CIO maintains its positive view on quality bonds and continues to favor medium-duration Treasuries as part of a well-diversified portfolio. (UBS)

US inflation data shouldn't be an obstacle to resuming the easing cycle

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The US economy generated around 911,000 fewer jobs than estimated in the year to March, pointing to a record downward revision when employment figures are finalized early next year, according to the latest calculations from the government's Bureau of Labor Statistics (BLS). The revision is based on administrative unemployment insurance tax records, which are more accurate than the survey data used to generate monthly job growth estimates.

Separately, the New York Fed's August Survey of Consumer Expectations showing Americans now assign only a 34.9% probability of finding a new job if displaced adds to signs of weaker household sentiment. That's both a sharp decline from the 54.7% reading one month prior and the weakest reading from this measure in more than a decade.

While the annual BLS jobs data revisions were widely anticipated, the depth of the adjustment was at the harsher end of expectations and comes at a moment when employment is more central to the FOMC policy path forward. We make several observations:

The labor market has been cooling for longer than thought. The BLS revisions suggest payroll growth between April 2024 and March 2025 was overstated by close to 911,000, versus consensus estimates closer to 500,000. Combined with the most recent nonfarm payrolls report showing a modest gain of just 22,000 jobs in August, the revisions add to evidence of a more gradual deterioration in employment conditions spanning a more extended period, rather than an abrupt change.

This leaves Fed easing on track, though we still think a larger 50-basis-point cut is unlikely. While the scale of the revisions supports the case for policy easing, we note that Fed officials have been preparing markets for this outcome for some time. Furthermore, part of the slowdown in job creation appears to reflect a lower supply of workers, rather than just diminished demand from companies for employees. This is underlined by the fact that the unemployment rate has risen only modestly—fluctuating between 4% and 4.3% for the past 12 months. This point was made by Fed Chair Jerome Powell at last month's Jackson Hole meeting, when he said that there has been "a marked slowing in both the supply of and demand for workers." If the demand and supply of labor are relatively close to balance, there is less risk of a sharp rise in unemployment and less need for the Fed to cut rates more swiftly to support the economy. As a result, we still expect the Fed to ease in 25-basis-point steps over the coming meetings.

US inflation data shouldn't be an obstacle to resuming the easing cycle. With a cooling of the labor market now well established, Thursday's inflation release is the last data point of note into next week's Fed decision. Consensus expectations are for a monthly rise of 0.3% in the core consumer price index—higher than is consistent with the Fed's annual 2% target, but likely not sufficient to shift the central bank's focus away from the weakening labor market. The Fed's preferred inflation gauge, the core personal consumption expenditures release, for July showed only a modest pickup in price pressures.

So we think the combination of a moderation in jobs growth and still-manageable inflation should keep the Fed on track to cut rates, with a 25-basis-point cut expected in September to be followed by three additional consecutive cuts of the same size by January 2026. Against this backdrop, we maintain our positive view on quality bonds and continue to favor medium-duration Treasuries as part of a well-diversified portfolio. Gold, already trading near record highs, should continue to perform as a portfolio diversifier and an effective hedge against both macroeconomic uncertainty and political risks. Falling rates should further support the rally in equities, with the S&P 500 expected to finish 2025 near 6,600 and reach 6,800 by end-June 2026.

Original report – **What slower jobs growth means for the Fed path and risk assets, 10 September 2025.**

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