



CIO sees opportunities in high-quality fixed income given decent yields and the scope for capital gains in the event of an economic slowdown. (UBS)

Lower job openings point to slowing US growth

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The number of US job openings in February fell to the lowest level since May 2021, with the latest JOLTS data showing a drop of 632,000 to 9.9 million. This came in below expectations for 10.4 million, and brought the ratio of job openings to unemployed people down to 1.67.

Separately, new orders for US-manufactured goods fell for a second straight month in February, with business spending on equipment staying weak.

While the US labor market remains tight, and the figures can be volatile on a monthly basis, the JOLTS report nonetheless showed signs of cooling. The yield on two-year US Treasuries dropped by more than 14 basis points following the data release, and the dollar index fell 0.5%.

As the slowdown of the US economy becomes more apparent, we think investors should prepare for a peak in interest rates by considering opportunities in bonds in the current environment.

Recession risks have increased. In addition to the declining factory orders, the ISM manufacturing PMI in March (46.3), released earlier this week, was the lowest reading since May 2020. It also marked the index's fifth straight month in contraction territory. The banking sector turmoil last month showed that the Federal Reserve's aggressive tightening last year is having an impact on the economy, and the likely tighter financial conditions that follow could weigh on economic activity further.

The Fed is nearing the end of its rate-hiking cycle. While inflation remains sticky, the Fed is likely nearing the end of its rate-hike campaign as it balances the battle with inflation against risks to growth and financial stability. The latest FOMC statement removed the reference to "ongoing increases" in rates likely being appropriate, instead stating that "some additional policy firming may be appropriate." The futures market also suggests a peak in the federal funds rate in May, instead of September, prior to the Silicon Valley Bank crisis.

The equity outlook is challenging. We expect global stocks to deliver limited returns and exhibit high volatility over the remainder of the year, and have recently downgraded equities to least preferred in our global strategy. In the US, we estimate earnings to contract by 4.5% this year following negative growth in 4Q22, while valuations remain unattractive: The S&P 500 forward P/E multiple is now over 18.5, which leaves little room for positive surprises, and a lot of scope for disappointment.

So, we remain most preferred on bonds. We see opportunities in high-quality fixed income given decent yields and the scope for capital gains in the event of an economic slowdown. We prefer high grade (government) and investment grade bonds, as well as sustainable issues. We also see value in emerging market bonds amid improving growth prospects and a weaker US dollar.

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

Original report - [Lower job openings point to slowing US growth, 5 April 2023.](#)

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