

# Flash Macro Update

U.S. Jobs Report | March 2026



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## What You Need to Know

### 1 How are we thinking about the February 2026 U.S. jobs report?

The February payroll report was clearly weak, with -92k jobs lost versus consensus expectations of +55k and a downwardly revised +126k last month. Several one-off factors amplified the downside volatility, including healthcare worker strikes (Health/Education -34k after +129k last month) and severe winter weather that materially impacted Accommodation/Food Services (-35k) and Construction (-11k). Collectively, those weather-sensitive categories were nearly 100k weaker than in January.

Even looking through those temporary distortions, however, the broader tone of the report was consistent with a labor market operating near stall speed. The unemployment rate ticked up to 4.4% versus 4.3% consensus, while labor force participation has now fallen 50 basis points from its November peak to 62%. Absent that participation decline, unemployment would likely be closer to 5%. Importantly, wage growth remains firm at 3.8% year-over-year, above both consensus and last month's 3.7%, underscoring that softer hiring has not yet translated into meaningful labor cost relief.

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

- First, while the headline was ugly, we do not view it as signaling an abrupt deterioration in labor demand as there are multiple one-time factors at work** including a healthcare worker strike (31k), bad weather (which dinged Food/Accommodation by 35k), and some birth/death changes. Remember that weekly claims were a modest 213k last week and the three-month moving average has been a steady 215k.

2. **Most importantly, sector composition continues to matter. Education/Healthcare, which has been 100% of job growth for quite some time, turned negative for the first time since 2020**, at -34,000, compared to last month's +129,000.
3. **Were it not for sustained productivity strength, this report would feel stagflationary**, or a worse version of our *Regime Change* thesis.
4. **Despite reshoring and Fed cuts, the Goods sector remains in a recession.** All told, Goods jobs were -25,000. Every sector was negative: Mining/Logging, Construction, Durable Goods, and Non-Durable Goods.
5. **On the Services side, the big delta was -34,000 for Education/Healthcare as well as Leisure/Hospitality's -27,000.** Government too was -6,000, the third month in a row of negative job growth.
6. **Macro Bottom line: If we average the past few months, the broader trend still points to a low hiring/low firing environment.** The K-shaped economy remains intact, and higher oil prices only feed this narrative. Meanwhile, AI fears will not change the dynamic that the employment backdrop will remain challenging. However, it does not mean that the economy is rolling over. Even when we put much higher oil prices in our model, we still get to near 10% EPS growth and GDP north of 2.0%.

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

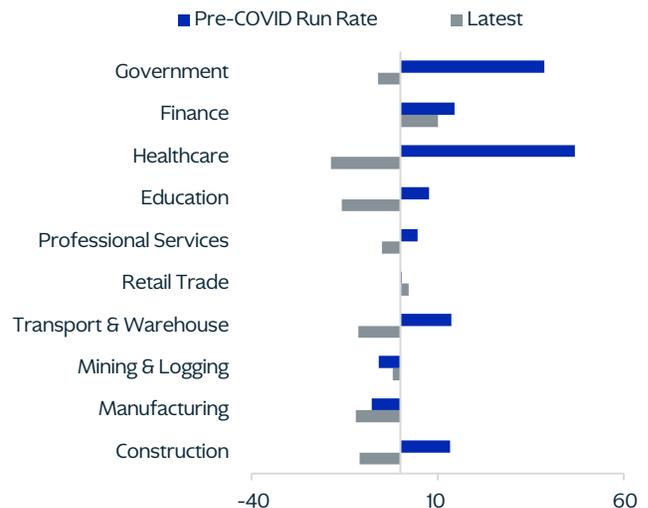
Though February's data showed broad-based weakness, we think the details reflect sustained cyclical pressures versus a sudden deterioration in labor demand. We see a labor market near stall speed, but not in freefall. Remember that claims remain in the low-200k range (about as low as they get on a sustainable basis most cycles), layoff rates have not increased materially, and wage growth remains solid. New business formation remains historically elevated, reflecting how advances in technologies such as AI and e-commerce have sharply lowered barriers to entry—particularly in Services, where roughly 90% of firms are microfirms and start-up rates are 2-3 times higher than in manufacturing. Against this backdrop, we continue to

see the Fed cutting rates twice this year amidst sluggish job growth and above-target inflation. By contrast, we think market pricing for just 1.7 cuts in 2026 remains too hawkish for an environment where higher energy prices put downward pressure on growth (not just upward pressure on inflation) and the labor market remains near contractionary territory.

**We are still getting a 'High Grading' signal**, not a BUY signal for risk assets. Indeed, valuations are still full at the aggregate level. For example, Equities are still discounting 14% or so EPS growth (down from 16% at start of year); that is too high relative to the historical average growth rate of 11% (and 8% last decade), while credit spreads are implying less than a 2% default rate, compared to a 5.5% historical average. That outlook too feels optimistic to be fully leaning in. As such, we prefer to own quality in Equities and rotate up in quality in Credit. We also heavily advocate our *Regime Change* themes, including the Security of Everything, Collateral Based Cash Flows, Capital Heavy to Capital Light.

**Exhibit 1: Most Sectors Saw Negative Job Growth In February But There Was A Number Of One-off Factors Including A Healthcare Strike And Extreme Weather**

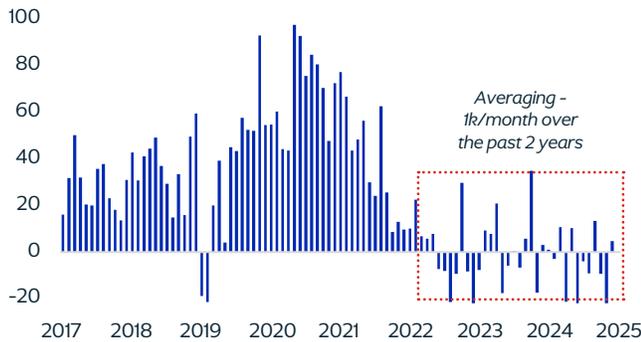
### Payroll Growth: Major Services And Goods Sectors (Change '000)



Data as at March 6, 2026. Source: Bloomberg, U.S. Bureau of Labor Statistics.

**Exhibit 2: Employment in the Top 15-AI Exposed Sectors Has Been Volatile But Ticked Up +5k In February**

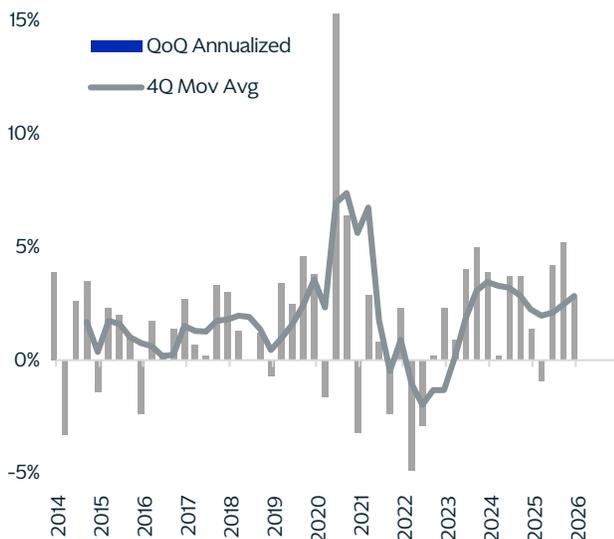
### Monthly Employment in Top-15 Most AI-Exposed Industries (L3M)



Methodology: Industries are selected based on AI exposure framework first developed by Evercore ISI. The framework estimates the share of job functions exposed to AI across 800+ U.S. occupations using the Department of Labor's O\*NET database. Occupation-level AI exposure scores are weighted by industry employment mix (BLS OEWS) to derive industry-level exposure rankings. The chart aggregates U.S. payroll employment (BLS CES) across the 15 most AI-exposed industries identified under this framework. Data as at March 6, 2026. Source: Evercore, Bloomberg, Bureau of Labor Statistics, KKR Global Macro & Asset Allocation Analysis.

**Exhibit 3: Labor Productivity Has Been Strong for Over Three Years**

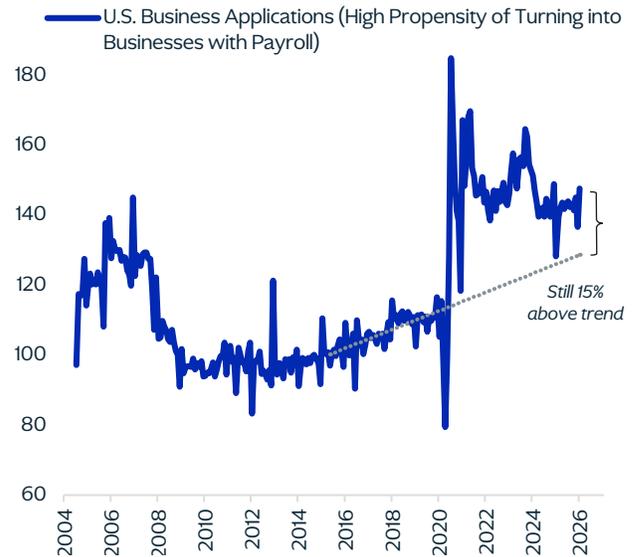
### Labor Productivity (QoQ, SAAR)



Data as at March 6, 2026. Source: Bloomberg, BLS.

**Exhibit 4: New Business Formations Have Stayed High Post Pandemic**

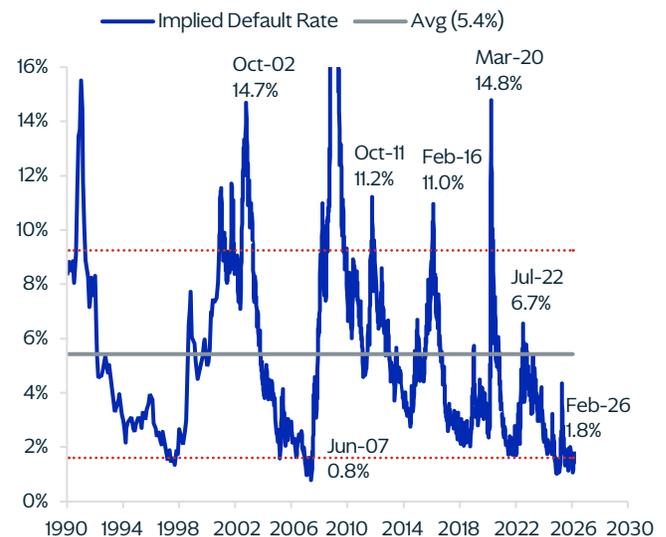
### U.S. Business Formations ('000)



Data as at February 27, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 5: Markets Are Pricing in Minimal Defaults in High-Yield Credit. However, We Expect Credit Losses to Normalize From Extraordinarily Low Levels**

### U.S. High Yield Implied Default Rate, %



Data as at February 27, 2026. Source: BofAML Global Research, KKR Global Macro & Asset Allocation analysis.

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