

# Flash Macro Update

U.S. Jobs Report | January 2026



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## What You Need to Know

### 1 How are we thinking about the December 2025 U.S. jobs report?

**U.S. jobs data for December reinforced our ongoing narrative around what continues to be a tepid but also resilient U.S. labor market.** Trend job growth remains in moderately positive territory, but largely via the support of just a few key services sectors, mostly government-related.

- **Looking at the details, nonfarm payrolls grew by +50k in December, below consensus of +70k and essentially in-line with the prior-month level of +56k (downwardly revised).** Despite lukewarm headline job growth, the unemployment rate fell fully 20 basis points to 4.4% from 4.6%. The unemployment rate improvement came from a combination of better worker-reported job growth in the Household survey (+232k vs. +50k in the Establishment survey) as well as an annual revision to seasonal adjustments that likely pushed down on unemployment by 0.5-1 tenth. Another important 'hot' element of this report is that average hourly earnings came in at +3.8% y/y, well above consensus (+3.6%) and the prior month level (+3.5%).
- **At the sector level, just a few key services areas — mostly government-related — are now driving job growth.** Specifically, Healthcare/Education, Leisure/Hospitality, and Government collectively accounted for +101k jobs in December. All other areas declined by -51k jobs. Bottom line: areas supported by expansive government and healthy upper-income households are doing fine. Meanwhile, rate-sensitive and more cyclical areas remain under pressure.

## WHAT DO WE THINK THIS MEANS FOR INVESTING AND MARKETS?

**No change to our outlook for healthy U.S. GDP in 2026 (+2.3% vs. consensus 1.8%), or for an additional two Fed cuts to a low of 3.125% in 2026.** Outsized productivity continues to support GDP, even as weak growth in rate-sensitive sectors (e.g., Construction -11k) tells us that more Fed accommodation is needed. Amid the crosscurrents, we retain conviction in our *Regime Change* framework marked by a higher resting rate for U.S. inflation, as evidenced by the persistently elevated hourly earnings we are seeing.

**However, we continue to think it will be a somewhat more challenging backdrop for the Fed to deliver more than two additional cuts (our base case is for two cuts in 2026).** Claims remain in the low-200k range, layoff rates have not picked up materially, average weekly hours are unchanged from a year ago, and wage growth remains healthy in the +0.2-0.3% m/m range.

We continue to focus on the fact that the Fed is cutting into a balance sheet that is still 22% of GDP. Said differently, financial conditions are still very accommodative. Credit spreads are tight, equity markets are robust, and the dollar has peaked. Moreover, the technical picture (or lack of supply) remains supportive. Overall, though, we see a major broadening of the market. We have had 21% annualized returns the past three years, but it has come from 13% per year multiple expansion, and just three sectors performing.

**What to watch for?** Input costs are rising, as evidenced by wages staying robust at a time when commodity prices ex-oil are surging too. On the offset, productivity is booming, so focus on companies with productivity gains that have an ability to pass through price increases. This thesis will be key in 2026.

**With public market valuations now more challenging—particularly for U.S. mega-caps—we continue to call for High Grading.** In liquid markets, the cost to upgrade portfolio quality is unusually low for both credit and equities. On the private side, we advocate tilting more towards operational improvement stories in Private Equity (especially

corporate-carve outs), collateral-based cash flow (Infra, Real Estate Credit, and Asset-Based Finance), and structured deals (including structured equity with both downside protection and upside equity opportunity). Overall, the U.S. story is not over, given what we are seeing on the productivity front. We feel good about our major investment themes. Specifically, we favor services over goods, capital heavy to capital light, collateral-based cash flows, productivity enhancement stories, the security of everything, and intra-Asia trade.

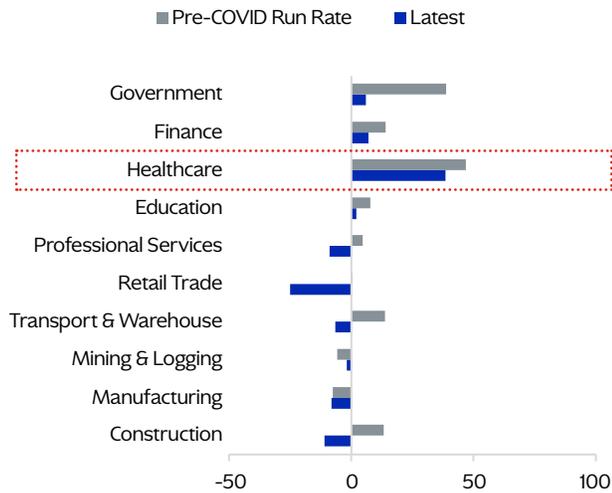
### KEY DETAILS FROM THE DATA:

- **Job growth is at stall speed across the 'core' private economy (i.e., excluding Government, Healthcare, and Education).** Despite headline job gains, private jobs ex-education and healthcare contracted -4k in December after contracting -9k in November. Apart from leisure and hospitality (+49k), nearly every sector saw net job losses in December, including manufacturing (-8k), retail/wholesale trade (-27k), and transportation (-7k). We are above consensus on GDP this year, but the fact this comes from productivity growth vs. broad-based employment gains reinforces the 'K-shaped' nature of this recovery, both for households and businesses.
- **Importantly, the labor market is cooling, but it is not coming apart,** which places a natural ceiling on how far the Fed can ease. Claims remain near cycle lows, layoffs have yet to inflect higher, hours worked are stable, and wage growth continues to run at a firm 0.2-0.3% month-over-month pace. Against that backdrop, if unemployment remains contained while core inflation firms again—as we expect—it will be difficult for the Fed to move beyond the two cuts embedded in our outlook.

However, we continue to think it will be challenging for the Fed to deliver more than two additional cuts.

### Exhibit 1: Healthcare Continues to Drive Majority of Job Gains In December

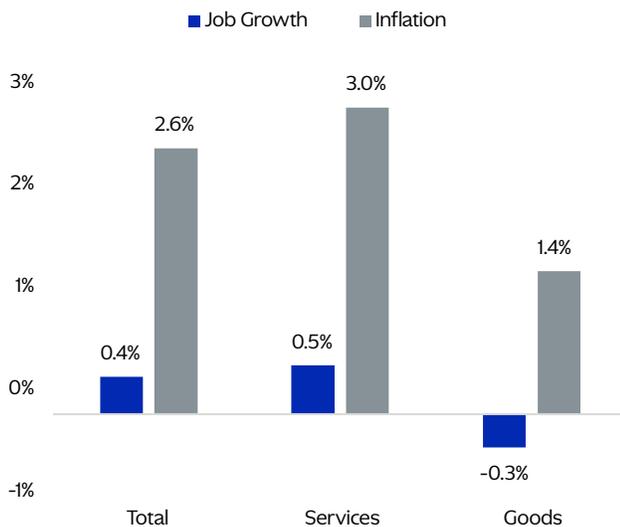
#### Payroll Growth: Major Services and Goods Sectors (Change '000)



Data as at January 9, 2026 Source: Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

### Exhibit 2: We Continue to See Divergence Between Goods and Services Which Is Evident Across Job Growth and Inflation

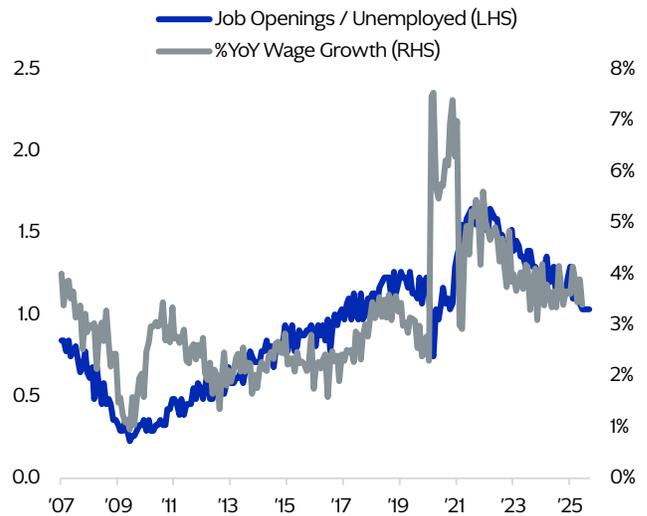
#### Goods vs. Services, % Change, Y/y



Data as at January 9, 2026 Source: U.S. Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

### Exhibit 3: Job Openings/Unemployed Ratio Back to 2018 Level, Which We Think Fed Might View as Close to 'Neutral'

#### Labor Market Slack and Wage Growth



Data as at January 9, 2026 Source: U.S. Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

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