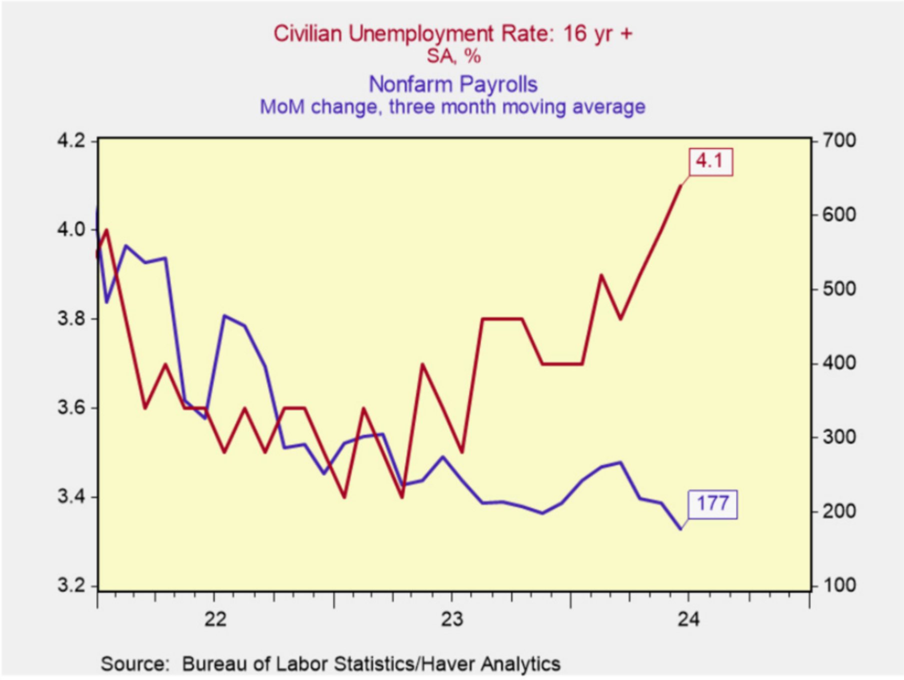
PALLAS
CAPITAL ADVISORS

Pallas Perspective

July 12, 2024

The Latest Employment Data is in support of Rate Cuts

Last week's job data release showed that the unemployment rate is rising, and payroll growth is slowing. As illustrated in the chart below, the unemployment rate has risen to 4.1%, the highest in over two years, and the number of jobs being filled has steadily declined.



As conditions in the labor market cool off, the trade-offs for the Fed are shifting from an intense focus on inflation to ensuring maximum employment. In this week's testimony before Congress, Fed Chair Powell indicated that the labor market is "pretty much" where it was in the pre-pandemic era regarding demand-supply dynamics and that "we've seen that the labor market has cooled really significantly across so many measures… It's not a source of broad inflationary pressures for the economy now." While not setting a schedule for the first rate cut, Powell did say that the FOMC would respond if it witnessed unexpected weakening in employment or economic conditions.

On the back of the latest data, expectations have risen to a 75% probability for the first rate cut to occur at the FOMC meeting in September with a second cut expected later in the year. The financial markets' obsession with rate cuts stems from the impact that rates have on borrowing costs and valuation for both the equity and the bond markets as well as movements in global currencies and commodities. Lower rates are seen as supportive of access to capital and higher valuations, although both are also impacted by economic growth and potentially negatively impacted if lower rates are in response to recessionary conditions.

At Pallas Capital Advisors, we will continue to monitor the drivers of interest rates and economic growth with an eye towards maintaining well diversified investment portfolios to preserve and grow capital over the long term.