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INVESTMENT SOLUTIONS

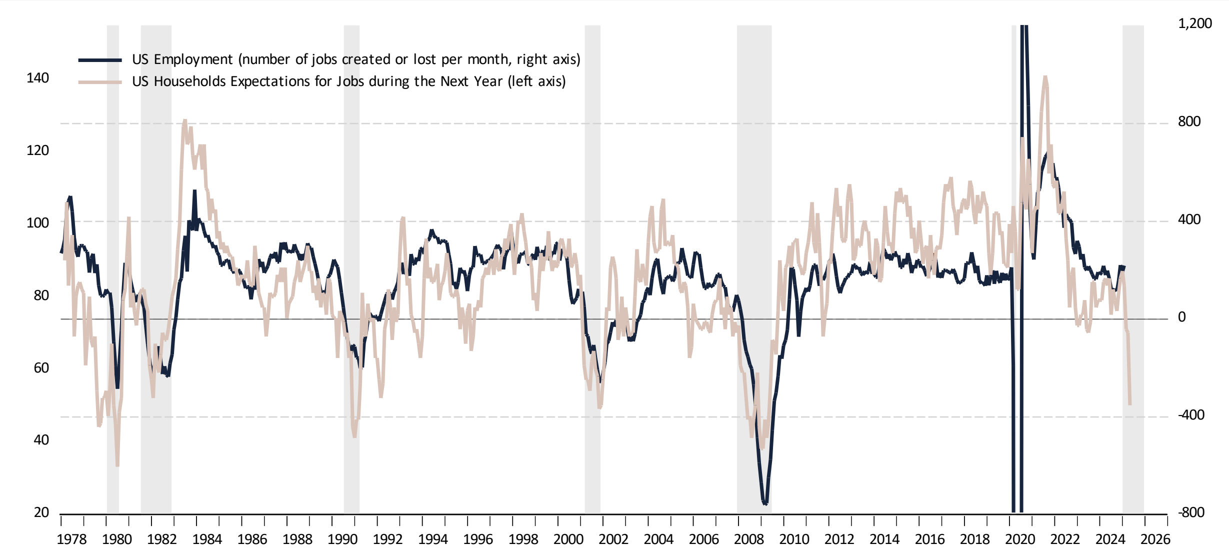
weekly investment focus

The flexiweekly that reaches new heights - published on 24 March 2025

"EMPLOYMENT ON THE BRINK"

- The job market and American confidence are deteriorating sharply
- The spectacular action of the DOGE must not mask the difficulties of the private sector
- There's no ambiguity: if employment contracts, then recession is just around the corner
- … and the Fed will (finally) be able to lower its key rates (sharply)

CHART OF THE WEEK: "Job prospects plummet"



Source: Bloomberg, Altitude IS

ECONOMIC ANALYSIS

Rather than focusing on inflation, investors should be keeping an eye on the US labour market! It appears solid but, in reality, it is starting to show serious signs of weakness. On the positive side of the analysis, the revision of the household survey has corrected the underestimation of the last three years (see Fig. 2 & weekly investment focus of 16 December 2024). In January, the Bureau of Labor Statistics (BLS) finally included 8 million people in the labour force. Until this change, the wave of immigration, both legal and illegal, had not been fully taken into account. Employment in the United States therefore grew dynamically between 2022 and 2024.

On the negative side, non-farm payrolls were below expectations in February: 151,000 jobs, while analysts were expecting a range of 160,000 to 200,000. This moderate increase was accompanied by a rise in the unemployment rate to 4.1%, a level that could have risen to 4.3% had the labour force not been abruptly boosted.

Fig. 2 - Job creation in the United States

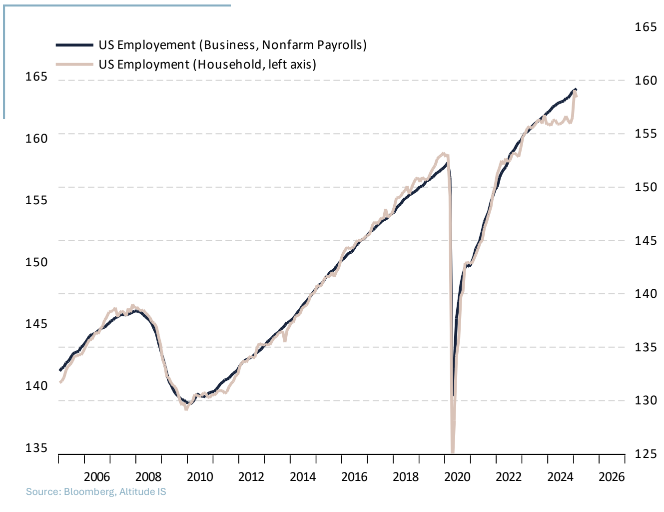
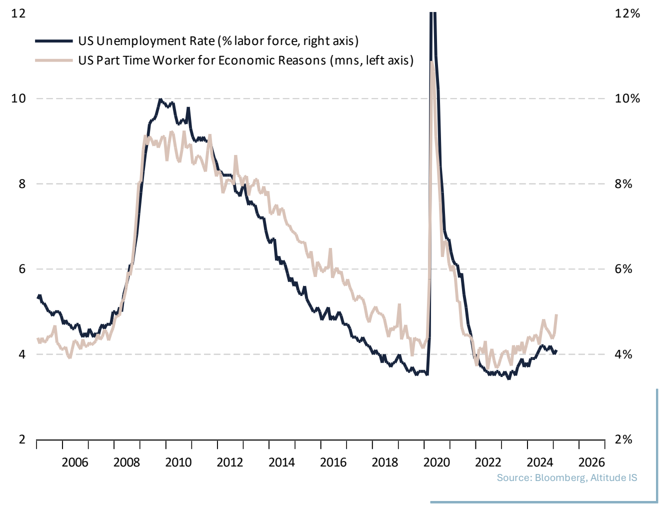


Fig. 3 - Unemployment & involuntary part-time work



As bad news never comes alone, the increase in the number of part-time workers for economic reasons (see Fig. 3) and the low number of hours worked (see Fig. 4) have confirmed the weakening dynamics of the labour market.

Fig. 4 - Number of hours worked per week

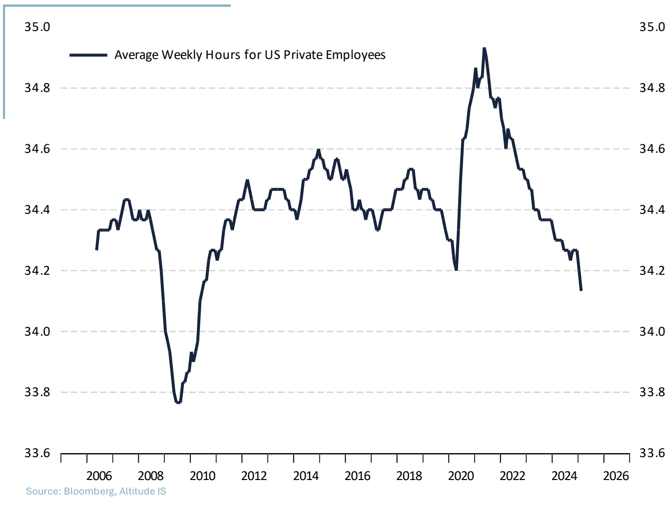
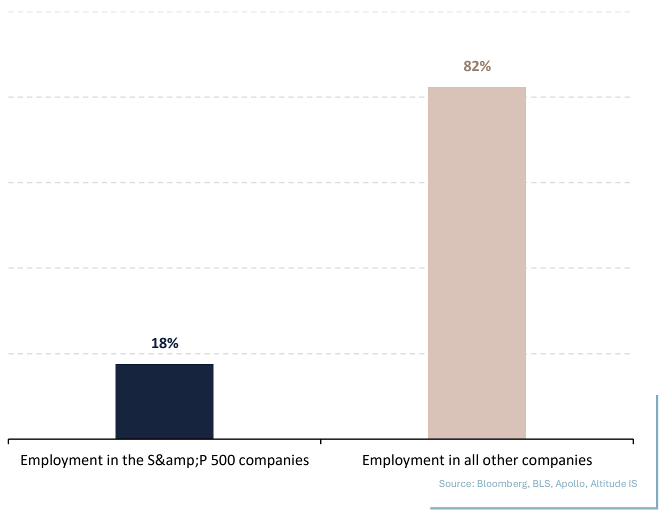


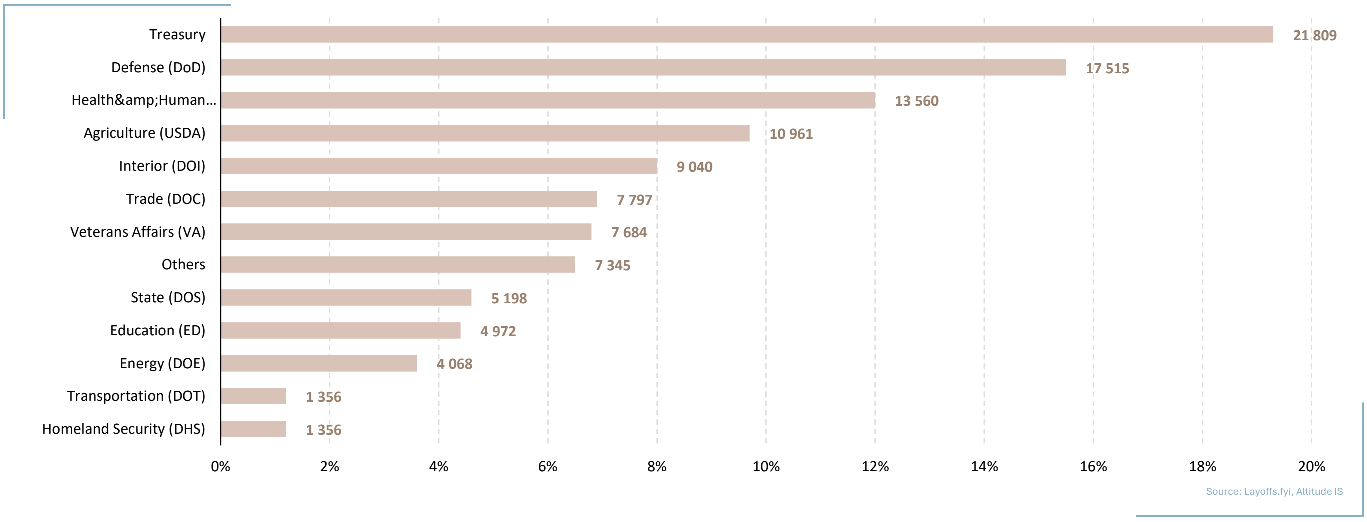
Fig. 5 - Employment by company size



While some sectors remain buoyant, notably health, transport and financial services, those linked to discretionary consumption are showing signs of weakness. The retail and leisure sectors have shed 6,000 and 16,000 jobs respectively. The slowdown is also visible in the public sector. Federal employment fell by 10,000 jobs, as a direct result of the hiring freeze and, above all, the first job cuts implemented by the Department of Government Efficiency (DOGE). According to the latest estimates from the government redundancy counter (see Fig. 6, https://layoffs.fyi/), **some 113,000 American civil servants have left their**

jobs since the start of the year, and the numbers are still rising. This trend is set to accelerate in the coming months, with further departures in March and the implementation of a downsizing plan thereafter. Although federal employment accounts for only 10% of the labour market, it has contributed 20% of new hires over the past two years.

Fig. 6 - DOGE redundancies



What's more, and this is a phenomenon that is often played down, the public administration uses subcontractors, including in the services sector. By domino effect, these small private sector companies are suffering as a result of current government policy, and they too have no choice but to make massive redundancies. In the United States as elsewhere, small businesses account for the vast majority of jobs (see Fig. 5). **So, whether directly or indirectly, the DOGE's action is having a strong negative impact on the confidence of all US workers** (see Fig. 7). Indeed, not since 2012 have so many households anticipated a deterioration in the labour market (see Fig. 8).

Fig. 7 - Unemployment and consumer confidence

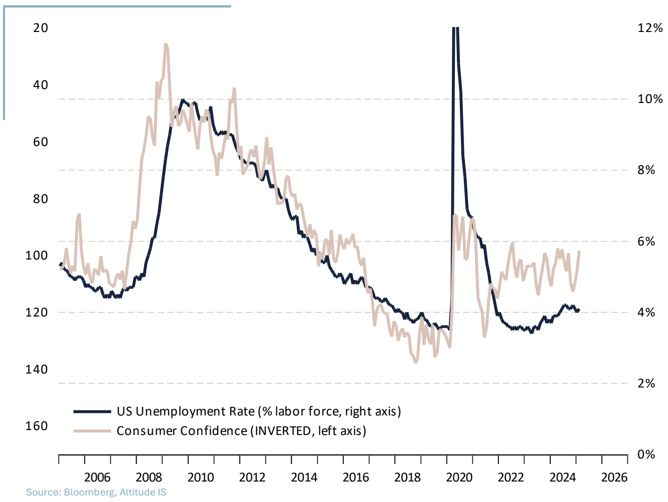
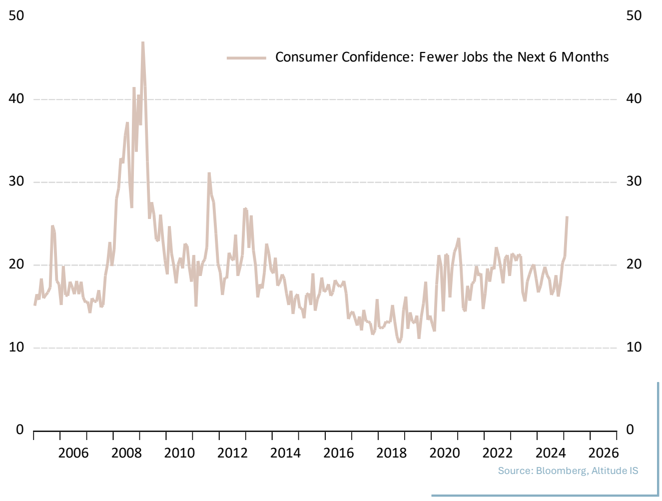


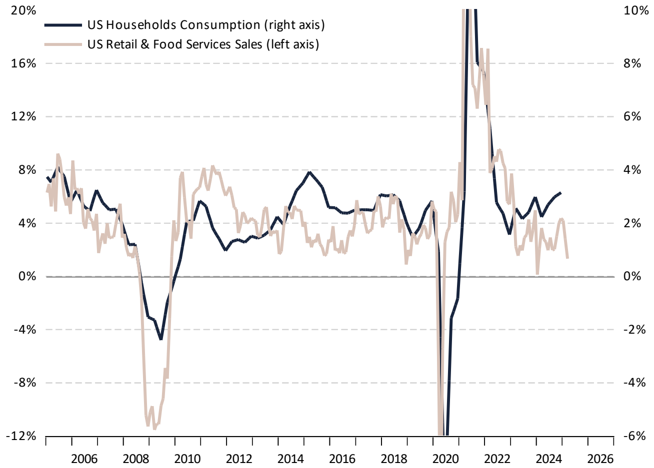
Fig. 8 - Deteriorating employment prospects



Our projections for 2025 point to a continued slowdown, with negative job creation in some months, pushing the **unemployment rate inexorably towards 5%.** This rate is not incongruous, given the redundancies already announced and those on the horizon (see Chart of the Week), but it will have visible consequences.

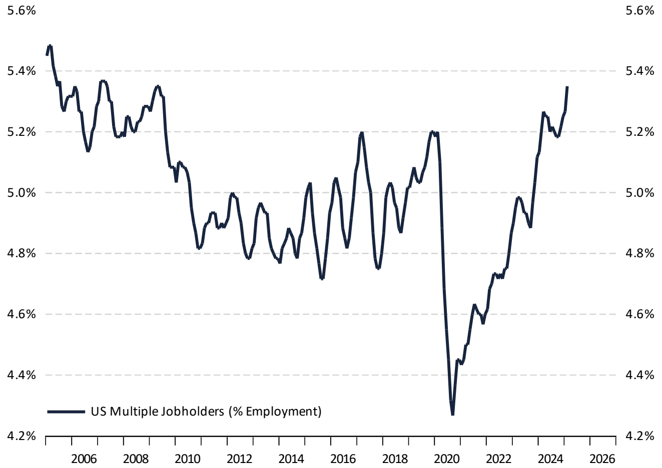
Developments in the labour market are crucial, as they are the primary factor influencing household purchasing power, private consumption (see Fig. 9) and, ultimately, growth in Gross Domestic Product (GDP) of which two-thirds is linked to this component. **There is no ambiguity: if employment contracts, recession is just around the corner.** The rise in the number of Americans holding multiple jobs (see Fig. 10) demonstrates the difficulties faced by the poorest workers in meeting their basic needs: food and healthcare.

Fig. 9 - Private consumption & retail sales



Source: Bloomberg, Altitude IS

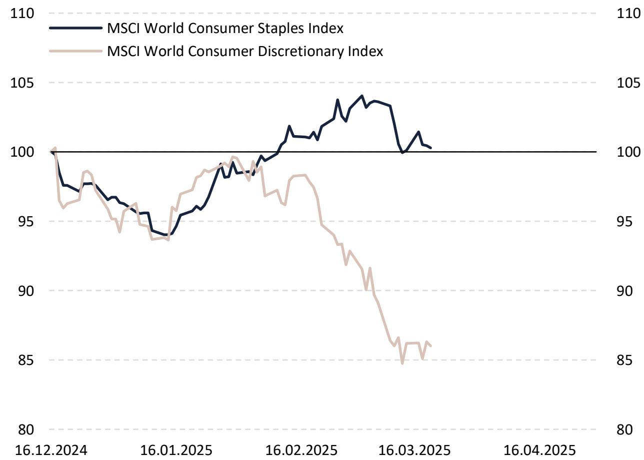
Fig. 10 - Multi-activity workers



Source: Bloomberg, Altitude IS

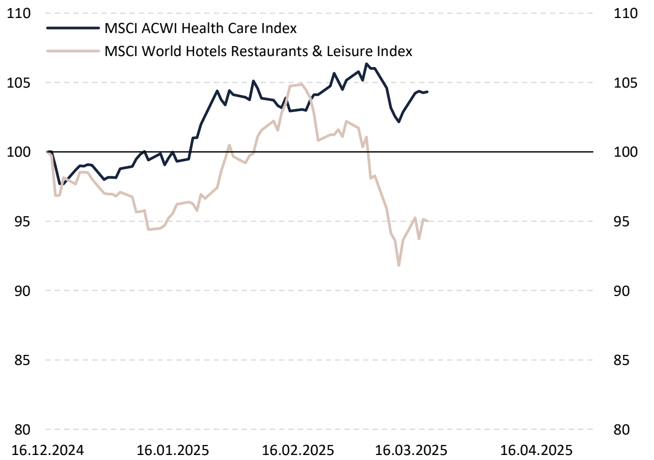
On the stock markets, investors are not mistaken: the consumer staples sector is outperforming the consumer discretionary sector (see Fig. 11)**, just as the healthcare sector is delivering better results than the restaurants and leisure sector** (see Fig. 12). This trend, which began at the very start of the year, is expected to continue for many months, until the economic outlook improves. In particular, support from public policy, both fiscal and monetary, will be needed.

Fig. 11 – Equities: staples vs discretionary



Source: Bloomberg, Altitude IS

Fig. 12 – Equities: healthcare vs Leisure



Source: Bloomberg, Altitude IS

For the time being, the Federal Reserve is watching these developments closely, but it **is obliged to give priority to its other mandate: the fight against inflation.** It is therefore continuing to communicate that it has no intention of lowering its key rates significantly in the coming months, unless economic activity weakens. At the end of its latest monetary policy meeting on Wednesday, Jerome Powell reiterated the complexity of the situation: the Fed will balance the risk of inflation on the upside and the risk of growth on the downside, either by keeping rates at the same level or by easing them to support activity.

As usual during this phase of the economic cycle, investors are (wrongly) worried about a stagflation scenario: stagnant growth and high inflation. In reality, it is simply a question of a time lag between the fall in activity and the disinflation. **If the deterioration in the labour market accelerates as we expect,** then the US central bank will have to be much more accommodating. It is at this point that **the Fed will have to demonstrate that it is capable of acting energetically and that it is not behind the curve.**

Conclusion:

History has regularly shown that if the Federal Reserve acts late to support the economy, it is perceived as behind the curve by investors. In these rare cases, each new rate cut is interpreted as a signal of acute crisis, accentuating not only the bear market in the stock market... but also the bull market in bonds.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	842.0	44.81	0.7%	-3.5%	0.4%	18.0%	22.8%
USA (S&P 500)	5 668	41.69	0.5%	-5.6%	-3.3%	25.0%	26.3%
USA (Dow Jones)	41 985	42.84	1.2%	-3.1%	-0.9%	15.0%	16.2%
USA (Nasdaq)	17 784	40.72	0.2%	-8.8%	-7.8%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	560.6	52.93	0.4%	0.5%	11.3%	10.2%	19.5%
UK (FTSE 100)	8 647	48.96	0.2%	0.4%	6.7%	9.6%	7.7%
Switzerland (SMI)	13 075	58.55	1.2%	1.5%	13.3%	7.5%	7.1%
Japan (Nikkei)	37 608	47.61	1.7%	-2.8%	-5.5%	21.3%	31.0%
Emerging (MSCI)	1 131	54.87	1.2%	-1.1%	5.7%	8.0%	10.2%
Brasil (IBOVESPA)	132 345	68.80	2.6%	4.1%	10.0%	-10.4%	22.3%
Mexico (IPC)	52 672	51.16	0.4%	-1.9%	6.6%	-11.0%	22.4%
India (SENSEX)	77 806	65.51	4.2%	2.1%	-1.4%	9.6%	20.3%
China (CSI)	3 926	46.76	-2.3%	-1.6%	-0.3%	18.2%	-9.1%
Com. Services (MSCI World)	125.1	41.63	0.0%	-6.2%	0.3%	31.9%	38.1%
Cons. Discretionary (MSCI World)	395.0	36.63	0.1%	-7.7%	-6.2%	20.7%	29.5%
Cons. Staples (MSCI World)	282.2	44.47	0.1%	-1.1%	3.8%	4.7%	3.2%
Energy (MSCI World)	256.8	63.59	3.2%	2.6%	7.8%	2.9%	6.0%
Financials (MSCI World)	190.4	53.06	1.8%	0.0%	6.4%	25.1%	16.4%
Health Care (MSCI World)	369.7	49.39	1.0%	0.0%	6.3%	1.5%	4.1%
Industrials (MSCI World)	393.3	50.84	0.6%	0.6%	4.7%	12.8%	22.5%
Info. Tech. (MSCI World)	709.2	41.92	0.4%	-8.9%	-7.6%	31.9%	51.4%
Materials (MSCI World)	324.6	49.39	-0.2%	0.0%	6.7%	-7.7%	12.6%
Real Estate (MSCI World)	967	43.97	0.1%	-1.7%	1.6%	-0.4%	5.3%
Utilities (MSCI World)	168.8	60.06	0.7%	1.4%	5.7%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.65%	60.23	0.2%	0.9%	2.5%	-1.7%	5.7%
USA (Sovereign)	4.15%	60.41	0.4%	1.3%	2.6%	0.6%	4.1%
Euro Area (Sovereign)	2.94%	44.72	0.7%	-1.5%	-1.6%	1.9%	7.1%
Germany (Sovereign)	2.50%	43.64	0.8%	-1.8%	-2.3%	0.6%	5.6%
UK (Sovereign)	4.62%	46.93	-0.2%	-0.1%	0.6%	-3.0%	5.6%
Switzerland (Sovereign)	0.80%	42.50	0.6%	-0.8%	-2.6%	5.4%	7.9%
Japan (Sovereign)	1.30%	38.45	0.0%	-0.5%	-2.5%	-2.1%	0.9%
Emerging (Sovereign)	6.84%	54.93	0.1%	0.6%	2.5%	7.0%	11.0%
USA (IG Corp.)	5.15%	57.24	0.4%	0.5%	2.3%	2.1%	8.5%
Euro Area (IG Corp.)	3.31%	47.67	0.2%	-0.9%	-0.1%	4.7%	8.2%
Emerging (IG Corp.)	6.42%	65.83	0.3%	0.6%	2.6%	7.0%	6.7%
USA (HY Corp.)	7.52%	51.68	0.3%	-0.2%	1.5%	8.2%	13.4%
Euro Area (HY Corp.)	5.79%	50.77	0.3%	-0.5%	1.1%	8.2%	12.1%
Emerging (HY Corp.)	8.48%	48.75	-0.1%	-0.1%	2.0%	14.9%	13.1%
World (Convertibles)	452.1	51.99	0.6%	-0.7%	2.7%	9.4%	12.3%
USA (Convertibles)	601.2	48.35	0.9%	-2.3%	0.5%	10.1%	14.6%
Euro Area (Convertibles)	258.3	64.45	0.0%	5.3%	11.0%	14.7%	7.3%
Switzerland (Convertibles)	253.0	60.46	2.0%	1.7%	5.1%	-10.5%	5.8%
Japan (Convertibles)	229.6	63.12	1.0%	0.4%	1.3%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 623	79.49	n.a.	-0.6%	0.8%	11.1%	7.8%
Macro	1 348	68.07	n.a.	-1.2%	0.4%	7.4%	1.6%
Equity Long Only	2 158	63.11	n.a.	-2.3%	-2.4%	12.0%	15.9%
Equity Long/Short	1 695	77.93	n.a.	-0.7%	1.1%	14.0%	7.7%
Event Driven	1 739	77.52	n.a.	-0.2%	0.8%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 668	96.81	n.a.	0.3%	1.0%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 690	85.78	n.a.	-0.4%	1.6%	9.8%	7.8%
Credit	1 624	97.86	n.a.	0.7%	1.7%	8.5%	8.1%
Credit Long/Short	1 644	100.00	n.a.	0.5%	1.0%	10.0%	11.2%
Commodity	1 804	85.39	n.a.	-0.3%	0.8%	14.7%	7.3%
Commodity Trading Advisors	1 320	55.76	n.a.	-2.8%	-1.6%	7.9%	-3.6%
Volatility							
VIX	19.28	46.02	-11.4%	5.9%	11.1%	39.4%	-42.5%
VSTOXX	19.69	51.49	-2.6%	19.5%	15.8%	25.3%	-35.0%
Commodities							
Commodities (CRB)	542.4	n.a.	0.2%	-1.6%	1.1%	5.1%	-8.0%
Gold (Troy Ounce)	3 025	n.a.	0.8%	2.5%	15.3%	27.2%	13.1%
Silver (Troy Ounce)	33.18	n.a.	-2.0%	2.6%	14.8%	21.5%	-0.7%
Oil (WTI, Barrel)	68.63	n.a.	2.2%	-2.8%	-4.3%	0.1%	-10.7%
Oil (Brent, Barrel)	72.51	n.a.	1.3%	-3.4%	-2.2%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	103.99	38.76	0.6%	-2.4%	-4.1%	7.1%	-2.1%
EUR	1.0842	61.09	-0.7%	3.6%	4.7%	-6.2%	3.1%
JPY	149.57	51.14	-0.2%	0.1%	5.1%	-10.3%	-7.0%
GBP	1.2948	63.15	-0.3%	2.6%	3.5%	-1.7%	5.4%
AUD	0.6289	47.58	-1.5%	-1.0%	1.6%	-9.2%	0.0%
CAD	1.4337	50.59	-0.3%	-0.5%	0.3%	-7.9%	2.3%
CHF	0.8828	58.40	-0.2%	1.6%	2.8%	-7.3%	9.9%
CNY	7.2561	48.93	-0.4%	-0.1%	0.6%	-2.7%	-2.8%
MXN	20.219	52.06	-1.3%	1.3%	3.0%	-18.5%	14.9%
EM (Emerging Index)	1 758.4	60.25	0.1%	0.2%	1.8%	-0.7%	4.8%
XBT	87 039	n.a.	1.9%	-7.4%	-7.1%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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