



Global equity markets rallied over the last two weeks on hopes that the Fed may slow the pace of rate hikes, after the Bank of Canada (BoC) last week surprised markets with a smaller-than-expected 50bps rate increase. (ddp)

# Solid US job openings likely to reinforce Fed's resolve

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**US job openings rose unexpectedly in September, the latest evidence that the US labor market remains tight, despite three full percentage points of rate hikes this year from the Federal Reserve.**

Global equity markets rallied over the last two weeks on hopes that the Fed may slow the pace of rate hikes, after the Bank of Canada (BoC) last week surprised markets with a smaller-than-expected 50bps rate increase, and following comments from some Fed officials—since the last FOMC meeting—on shifting to smaller rate hikes.

But the JOLTS and other data support our view that it is too early to expect a Fed pivot—a view that appears to be shared by fixed income markets. On Tuesday, pricing for the peak in the fed funds rate next year moved back above 5%, from as low as 4.8% last week.

**The US labor market remains tight.** The September JOLTS report showed that job openings rose 437,000 to 10.72mn, reversing August's decline and coming in well above consensus expectations for a fall to 9.75mn. There were 1.9 job openings for every unemployed worker in the US at the end of September, suggesting that wage growth could remain elevated.

**The Fed also has yet to see evidence of cooling inflation.** September core PCE inflation, the Fed's preferred measure of inflation, accelerated to 0.5% m/m excluding food and energy and rose 5.1% year-over-year, up from 4.9% in August.

**The economy is slowing, but unlikely fast enough to prompt a policy pivot.** The ISM manufacturing PMI fell to 50.2 in October, down from 50.9 in September to register the lowest reading since May 2020. Prices paid (46.6 vs. 51.7 in September) declined for the seventh month in a row, also hitting the lowest level since May 2020—an important sign that inflationary pressure is waning at the producer level. But even though quotes from the ISM survey respondents generally show weaker demand, the overall index remains in expansionary territory for now.

So, we continue to think that it is too early to expect the Fed to signal a more dovish stance, and we do not think the risk-reward currently favors a sustainable rally in equities. We focus on mitigating near-term downside risks while retaining upside exposure for the medium and long term. We advise investors to hedge US equity positions, focus on [defensive sectors](#) like consumer staples and healthcare, and to consider investment grade bonds. We hold a least preferred view on technology and note that the FANG+ index of megacap tech stocks has now dropped to a two-year low, down 46% from its peak a year ago.

Main contributors - Mark Haefele, Patricia Lui, Brian Rose, Vincent Heaney, Jon Gordon

**Content is a product of the Chief Investment Office (CIO).**

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