FROM THE DESK OF:

New York Life Investments' Global Market Strategy team

The "low hire, low fire" labor market continues

Lauren Goodwin | Julia Hermann | Sarah Hirsch | Michael LoGalbo

New York Life Investments

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Key takeaways

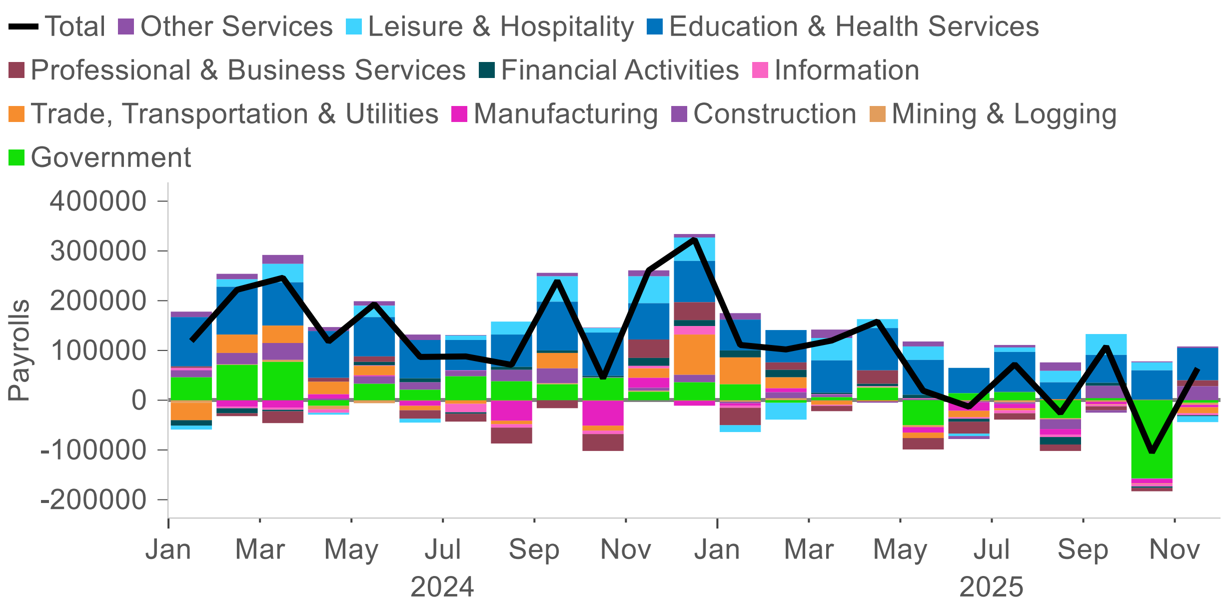
- Today's payrolls data for October and November 2025 marks the end of the drought in official job creation data from the U.S. government shutdown. Employment is stagnant; hiring activity is under pressure.
- We believe labor market can muddle along in 2026, with strong corporate profitability preventing systemic layoffs. Questions around labor hoarding, business environment uncertainty, and the impact of AI on hiring all represent risks to our conviction.
- For now, "bad enough" news in labor is "good enough" to justify modest further Fed easing.

Digesting the end of the data drought

We have little information that is truly new in the October and November jobs reports released today. The environment of depressed hiring – but still repressed firing – continues, with job losses of -105k in October, driven by a sharp reduction in government jobs, partially offset by job gains of 64k in November. *For clarity: the government-driven job losses in October were not shutdown-induced; they stemmed from long-known arrangements for federal workers to leave their positions in exchange for a payout.*

The "low fire, low hire" labor market persists

Payrolls created by sector, monthly

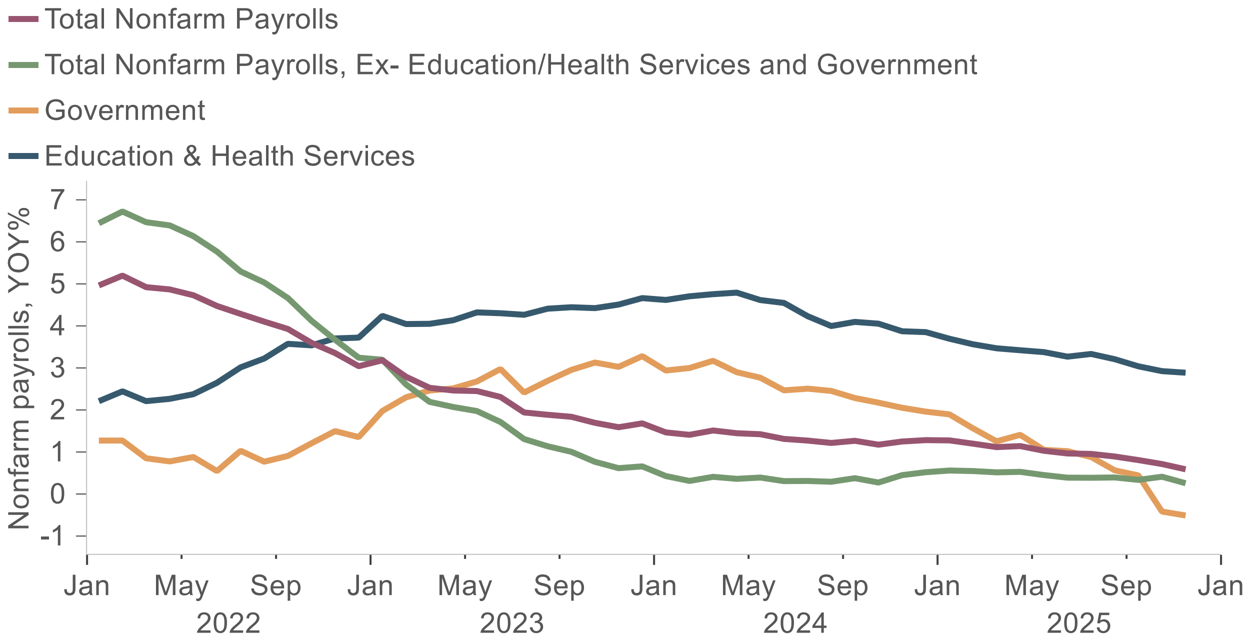


Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

There's not much to see under the hood of sector-level job creation, either. Education and health services have led job creation for four years, and continue to represent the largest portion of job gains.

Lauren Goodwin · Julia Hermann · Sarah Hirsch · Michael LoGalbo

Payroll strength is not broadening outside of education/health services



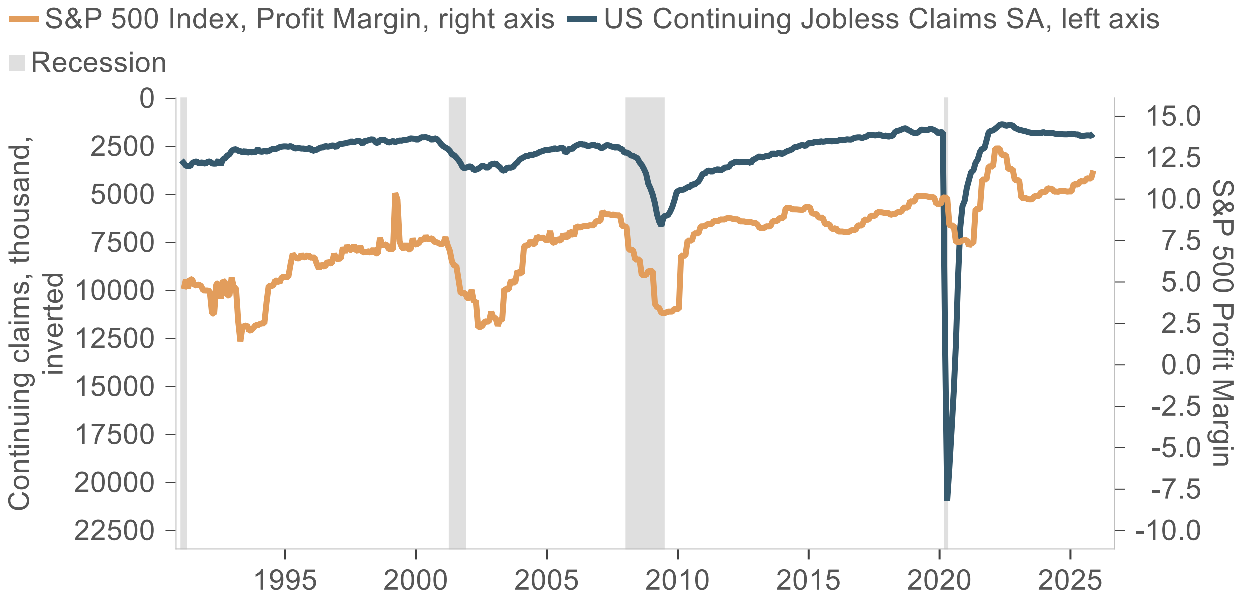
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

At the margin though, we see shadows of malaise coming through in this report. The prevalence of multiple-job holders spiked to 5.7% of those employed, solidly above the roughly 5.0% rate seen pre-pandemic. Re-entrants to the job market may have contributed to the modest tick up in the unemployment rate to 4.6% from 4.4% in September, and layoffs played a slightly larger role in the unemployment breakdown relative to pre-government shutdown. Finally, U-6 unemployment, capturing the broadest level of labor underutilization, rose sharply from 8.0% in September to 8.7% in November. These signs of stress align with an ongoing deceleration in wage growth, but are not (yet) prevalent enough to alter our interpretation of the data. We have found that historically, the true "pain" threshold for consumers lies in stress about job loss, which accelerates along with actual layoff activity.

The latest data vis-à-vis our outlook

Historically, when corporate profits hold up, companies are less likely to cut headcount. We expect the 2026 economic environment to remain supportive of corporate profitability, driven by Fed easing and a favorable fiscal backdrop ahead of the midterm elections. What this means for the 2026 labor market: likely a continuation of what we saw today: a "low hire, low fire" economy, featuring neither a major acceleration in layoffs nor a renewal in hiring.

As long as profit margins hold up, a severe labor downturn looks unlikely



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, December 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Our belief that **downside risks to labor are likely to be specific, not systemic, in the context of strong corporate profitability** is a high-conviction view for our team. However: this view uses history as a guide, and we've witnessed plenty of aberrations from history this cycle. Three are top of mind, representing their own risks to our conviction:

- Pandemic-era **labor hoarding** is one reason investors expect layoffs to stay contained. U.S. firms have learned how difficult and expensive it is to re-hire workers, and small businesses continue to cite availability of quality labor as a chief concern. Still, our conviction in a "low fire" labor market stems mainly from corporate profitability; if we see significant pressure on margins, we'd expect employment to deteriorate rapidly.
- Though market-level risks of tariffs and other **business uncertainty** have faded for the time being, companies are cautious on hiring because they have faced considerable uncertainty to their business models.
- Perhaps the biggest of these uncertainties relates to **artificial intelligence**, including whether and how AI can upskill their existing workforce. This insight stems from anecdotal evidence rather than what we can isolate from the data, though we do take the pressure on hiring of new college grads relative to other workers as a sign that entry-level talent is under an AI-driven microscope.

Market implications

In 2026, the labor market will connect with capital markets via the following question: "Is bad news good news?" In other words, can dicey labor market prints enhance the case for additional Fed rate cuts?

The answer for the time being is that "bad enough" news is "good enough" to justify modest easing. The current labor market has been a blessing to the financial markets in many ways: hiring has been weak enough to justify significant Fed easing – 175 total bps since summer 2024 – without prompting concerns about economic health or Fed independence.

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For the coming year, we remain cautious on further cuts, seeing another 25bps as justified to land the policy rate around our best guess of "neutral": 3.5%. However, there is probably another 50-75bps worth of "wiggle room" for further easing that could stem from 1) legitimate debate around the appropriate "neutral" rate, and 2) how to hedge additional downside risks to the labor market.

We see two "break points" in which lackluster labor market news will **not** be welcomed by the market, even if it contributes to Fed cuts:

1) A true downside scenario, in which fears of recession outweigh euphoria of monetary policy support. This is not only **not** our base case; it's the least likely scenario we see for 2026.
2) Concerns about Fed independence: if the Fed eases in the face of rising inflation, or otherwise causes its inflation-fighting credibility to be questioned by markets, we'd expect to see the market reject rate cuts and for long rates to move significantly higher.

The latest Macro Pulse – our 2026 outlook – is now out, including a summary video.