



(UBS)

Will US inflation data point to one or two Fed cuts?

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Last week ended with further evidence that the US labor market is cooling. US employment rose by 584,000 last year, the slowest pace since 2003, after the final month of jobs data for the year came in below expectations at 50,000.

For the previous three months, the average private sector job creation fell to 29,000 in December, compared to an average of 61,000 for the year, and 130,000 in 2024. While the jobless rate fell to 4.4%, down from a recent peak of 4.6% as the effects of a government shutdown were largely reversed, the report reinforced our view that demand for workers has been moderating. Job openings for November also dropped, according to JOLTS data earlier in the week. The ratio of openings to unemployed workers fell to 0.91, its weakest since early 2021.

The focus this week will shift to inflation and consumer spending, as investors look for guidance on how many rate cuts are left from the Federal Reserve. At present, the median forecast from top Fed officials is for just one cut, while the market is priced for two. In our view, the December consumer price index reading could point to a renewed acceleration in core inflation. However, this will likely be the result of an unwinding of prior distortions related to the government shutdown and the unusual timing of holiday discounts by companies. Inflation—though above the Fed's target—should not be a barrier to central bank easing in the first quarter, in our view, especially given concerns over the weakening labor market. The retail sales data for November also look likely to support our view that consumer spending remains a key support for the economy.

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So, based on this backdrop, we expect the Fed to cut rates once again in the first quarter. The combination of continued economic growth and monetary policy easing has historically been positive for equity markets, and we expect this year to be no exception. While markets are looking for a second rate cut later on this year, this could hinge on changes in the composition of the Federal Reserve board—including the expected appointment of a more dovish chair after Jerome Powell's term ends in May.

Original report – [Weekly Global: What to watch in the week ahead, 12 January 2026](#).

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