



CIO thinks the recent and upcoming data releases that are most important to the Fed make a dovish pivot unlikely in the near term. (ddp)

US data still points to a hawkish Fed

09 March 2023, 1:03 pm CET, written by UBS Editorial Team

Federal Reserve Chair Jerome Powell on Wednesday indicated that no decision had yet been reached on whether to step up the pace of monetary tightening in March.

The outcome, he suggested, was likely to hinge on “some potentially important data coming up.” In particular, the Fed is likely to be focusing on this week’s employment release and next week’s consumer price index, both for February.

Meanwhile, investors continued to brace for a more aggressive series of rate rises from the Fed along with a higher risk of recession. The yield on the 2-year US Treasury—which is heavily influenced by expectations for Fed policy—rose 6 basis points to 5.07%, the highest since 2007. In addition, the yield premium offered by 2-year over 10-year US Treasuries—a popular sign of market concern over a looming recession—stretched to 109 basis points. This yield curve inversion is the widest since 1981.

We believe the most important focus for markets is not the outcome of Fed policy in a single meeting, but rather expectations of how high rates will go and how long they will remain high for. In our view, the recent and upcoming data releases that are most important to the Fed make a dovish pivot unlikely in the near term.

Job openings data continued to point to excess demand for workers. While the number of available positions fell modestly to 10.8 million in January from 11.2 million in the prior month, this was higher than the 10.5 million economists had been expecting. The data also included significant upward revisions to openings over the past year, including a new record of 12 million in March 2022. The latest release continues to suggest there are around 1.9 openings for every unemployed American, close to a record high. Such elevated demand for labor adds to the risk that wage growth will remain unacceptably high for the Fed.

The February employment report looks likely to show unemployment at, or close to, a five-decade low. The strength of the January jobs data came as a surprise to markets, with the jobless rate falling to 3.4%, the lowest since 1969—the year of the moon landing. Job creation at 517,000 was roughly double the consensus forecast from economists.

While an upside surprise of this magnitude looks unlikely, the February report could remain too strong for comfort, from the Fed's perspective. The consensus is for the unemployment rate to hold steady at historical lows and for job creation on the month to reach about 200,000—neither of which would point to the kind of cooling the Fed would like to see. This perception was supported by the release on Wednesday of the ADP National Employment report, suggesting that 242,000 private sector jobs were created in February—versus the consensus forecast of 200,000 in a Reuters poll. Data for January was also revised higher.

Core inflation, excluding volatile food and energy prices, has remained higher than expected. While the annual headline measure of inflation for January has been on a downward trend since a June peak of 9.1%—falling every month since to 6.4%—core inflation has proved sticky. On a monthly basis, this held steady at 0.4% in December and January. Economists expect this core consumer price index measure to remain at this level again in February. The Fed's favorite gauge of price pressures—the core Personal Consumption Expenditure index—suggested core inflation is accelerating. Annual core inflation sped up to 4.7% in January from 4.6% in December, and on a monthly basis to 0.6% versus 0.4% in December.

Against this backdrop, we believe the risks are tilted toward more hawkish pronouncements from the Fed. We continue to expect 2023 to be a year of inflections for inflation, monetary policy, and economic growth. But recent developments have reinforced our view that inflection points are unlikely to be reached in unison. Investors will therefore need to take a more regionally selective approach to risk decisions, rather than make blanket “risk-on” or “risk-off” calls. We prefer high-quality fixed income. In equity markets we favor value stocks, including energy, which should be relatively resilient if inflation remain stubborn. With Europe and China likely to reach inflection points ahead of the US, we recommend diversifying beyond the US market and growth sectors.

Main contributors - Mark Haefele, Christopher Swann, Vincent Heaney, Brian Rose

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

Original report - [US data still points to a hawkish Fed, 9 March 2023.](#)

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2021. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.