

New York Life Investment Management's Global Market Strategy team

Labor market fragility is back in focus after February surprise

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Investment
Management

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As of 9:30 am, 6 March 2026

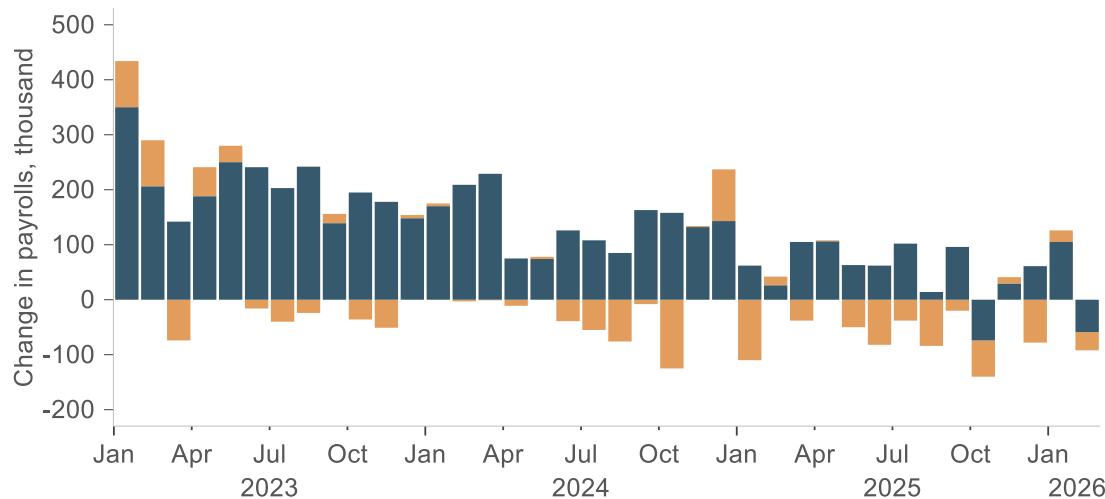
U.S. jobs growth turned negative in February, with nonfarm payrolls *down* 92k, well below expectations for a 55k gain. Along with October 2025, this is the worst jobs report since the pandemic. With the downward revision to [December's data](#), the 3-month uptrend in hiring we'd *thought* was forming...is not. The unemployment rate ticked up to 4.3% from 4.2%.

Under the hood, the weakness was broad-based, with most major sectors shedding jobs. Health care, which has been a key driver of gains this cycle, led job losses – but *was* distorted by a nurses' strike, which temporarily pulls workers out of the labor force.

February saw a broad pullback in payrolls, with health care now participating

Payrolls: Govt, hospitality, education vs all others

■ All other sectors ■ Government, Hospitality, Education & Health



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, March 2026.

Overall, this print aligns with our view that the labor market is fragile enough to justify modest further Fed easing. We continue to see another 25-50 bps of cuts this year as justified to land at the neutral policy rate, which now aligns with market pricing. The Fed's next meeting is on March 18; they are expected to hold rates steady between 3.5% to 3.75%. Markets took the report as a growth warning: a whipsaw decline in 2-year and 10-year Treasury yields reflects both a flight to quality and a re-pricing of slower growth into lower rates.

The market's interpretation of this data is also influenced by two fast-moving, global factors: [geopolitical risk](#) and AI-related labor disruption.

Inflation concerns stemming from geopolitically-driven higher energy prices, paired with labor market weakness, are likely to renew concerns about a stagflation scenario. We've said for some time that a true acceleration in labor market weakness would require larger-scale layoffs, which we don't yet have evidence of. The key question for Fed policy from here is whether



labor weakness spills into broader demand and financial conditions, or whether supply-side pressures (energy, shipping, and other input costs) keep inflation from cooling fast enough to give the Fed a path to continue easing.

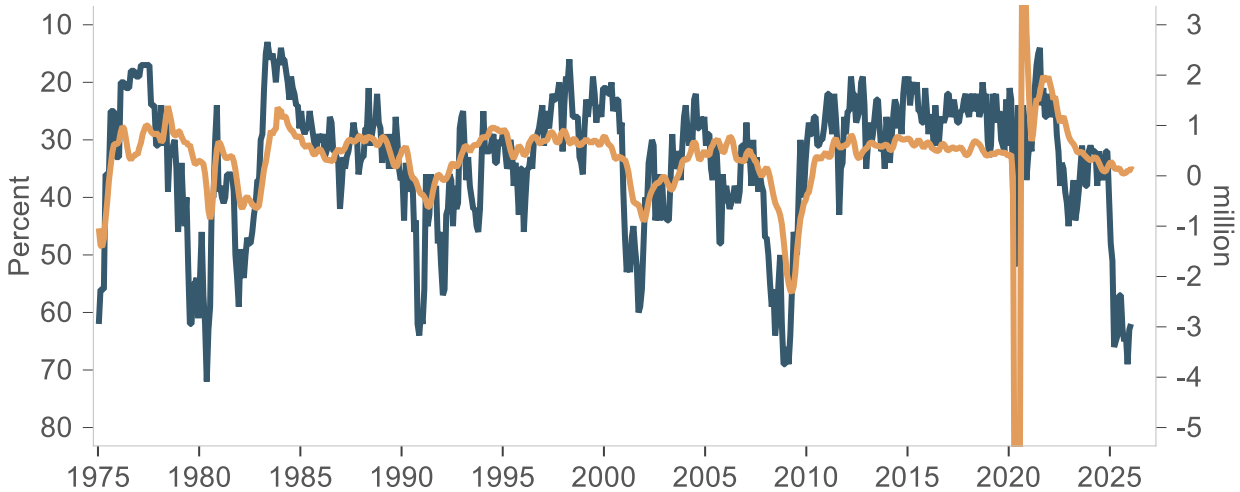
Finally, AI-related efficiency gains are raising questions of whether higher productivity will come at the expense of jobs, especially in entry-level and white-collar roles. Declining hours worked per week, along with recent college graduate unemployment near 6%, are key signposts we are watching. However, we are cautious to draw conclusions around AI's impact on labor prematurely: productivity shifts are still difficult to attribute in real time, and recent labor supply changes tied to the pandemic and immigration policy are also heavily influencing the backdrop.

Expectations of labor market weakness have historically led job losses

Payrolls vs unemployment expectations

— Net change in private payrolls 3M avg, right axis

— Net % expecting more unemployment over next 12M (inverted), left axis



Sources: New York Life Investment Management, Global Market Strategy, University of Michigan, U.S. Bureau of Labor Statistics (BLS), Macrobond, March 2026.

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