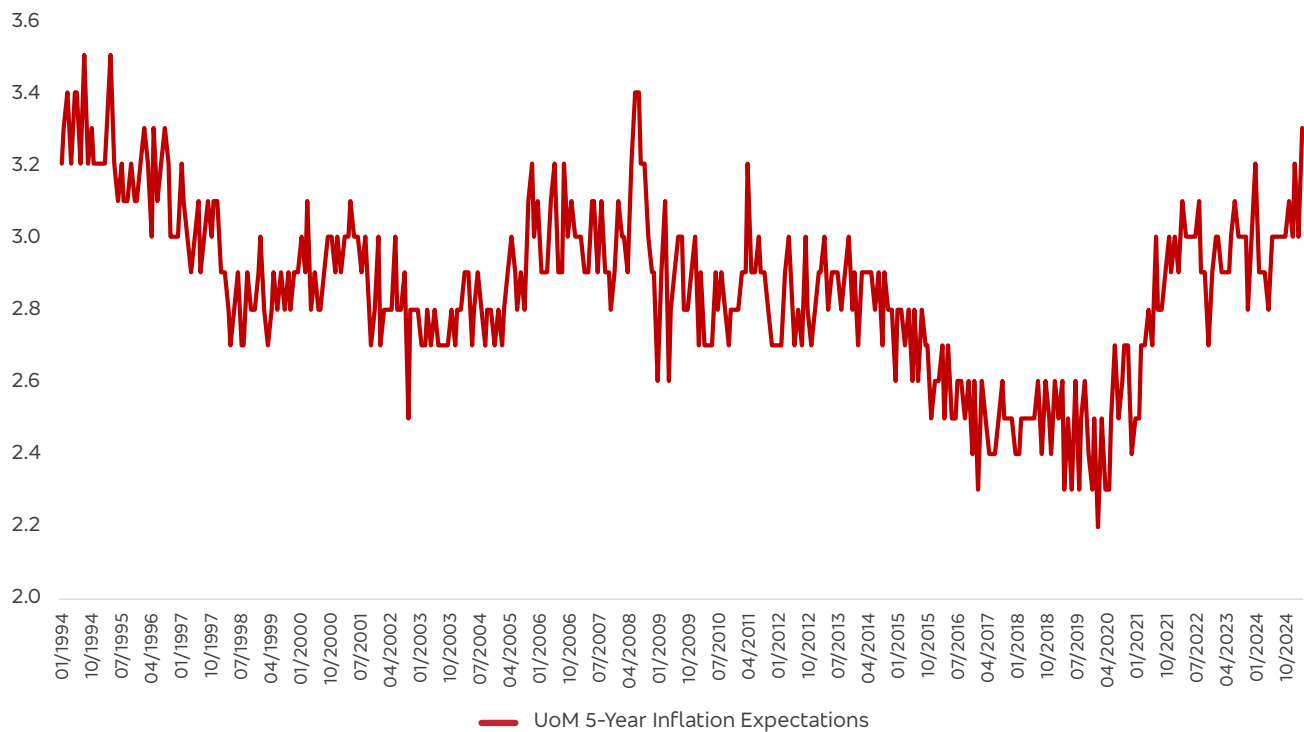


Source: Bloomberg/Bradesco

Total and Private Payrolls the highest since March 2024



University of Michigan 5-year Consumer Inflation Expectations Rising To Highest Since 2008/1995



Source: Bloomberg/Bradesco

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