

## Recent Labor Weakness Supports December Cut

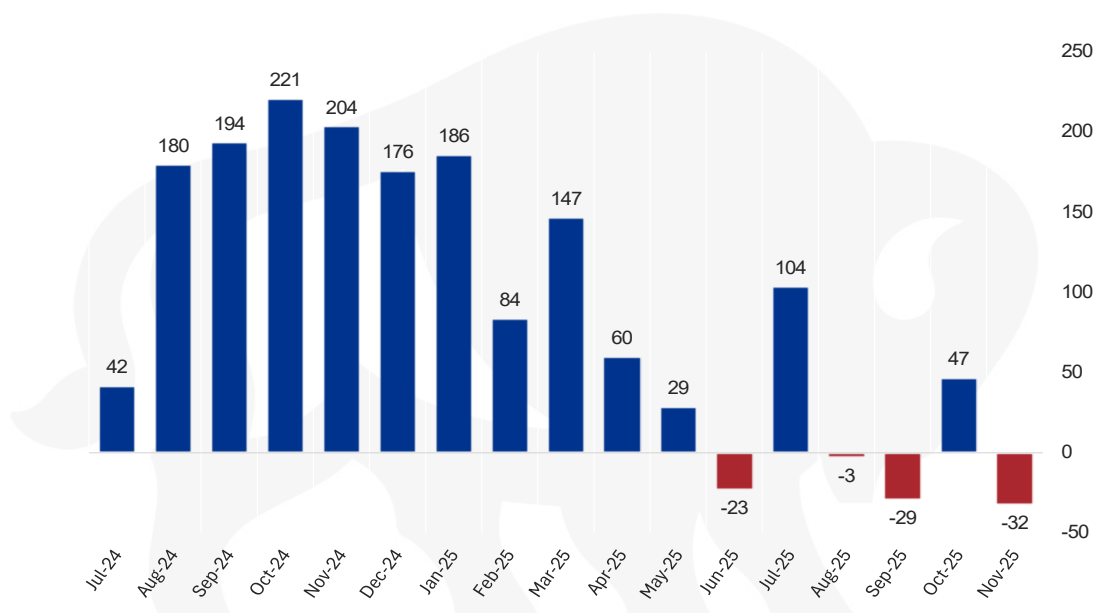
With the December FOMC meeting less than a week away and committee members muted in the midst of their mandated 10-day quiet period, the probability of a third straight quarter point rate cut has become a near certainty. The argument that Fed officials would have insufficient data to make that decision has been largely dismissed by the market. The bottom line is that available private sector employment numbers have been too weak to ignore, while consumer confidence appears to be crumbling just before the holidays.

On Wednesday, the ADP national employment report revealed private-sector payrolls fell by -32k in November, *the largest single month drop since early 2023, and the fourth net loss reported this year.*

Even more concerning was small businesses with fewer than 50 employees shed -120k workers, the biggest decline since May 2020, while medium and large firms *actually added* workers. Although the ADP data doesn't have a particularly strong monthly correlation with the missing BLS data, the long-term correlation is reliably clear.

Yesterday, consulting firm *Challenger, Gray & Christmas* reported planned job cuts by US companies had eased a bit in November after announced October layoffs were the highest in any October since 2005. Planned November job reductions were still the most in any November in three years, while 1.17 million total layoffs so far this year are the highest since 2020 and 54% above the same period in 2024.

### ADP Payrolls Total Change (in thousands)



Source: Automatic Data Processing, Inc / Bloomberg

*Scott McIntyre, CFA*  
HilltopSecurities Asset Management  
Co-Head of Investment Management  
Managing Director  
512.481.2009  
scott.mcintyre@hilltopsecurities.com

*Greg Warner, CTP*  
HilltopSecurities Asset Management  
Co-Head of Investment Management  
Managing Director  
512.481.2012  
greg.warner@hilltopsecurities.com

*Matt Harris, CFA*  
HilltopSecurities Asset Management  
Senior Portfolio Advisor  
Senior Vice President  
512.340.1845  
matt.harris@hilltopsecurities.com

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These labor concerns are having a severe impact on confidence, as both the University of Michigan's consumer sentiment index and the Conference Board's consumer confidence measures have deteriorated sharply. This morning, the December preliminary University of Michigan consumer sentiment edged up from 51.0 to 53.3, *still near historical lows and well below the 71.8 level from a year ago*. Digging a little deeper, the current conditions index (reported at a 48-year record low in November) was revised even lower to 51.1.

As of this morning, amid all the poor data and fading confidence, the futures market is indicating a 95% probability of a quarter point reduction in the overnight rate target next week. There will be a healthy debate among policymakers as the overall economy seems to be holding up surprisingly well while inflation remains above the Fed's target, but *it's rare that Fed officials disregard such a clear market signal*.

### Market Indications as of 10:15 A.M. Central Time

DOW	Up 130 to 47,981 (HIGH: 48,255)
NASDAQ	Up 43 to 23,548 (HIGH: 23,958)
S&P 500	Up 23 to 6,881 (HIGH: 6,891)
1-Yr T-bill	current yield 3.60%; opening yield 3.57%
2-Yr T-note	current yield 3.56%; opening yield 3.52%
3-Yr T-note	current yield 3.58%; opening yield 3.54%
5-Yr T-note	current yield 3.71%; opening yield 3.67%
10-Yr T-note	current yield 4.13%; opening yield 4.10%
30-Yr T-bond	current yield 4.79%; opening yield 4.75%

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