ALLIANCEBERNSTEIN®

September 10, 2025

A Note from the AB Fixed Income Trading Desk

Thoughts from Our Senior Portfolio Managers

Labor Pains

"It was not by gold or by silver, but by labor, that all the wealth of the world was originally purchased."—Adam Smith

Less than a week after Americans paused to celebrate workers and the labor movement, the latest employment data gave investors little to cheer. Further dampening the mood, this release came just a month after President Trump dismissed the data as "rigged" and fired Bureau of Labor Statistics commissioner Erika McEntarfer.

For some, the weakness may have been a surprise. For us, it is part of a continuing trend—and an early sign of the economic drag from tariffs and policy uncertainty. Markets are full of irony and repeated lessons. The latest labor prints are another reminder that investors must look beyond short-term shocks and keep their focus on the intermediate-term picture.

As market participants now labor over the data to see what has changed, our advice remains consistent: emphasize duration, stay selective in credit and keep risk posture balanced. In this note, we share how we see the landscape evolving—and where we think portfolios can remain best positioned.

Key Takeaways

- Weak labor data—payrolls, claims and the Job Openings and Labor Turnover Survey (JOLTS) all disappointed—confirm a slowing jobs market post tariff announcements.
- Growth is softening, the Fed is likely to ease more aggressively and credit remains more resilient than equities—but selectivity and balance are critical.
- Stay invested with conviction in short-duration high yield (HY), core plus and global strategies, which together provide yield, flexibility and resilience.

What Happened

As you can imagine, the most impactful data released since our last note was the slug of disappointing labor market data. JOLTS, unemployment claims and nonfarm payrolls were all a bust. Nonfarm payrolls showed that just 22K jobs were added to the economy versus the expected 75K. This came with further downward revisions of –21K and showed the economy has added only 107K in total since the April tariff announcements (*Display 1*). This brings the three-month average to just ~26K jobs per month versus 217K at the start of the year (*Display 2*).

The number of open jobs reported was 200K less than expected at 7.18 million. Initial jobless claims were also higher than expected at 237K. The average length of unemployment has risen from 21 weeks to almost 25 weeks over the last year. More notably, a deterioration in both series seems evident post trade-policy announcements in April (*Display 3*).

Other economic data were mixed but muted. Institute for Supply Management (ISM) Manufacturing fell to 48.7, remaining in contractionary territory, while ISM Services printed at 52.0, indicating modest growth (*Display 4*).

Perhaps the brightest spot in the economic data continues to be the US consumer. Personal spending rose 0.5% in July, outpacing income growth of 0.3%, suggesting households are still willing to draw down savings and lean on credit to support demand. This is supported by JPMorgan Chase credit card spending data showing YoY rebounds in July and August (*Display 5*).

Our View

After three years of restrictive policy and a tariff regime that front-loads pain in hopes of longer-run manufacturing gains, the macro impulse feels stagflationary at the margin. Growth is softening while tariff-related frictions keep near-term price pressures from easing cleanly. For economies outside the US, the baseline remains for moderating growth. This tepid environment is the sweet spot for fixed income.

Labor market: The latest payroll report confirms that firms are holding back on new hires, job-finding is slower and unemployment spells are lengthening. The rise in the jobless rate above 4.3% suggests a demand shortfall that exceeds any supply reduction from tighter migration. None of these signal an immediate crisis, but the drift is unfavorable—precisely the sort of deterioration monetary policy is designed to counter before it compounds.

Fed policy: Against this backdrop, the debate is no longer whether the Fed should ease, but by how much. We believe a risk-management cut is now the path of least resistance, with the size contingent on upcoming inflation prints. The Fed has already acknowledged softer labor dynamics and tariffs complicate the inflation mix. This lowers the bar for near-term easing, even if the overall cadence remains measured.

Rates: Real yields are at the same level they were before the Fed started cutting in 2024 and the labor market was printing hundreds of thousands more jobs per month. That smells like an opportunity to us. The combination of softer labor and stickier price pressures reinforces our preference for short- to intermediate-duration exposure. We continue to see value in short-end curve steepeners, which offer an efficient expression of duration risk in a softening economy. Despite the recent rally, we believe that real yields do not fully reflect weaker fundamentals or downside risks.

Credit: While fundamentals remain resilient and consumer spending has held up, the trajectory is clearly shifting. Rising funding costs are beginning to pressure interest coverage, revenue growth is slowing, and the default/liability management exercise cycle has started to move off the floor. While spreads remain tight, carry still looks competitive relative to equity beta—particularly in crossover and higher-quality high yield due to historically low loss rates in that part of credit. The lesson of this year so far is that credit can remain more resilient than equities, especially in drawdowns.

Risk management: The story of 2025, so far, has been mainly status quo with erosion building at the edges. That makes balance and downside protection more important than ever. Our own positioning—emphasizing liquidity and staying invested—has served us well, and our portfolios have delivered strong results despite the turbulence. Looking ahead, we expect more two-way trading around labor, tariffs and Fed expectations, with opportunities for active managers to add value through security selection and tactical risk allocation.

Investment Implications

The latest labor data reinforces what we've been saying all year: attempting to time markets or chase narratives is difficult. Instead, portfolios should remain liquid, balanced and diversified—with emphasis on strategies that can capture yield, preserve flexibility and protect against downside risks.

- **Short-duration high yield** remains one of the most compelling opportunities in fixed income. It offers attractive yield with lower sensitivity to both rates and defaults, providing equity-like returns with a fraction of the volatility. In a world where labor is softening and growth is sluggish, short-duration HY continues to serve as an "all-weather" solution.

- **Core plus strategies** continue to anchor portfolios with balance and flexibility. The ability to rotate across sectors, adjust duration, and add risk selectively has proven essential this year. Core plus allows investors to capture policy divergence globally while maintaining a disciplined bias toward quality and liquidity.

- **Global fixed income** broadens the opportunity set at a time when regional divergence is creating dispersion across rates, credit and currencies. Allocating globally on a currency-hedged basis allows us to capture incremental yield, diversify away from single-market risks (like the US) and position for relative value opportunities as cycles diverge.

Our conviction in these strategies has only strengthened as the data have evolved. The economic environment remains uncertain, but the playbook is clear: stay diversified, stay flexible and stay liquid. That's how we believe investors can continue to generate resilient outcomes, just as we have demonstrated so far this year. And remember—in markets as in work, don't over-reach, or you may just find yourself over-worked.

On behalf of the team,

Scott DiMaggio, Gershon Distenfeld, Matt Sheridan, Fahd Malik, Will Smith, John Taylor, Serena Zhou, Tim Kurpis, Christian DiClementi, Sonam Dorji and AJ Rivers

To learn more about AB's fixed-income solutions and access other market insights, visit Fixed-Income Investments | AB.

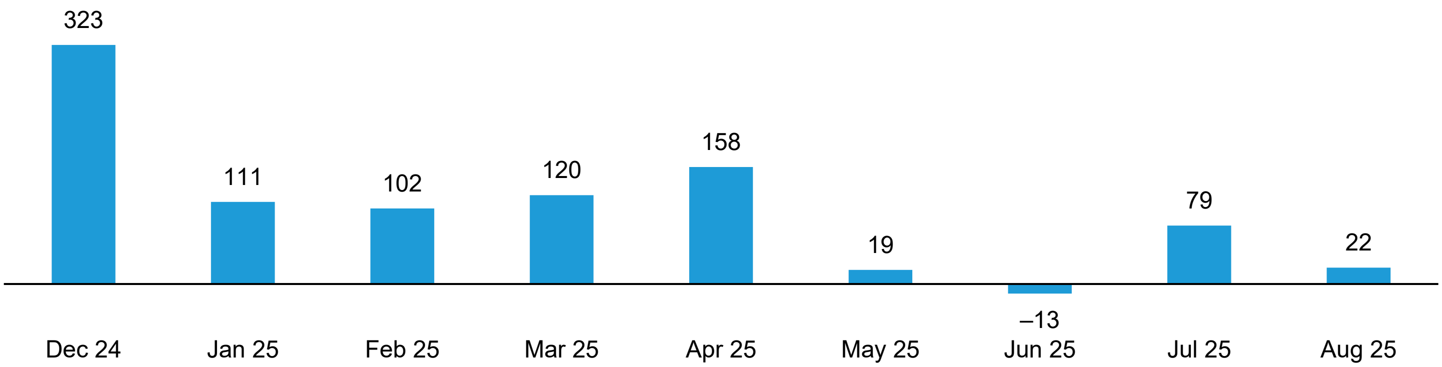
US Economic Scenarios

Economic Outcome	Description	Probability (Percent)
Hard Landing/Deep Contraction	Either an external shock occurs, or business-cycle dynamics deteriorate sharply. Growth slows rapidly, and central banks have to act aggressively to support growth.	20
Soft Landing/Mild Contraction	Growth slows, labor markets weaken and central banks hurry to get back to neutral. The magnitude of the slowdown defines the terminal rate, and inflation expectations determine the speed with which it is reached.	35
Rebalancing	Both inflation and growth approach trend levels only slowly, leaving the Fed comfortable easing policy slowly and remaining restrictive well into 2025, with cuts of 25 basis points at some, but not all, meetings until the policy hits neutral in late 2025 or 2026.	35
Stagflation	The economy slows, but inflation expectations rise, trapping the Fed between a rock and a hard place.	5
No Landing	The economy performs despite headwinds, and inflation stays elevated enough to keep the Fed on hold for some time to come.	5

European Tariff Scenarios

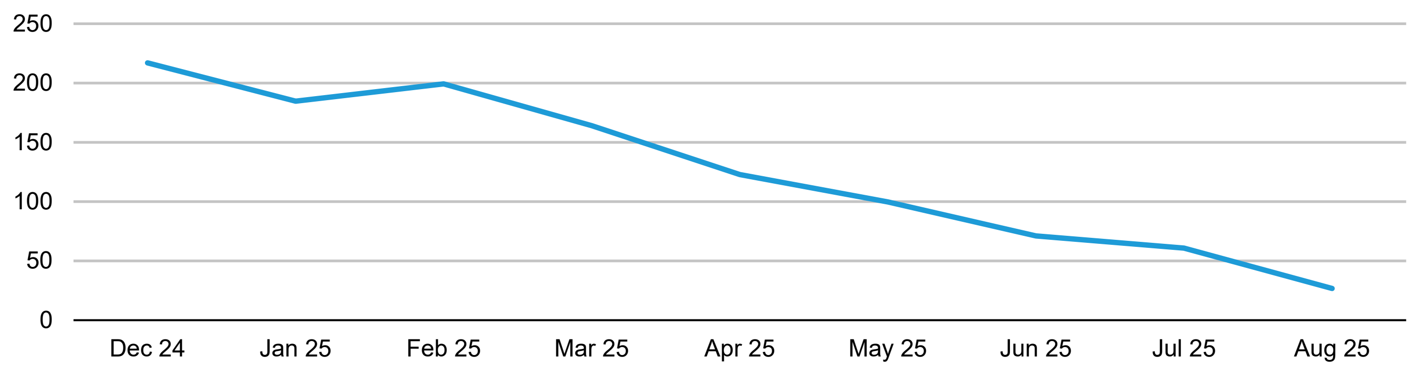
2025 Forecasts	Counterfactual No Tariffs at All (Percent)	Upside No Universal Tariffs (Percent)	Current Situation 10% Universal Tariffs (Percent)	April 2–9 20% Universal Tariffs (Percent)	Downside 30% Universal Tariffs (Percent)
Growth (YoY)	1.10	0.80	0.06	0.30	–0.60
Inflation (Annual)	2.00	1.80	1.60	1.70	1.40
ECB Deposit Rate (Year-End 2025)	2.00	1.75	1.75	1.75	1.00
Recession Probability	30.00	40.00	60.00	70.00	90.00

Display 1: Weakening Unemployment Data Opens the Door to Rate Cuts
Nonfarm Payroll (Thousands)



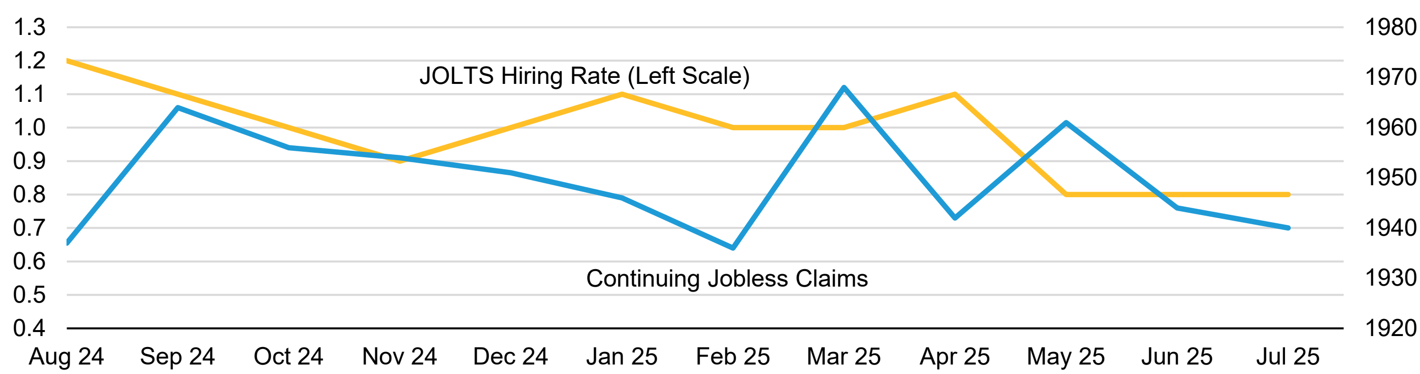
Through September 5, 2025
Source: Bloomberg

Display 2: Average Payroll Gains Have Fallen to Just 26 Thousand
Nonfarm Payroll (Thousands)



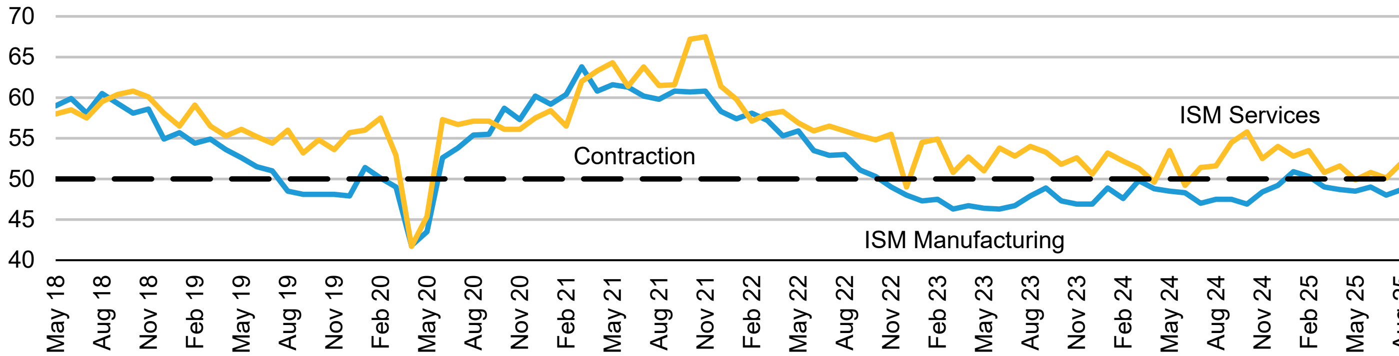
Through September 5, 2025
Source: Bloomberg

Display 3: Continuing Jobless Claims Have Increased While the Number of Open Jobs Has Fallen Since April
Continuing Jobless Claims and JOLTS



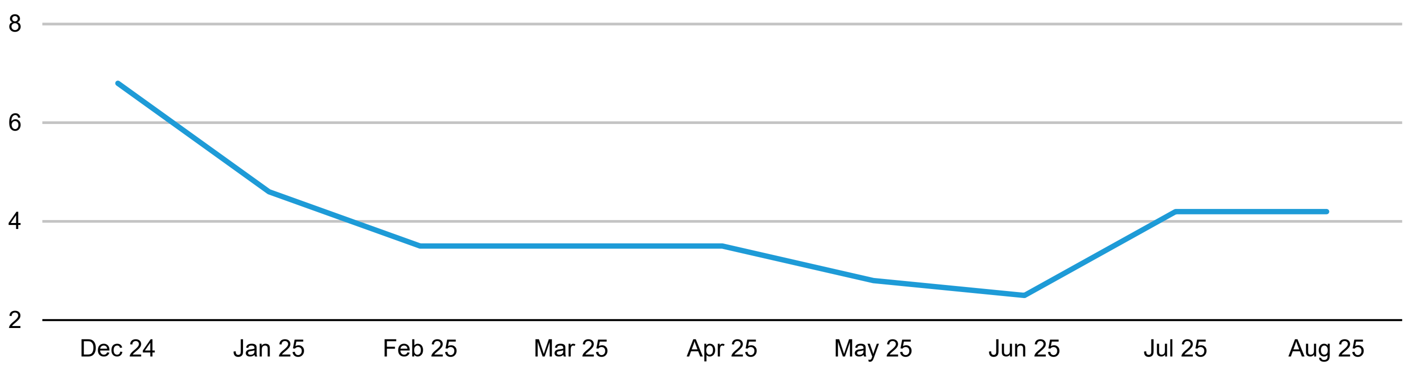
JOLTS: Job Openings and Labor Turnover Survey
Through September 5, 2025
Source: Bloomberg

Display 4: Business Sentiment Remains Sluggish in Manufacturing and Services Sectors
Institute for Supply Management



Through September 5, 2025
Source: Bloomberg and Institute for Supply Management

Display 5: Consumers Continue to Show Resilience with Spending Increasing in the Summer Months
JPMorgan Chase Credit Card Spending



Through September 5, 2025
Source: JPMorgan Chase

Investment Risks to Consider

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

Important Information

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