

# Jobs, Inflation, and Growth: Is the Economy in Good Health?



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The state of the economy matters deeply to long-term investors, as it shapes both their portfolios and their broader financial plans. Recent economic data has delivered mixed signals, leaving many investors uncertain about how to interpret the current landscape.

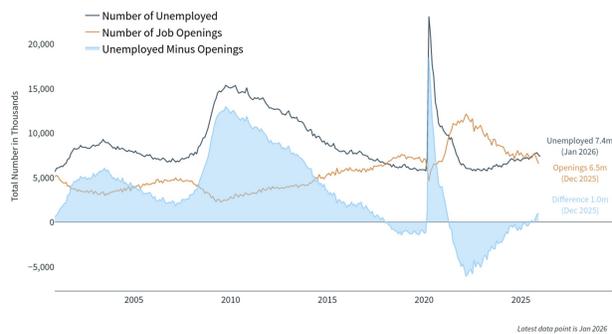
However, just as a physician does not diagnose a patient based on a single reading, investors should resist drawing sweeping conclusions from any one data point. Blood pressure, heart rate, and other metrics each tell part of the story, and what constitutes good health can differ from person to person. In much the same way, payrolls, inflation, and GDP are all vital signs that together paint a complete economic picture. These indicators shift throughout the business cycle, yet a variety of environments can still support portfolios and long-term financial goals.

Today's headline figures are largely encouraging: GDP growth has exceeded expectations, inflation is moderating, and unemployment remains low by historical measures. That said, the labor market tells a more nuanced story. While the most recent monthly data were positive, hiring over the past year proved far weaker than originally reported. For long-term investors, the key is understanding how these data points fit together to form a comprehensive view, rather than reacting to any single report.

**The labor market is at an inflection point**

## Unemployment and Job Openings

U-3 unemployment compared to JOLTS job openings



Source: Clearnomics,  
Bureau of Labor Statistics  
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Interpreting the labor market has proven difficult over recent months due to government shutdowns that delayed data releases, adverse weather conditions, and other disrupting factors. For individuals, perhaps the most significant shift has been in the balance between job seekers and available job openings.

As the accompanying chart illustrates, the post-pandemic period saw several years in which job openings outnumbered unemployed individuals. This ratio remained above one from mid-2021 through last summer, reaching as high as two positions per job seeker in 2022.

Today, approximately 7.4 million

Americans are unemployed while only 6.5 million positions remain unfilled—the fewest since late 2020.

Nevertheless, the January jobs report delivered encouraging news, showing that the economy added 130,000 jobs that month, nearly double what economists had anticipated. Much of this job creation was concentrated in health care, social assistance, and construction. The unemployment rate edged down to 4.3% from 4.4%, remaining near historically low levels. Taken in isolation, this could suggest that the labor market is gaining renewed momentum.

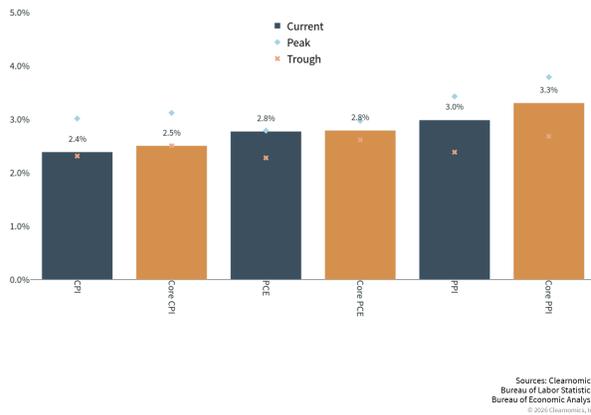
While these figures are positive, the broader trend has been more challenging. The Bureau of Labor Statistics' annual revisions—based on more accurate data than was available during each monthly release—revealed that total job creation throughout 2025 amounted to only 181,000, or roughly 15,000 per month, the weakest annual total since 2020. For context, healthy job growth is typically measured in the millions per year, prior to these revisions.

Why has the overall unemployment rate held relatively steady despite slower hiring? Part of the explanation lies in demographics and immigration trends. The Census Bureau recently reported a historic decline in net international migration, which fell from a peak of approximately 2.7 million in 2024 to about 1.3 million in 2025, with further decreases anticipated. Additionally, an aging population and reduced labor force participation mean that fewer people are entering the workforce. In effect, both the supply and demand sides of the labor market are cooling simultaneously, which has helped prevent the unemployment rate from rising sharply.

### Jobs, inflation, and the broader economy

### Inflation Measures

Current year-over-year changes and 12-month peaks and troughs



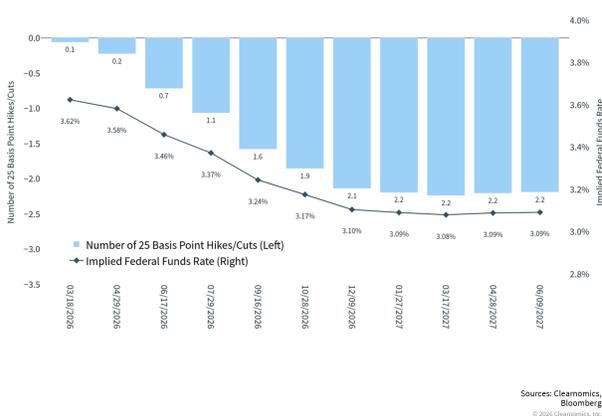
that the Consumer Price Index rose just 2.4% over the past year, while core inflation—which excludes food and energy prices—decelerated to 2.5%, its lowest level in nearly five years. One measure of “supercore” inflation, which also excludes shelter costs, climbed only 2.1% over the past twelve months.

This gradual deceleration brings the Fed closer to its 2% target and indicates that inflationary pressures continue to subside. Of course, elevated price levels remain a challenge for many households and retirees, since slower inflation does not mean prices will actually decline. Nevertheless, the containment of price pressures is a positive development for the economy and for portfolios, as inflation can be problematic for both stocks and bonds.

### What the economic picture means for portfolios

### Fed Funds Futures Implied Rates

Implied fed funds rates and number of hikes/cuts at each Fed meeting



Investors tend to pay close attention to the labor market because it is more tangible than many other economic indicators. Jobs directly influence household income, consumer confidence, and spending decisions. Since consumer spending accounts for more than two-thirds of U.S. GDP, developments in the labor market inevitably flow through to the broader economy.

However, employment is only one piece of the puzzle. Other data, including inflation, suggest that the glass may be half full. Until recently, inflation represented the most pressing challenge for both investors and policymakers. The latest figures show

For portfolios, the current economic environment can be viewed as cautiously constructive. The combination of steady growth, moderating inflation, and a softening labor market can create a “Goldilocks” backdrop—neither too hot nor too cold. This environment can benefit both stocks and bonds, particularly if it helps to keep interest rates in check. Markets have responded to the latest employment and inflation data with a decline in interest rates across the yield curve, with the 10-year Treasury yield hovering just above 4%.

These reports also shape expectations for Federal Reserve policy and raise the likelihood of rate cuts later this year. At present, market-based measures point to at least two rate cuts this year, and the prospect of a new Fed chair appointed by President Trump adds further weight to this possibility.

If rates continue to decline, portfolios stand to benefit as lower borrowing costs support businesses and make future corporate earnings more valuable in present-day terms. Existing bonds also tend to appreciate when interest rates fall. Even if rates remain where they are, bonds continue to offer attractive yields and can serve as a buffer for long-term investors. Meanwhile, corporate earnings continue to expand, remaining one of the primary drivers supporting the broader market over the past year.

**The bottom line? The labor market is cooling but the broader economy is healthy. For investors, this mixed backdrop supports a balanced approach and reinforces the importance of long-term thinking when it comes to portfolios and financial plans.**

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