

# Did markets overreact to the December US jobs report?

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## Key takeaways



### Jobs and wages

The US economy experienced higher job growth in December, but we also saw an easing in wage growth.

### Inflation concerns

Despite lower wage growth, the surge in jobs caused markets to worry about the US economy running too hot.

### An overreaction?

I think markets overreacted to the jobs report, since inflation expectations remain relatively well-anchored.

On Friday, Jan. 10, we got what seemed like good news in the form of the December US jobs report. From my perspective, it was a Goldilocks jobs report – strong job growth without an accompanying increase in wage inflation — but the markets took a more negative view. I believe the downturn we saw following the report was an overreaction. In this column, I explain why.

### What did the report tell us?

The US economy added 256,000 jobs in December, which was far better than expected and the most in nine months.<sup>1</sup> This followed the November jobs report, which was downwardly revised to a still-robust 212,000 from 227,000.<sup>2</sup>

However, the December jobs report also showed an easing in wage growth; it's now back below 4% year-over-year.<sup>3</sup> High wage growth is arguably the most concerning contributor to inflation because it can lead to sustainably higher inflation. Therefore, it is encouraging to see wage growth easing.

### How did markets react?

I frankly was surprised by the negative market reaction – stock and bonds both sold off after the report was released.<sup>4</sup> Despite lower wage growth, the surge in jobs caused more market concern about the economy running too hot and causing a resurgence in inflation. That could be because markets were already sensitive to the potential for elevated inflation:

- The week started with the release of the ISM Services Purchasing Managers' Index, which showed a significant increase in the prices paid sub-index, from 58.2 in November to much higher 64.4 in December – which is the highest since January 2024 and raised concerns about a resurgence in inflation.<sup>5</sup>
- The Job Openings and Labor Turnover Survey for November, released early last week, also indicated a rather strong job market with 8.1 million job openings, which was higher than the previous several months. However, while November's data is still above pre-pandemic levels, it is substantially lower than at the start of the year when job openings numbered more than 8.7 million.<sup>6</sup>
- Then came the release of the minutes from the December Federal Open Market Committee (FOMC) meeting, which showed growing concerns about higher inflation: "With regard to the outlook for inflation, participants expected that inflation would continue to move toward 2 percent, although they noted that recent higher-than-expected readings on inflation, and the effects of potential changes in trade and immigration policy, suggested that the process could take longer than previously anticipated..."<sup>7</sup>
- There was also a significant amount of "Fedspeak" last week indicating fewer rate cuts would be in the offing. For example, Fed Governor Michelle Bowman referred to core inflation as being "uncomfortably

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above” the FOMC’s 2% target and worried that “the current stance of monetary policy may not be as restrictive as others may see it.”<sup>8</sup>

Suffice it to say that the totality of releases and Fed voices last week resulted in a change in market expectations around rate cuts. A week ago, the CME FedWatch Tool indicated a 16% probability that the fed funds rate would stay at current levels for 2025; that probability has now increased to 31%.<sup>9</sup>

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### **Was the downturn an overreaction?**

I think markets overreacted to the jobs report. Both market-based and consumer survey-based inflation expectations remain relatively well-anchored:

- The 5-year breakeven inflation rate has risen materially since the start of the year, from 2.38% to 2.51%<sup>10</sup> However, we actually saw the five-year breakeven inflation rate reach similar levels as recently as April 2024. Importantly, it remains well within the “comfort zone” for the Fed.
- The preliminary readings of the University of Michigan Consumer Inflation Expectations for January have also risen. One-year ahead inflation expectations rose from 2.8% to 3.3% — an admittedly significant increase in just a month. Five-year ahead inflation expectations also rose materially, from 3% to 3.3%.<sup>11</sup> However, inflation expectations are still tame when looking at historical expectations. For example, in February 1980, one-year ahead consumer inflation expectations were 10% and five-year ahead consumer inflation expectations were 9.8%.<sup>11</sup>

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### **Canadian jobs report tells a similar story**

We heard a similar story in Canada with the release of its December jobs report.

- The Canadian economy added 90,900 jobs in December, which is the highest level since January 2023.<sup>12</sup>
- The unemployment rate dropped to 6.7%<sup>12</sup>
- Average hourly wages for permanent employees rose 3.7% year-over-year, which is below the previous month’s reading and well below the average for the year.<sup>12</sup> This is important because the Bank of Canada had previously noted that high wage growth was a key risk that could keep inflation elevated.

The Canadian jobs report also indicated that its economy is running hotter than expected — and just as in the US, this seemed to be a “good news is bad news” story. Canadian bond yields rose and Canadian stocks fell on Friday<sup>10</sup> (of course some of that could be the spillover effects of the negative US market reaction). The report has lowered rate cut expectations for the Bank of Canada in 2025, but in my view, it seems more likely that it will continue easing materially this year.

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### **Uncertainty abounds worldwide**

The reality is that policymakers around the world are unsure of how this year will play out. The FOMC minutes noted that all participants “judged that uncertainty about the scope, timing, and economic effects of potential changes in policies affecting foreign trade and immigration was elevated.”<sup>7</sup>

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Not only are policymakers unsure, investors are unsure — and so I anticipate a continued shifting of expectations around rate cuts as the year progresses – and a general uncertainty around what may happen to the global economy and markets. For example, we have seen an outsized sell-off in emerging markets that I believe has been driven largely by policy uncertainty and fear. I for one will stick with our base case for this year, but will be vigilant about looking for risks to that scenario.

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### New financial terms for a new year

Because this year is shaping up to be an interesting and perhaps unusual one, I've decided to start a financial glossary for 2025. Following are my initial contributions:

- **Arthur Burns Aversion Syndrome.** Arthur Burns has gone down in history as one of the most criticized Federal Reserve Chairs because he presided over a dramatic increase in US inflation in the 1970s. Central bankers seem to fear being considered the next Arthur Burns more than they fear almost anything else. In my view, that has caused many to err on the side of worrying more about inflation than about recessions. I think this syndrome caused many central banks, including the Fed, to dramatically hike rates in 2022. And there's a risk that policymakers in 2025 could act hawkishly out of fear of an inflation resurgence because they believe there's nothing worse than being another Arthur Burns.
- **Good News is Bad News Syndrome.** Chances are, we all know someone who focuses on the negative in every situation — someone who can't appreciate a delicious meal, fun dinner companions, and great service at a restaurant because their chair has a slight wobble. Just like that pessimistic person, markets are likely to react negatively to positive economic news – as they did with Friday's US jobs report – because they've decided that, especially in the US, inflationary risks are greater than economic growth risks.
- **Government Bond Yield High Altitude Sickness.** When climbing mountains, significant health complications arise from high altitude sickness, which can be caused by ascending too quickly. Similarly, stocks can experience yield altitude sickness. When bond yields go up, especially quickly, they can exert downward pressure on stocks, as we have seen recently. And so I think it's appropriate to call the problems facing stocks when yields rise "high altitude sickness" as well.
- **Government Deficit Guardian Angels.** I prefer this term to "bond vigilantes" which seems more extreme. That's because I grew up in New York in the 1980s, so my mind automatically associates the word "vigilante" with the Guardian Angels – a group of volunteers who donned red berets and red silk jackets, and rode the subways in order to protect New Yorkers. Guardian Angels didn't carry weapons – their mere presence (and impactful fashion statement) was intended to keep the peace. Similarly, I think continued pressure on governments to be fiscally responsible may be enough, especially in the US, to keep spending in check and satisfy bond investors.
- **Overton Garage Door.** The "Overton Window" is a term used to describe the range of subjects and arguments that are considered politically acceptable to discuss and entertain by mainstream society at a given time. However, I think we're entering an era of greater extremism, which means the range of topics that people are willing to discuss and consider is likely to widen. We may soon need a garage door rather than just a window.

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- **Political Goggles.** You may have heard the expression “beer goggles,” which is a euphemism for when people have had too much to drink and everything suddenly looks better than it did before. In recent years, consumer sentiment in the US has been shaped by party affiliation; if one’s political party is in power, one tends to be more positive on the economy and vice versa. For example, University of Michigan Surveys in recent years have shown that Republicans and Democrats have substantially different levels of consumer confidence that seem to be shaped by who is occupying the White House. And last week’s Michigan consumer inflation expectations showed wildly different expectations for inflation in the coming year depending on political affiliation. Democratic respondents expected one-year ahead inflation to be 1.5% in October; that has now risen dramatically to 4.2%. And Republican respondents expected one-year ahead inflation to be 3.6% in October; that has fallen to an incredibly low 0.1% in the most recent survey.<sup>11</sup> I suspect the ‘political goggles’ phenomenon will become increasingly common in other countries this year.
  - **Post-post-Modern Imperialism.** Post-modern imperialism is a type of imperialism that is ideological in nature and aims to spread democracy. We have now entered an era in which countries have a renewed interest in real imperialism, adding physical land to their country for strategic defense reasons. Exhibit A: The incoming US administration’s interest in Greenland and the Panama Canal.
  - **Stock Shvitz.** I grew up hearing the term “stocks took a bath today.” As someone who appreciates cleanliness, I initially assumed that was a positive expression — only to find out that it was actually negative, referring to a significant loss of value. I don’t think stocks will experience major sell-offs this year, but given uncertainty, especially around monetary policy easing, I expect periodic “stock shvitzes” (getting a little wet through steam baths) where stocks could experience more minor drops in value.

This is just the start of a 2025 macro/market glossary. I will provide installments throughout the year and welcome contributions from readers.

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## Looking ahead

We’ll get a number of important data releases this week, including Consumer Price Indexes (CPI) in the US and UK, and the eurozone CPI will be released next week. These will be very important given heightened market concerns around the potential for a resurgence in inflation. In addition, the US Federal Reserve Beige Book will be released, which will give us insights into the state of the US economy and the risks to it.

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## Dates to watch

Date	Report	What it tells us
Jan. 13	NY Fed US Consumer Inflation Expectations	Tracks consumer expectations for US inflation.
Jan. 14	Eurozone ZEW Economic Sentiment	Measures economic sentiment in the eurozone for the next six months.

## Dates to watch

Date	Report	What it tells us
	China New Loans	Measures the change in the total value of outstanding bank loans issued to consumers and businesses.
	NFIB US Small Business Optimism Index	Indicates the health of small businesses in the US.
	US Producer Price Index	Measures the change in prices paid to producers of goods and services
	New Zealand Business Confidence.	Tracks businesses' opinions on expectations for their business and the economy.
	Korea Unemployment Rate	Indicates the health of the job market.
Jan. 15	UK Consumer Price Index	Tracks the path of inflation.
	UK Producer Price Index	Measures the change in prices paid to producers of goods and services
	UK House Price Index	Indicates the health of the housing market.
	US Consumer Price Index	Tracks the path of inflation.
	Australia Unemployment Rate	Indicates the health of the job market.
	People's Bank of China Loan Prime Rate	Tracks the path of interest rates.
Jan. 16	UK Gross Domestic Product	Measures a region's economic activity.
	UK Industrial Production	Indicates the economic health of the industrial sector.
	Bank of England Credit Conditions Survey	Reports on trends and developments in credit conditions.
	European Central Bank Account of Monetary Policy Meeting	Gives further insight into the central bank's decision-making process.
	US Retail Sales	Indicates the health of the retail sector.
	China Gross Domestic Product	Measures a region's economic activity.
	China Retail Sales	Indicates the health of the retail sector.
Jan. 17	UK Retail Sales	Indicates the health of the retail sector.
	Eurozone Consumer Price Index	Tracks the path of inflation.
	US Building Permits	Indicates the health of the construction industry.
	US Housing Starts	Indicates the health of the housing market.
	US Industrial Production	Indicates the economic health of the industrial sector.
	US Federal Reserve Beige Book	Gathers anecdotal information on current economic conditions in Federal Reserve districts.

## Notes

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<sup>1</sup>Source: US Bureau of Labor Statistics, January 10, 2025

<sup>2</sup>Source: US Bureau of Labor Statistics, January 10, 2025

<sup>3</sup>Source: US Bureau of Labor Statistics, January 10, 2025

<sup>4</sup>Source: Bloomberg, as of January 10, 2025

<sup>5</sup>Source: Institute for Supply Management, January 7, 2024

<sup>6</sup>Source: US Bureau of Labor Statistics, January 7, 2025

<sup>7</sup>Source: December 2024 FOMC Meeting Minutes, January 8, 2025

<sup>8</sup>Source: Michelle Bowman speech to California bankers Association, January 9, 2025

<sup>9</sup>Source: CME FedWatch Tool, as of January 11, 2025

<sup>10</sup>Source: Bloomberg, as of January 10, 2025

<sup>11</sup>Source: University of Michigan Survey of Consumers, January 10, 2025

<sup>12</sup>Source: Statistics Canada, January 10, 2025

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## Important information

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

The Summary of Commentary on Current Economic Conditions by Federal Reserve District (the Beige Book) is published eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its district, and the Beige Book summarizes this information by district and sector.

Bond vigilantes is a name given to bond investors who sell bonds in protest against a monetary or fiscal policy they fear is inflationary.

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Breakeven inflation is the difference in yield between a nominal Treasury security and a Treasury Inflation-Protected Security of the same maturity.

The CME FedWatch Tool analyzes the probability of upcoming Fed rate moves using 30-Day fed funds futures pricing data. Fed funds futures are financial contracts that represent the market's opinion of where the fed funds rate will be at a specified point in the future.

The Consumer Price Index (CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

Monetary easing refers to the lowering of interest rates and deposit ratios by central banks.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

The federal funds rate is the rate at which banks lend balances to each other overnight.

The Federal Reserve Beige Book is a summary of anecdotal information on current economic conditions in each of the Fed's 12 districts.

The Federal Open Market Committee (FOMC) is a committee of the Federal Reserve Board that meets regularly to set monetary policy, including the interest rates that are charged to banks.

Fluctuations in the price of gold and precious metals may affect the profitability of companies in the gold and precious metals sector. Changes in the political or economic conditions of countries where companies in the gold and precious metals sector are located may have a direct effect on the price of gold and precious metals.

Inflation is the rate at which the general price level for goods and services is increasing.

The Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics produces data on job openings, hires, and separations.

The Prices Paid sub-index of the ISM Services PMI tracks changes in the prices paid by services industries for various raw materials and goods.

Purchasing Managers' Indexes (PMI) are based on monthly surveys of companies worldwide and gauge business conditions within the manufacturing and services sectors.

Spread represents the difference between two values or asset returns.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The Survey of Consumers is a monthly telephone survey conducted by the University of Michigan that provides indexes of consumer sentiment and inflation expectations.

The opinions referenced above are those of the author as of **Jan. 13, 2025**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.