

WEEK ENDED JANUARY 16, 2026

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## Putting a Sweater on the Octopus – employment paradoxes and paradigms

*“There is no risk-free path for policy as we navigate the tension between our employment and inflation goals.”*

– Jerome Powell

**The Through Line:** The wellbeing of the labor market preoccupied commentators, policy makers, Fed watchers and job hunters for much of 2025. Technological advances and substantial policy pivots prompted companies to slow-walk hiring. At the same time, analysis of employment numbers was complicated by leadership changes in the agencies responsible for producing key data series – as well as by substantial revisions to prior prints and the complete absence of several crucial reports. We examine some of these factors and offer fresh views re how to frame the outlook for employment, this most vital indicator of national economic health.

### Employment matters

Consumption is the staff of life for economic activity, driving over half of Canadian and two-thirds of U.S. GDP. Consumption happens most seamlessly when people have jobs and are confident they can retain them. Because consumer spending is so integral to a country’s overall economic progress, investors and policy makers closely watch multiple gauges for clues about the health and direction of employment.

In the U.S., there’s an added twist: Congress has mandated that the Federal Reserve must support stable employment, unlike other central banks whose primary focus is maintaining price stability. This dual mandate creates a high-profile overseer that investors study intensely, looking for clues about its future policy moves that could help spur sluggish labor markets or cool overheated ones (and ultimately impact other economic activity).

### Paradoxical data

The health of labor markets is measured by many key data series:

- the aggregate number of people employed (and how this number has changed relative to prior periods) both in absolute terms and as a percentage of the working-age population
- the number actively looking for work
- the number who would like to work more
- average hourly earnings
- job openings
- layoffs and the number of people filing weekly unemployment claims

The data come from a variety of sources, both government (Bureau of Labor Statistics, StatCan) and private (ADP National Employment Report, Challenger, Grey & Christmas jobs report). Each data series is constructed in a unique way – some from surveys of households or businesses and others from actual filings (state/provincial unemployment claims) or activities (Indeed postings).

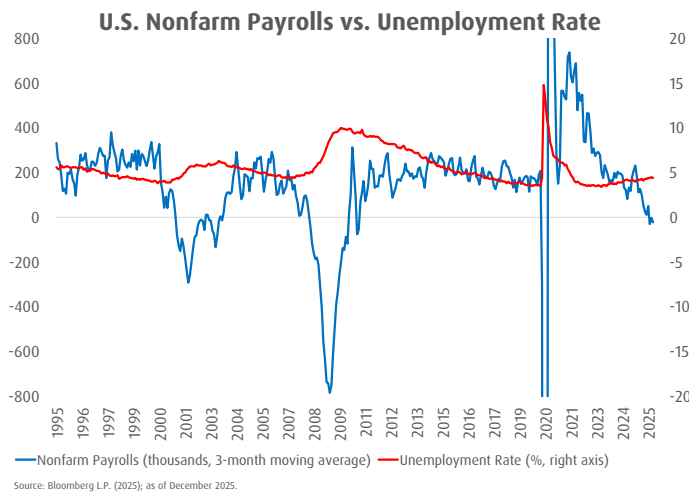
Confusing or conflicting signals can result from the plethora of sources and differing ways in which the data are gathered, calculated and tracked. This situation came to a head in 2025, exacerbated by a 43-day U.S. government shutdown (which delayed/permanently prevented the collection of several months’ worth of key data) and DOGE-inspired cutbacks in government staff at the BLS and other data-gatherers and calculators. The analysis was further muddled by policy changes in key areas like trade and immigration; major focus shifts out of some industries (green energy, EVs) and into others (mining, fossil fuels); and technological innovation (data center buildouts, robotics deployment). For Canada, the policy swipes initiated south of the border also impacted various data series when both national and provincial responses moved quickly to absorb and adapt. Overall, ***getting a read on labor markets in 2025 felt like trying to put a sweater on an octopus.***

### 2025’s run rate: steady slow as she goes

On the surface, traditional measures of U.S. job growth in 2025 showed anemic growth: we saw the lowest number of positions created in a non-recessionary year since 2003. All told, a little over half a million new jobs were added during the year compared to more than two million in 2024 (though DOGE cuts – over 300,000 of them – contributed to the decline).<sup>i</sup>

Other indicators seemed to suggest strain. For example, the number of part-time workers looking for full-time work crept up nearly one million year over year (to a total of 5.3 million job seekers) while the number of long-term unemployed (out of work for six months or more) increased by close to 400,000 year over year.<sup>ii</sup>

Among the industries that added the most jobs were healthcare and bars/restaurants. Shedding positions were manufacturing, transportation/warehousing, professional services and, of course, the federal government.



Canada, too, had confusing data as detailed by our BMO economics team with the survey of employers (SEPH) pegging a 0.4% year-over-year gain in payrolls in the most recently available data while the household survey (LFS) registered a sturdier 1.4%. The data also highlighted wide differences in the hiring within key sectors.<sup>iii</sup>

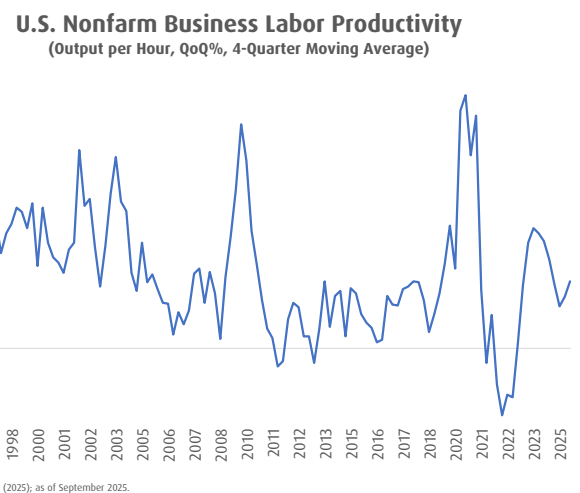
## New paradigms

In contextualizing the picture, AI deployment is often the first target for blame. We suggest that more factors are at work, including flip-flopping trade/tariff policy, changes in EV mandates, the deployment of robotics, and immigration crackdowns. The threat of tariffs, for example, caused huge inventory builds/front running (temporarily boosting shipping/warehouse activity) only to see this situation abruptly reverse when tariffs were delayed. Similarly, manufacturing activity – particularly plant expansions or development of new lines – was understandably muted. This happened despite provisions for immediate expensing of R&D and construction activity that were included in last summer's tax bill. More concrete trade arrangements, reduced regulation, faster permitting options and other helpful developments did not emerge until even later in the year.

There is no question that a number of factors relative to work (and life) have changed since the start of the decade. A different generational cohort (Generation Z, born 1997-2012) is gaining steam in the work force while millions of boomers retire. Businesses are rethinking their work forces (size and use) in response to rapidly advancing technology – including AI, digitization/cloud-based storage and compute, robotics, autonomous vehicle/heavy equipment and more highly automated manufacturing. The new administration's substantial policy changes are causing a rapid shift away from some industries (government employment, green energy) while increasing interest/employment elsewhere (mining, defense, capital markets).

We can look to the auto industry for an analogy to what's happening. A car manufacturer may idle a production line to retool for a new model. Similarly, **our global system is in the early stages of retooling for a new dawn of political, defense, trade, manufacturing and location demands. This could create a shift to new ways of thinking about employment, both the types and quantities of jobs plus the way we measure activity and view success.** For example:

**Jobless Growth** – could well be the new norm. Job creation could stay muted while technology helps leverage potential output, given restricted supply and decreased demand, particularly for more processing-heavy or rote tasks that technology can do. This is the classic definition of an increase in productivity. We can see hints of it in the latest U.S. productivity reports, which surprised everyone by showing increases of nearly 5%.



**AI and the Jevons paradox** – There is great anxiety that AI will displace millions of jobs/workers. Throughout history, such worries are common: the populace fears the disappearance of old job categories and fails to factor in entirely new careers yet to be created or fully fleshed out. For example, whaling jobs shifted to mining/drilling in coal and oil production industries. Production of wagon wheels shifted to assembly lines in Detroit's auto plants. Just a decade ago, the job of media influencer, AI prompt generator, and AI scientist/engineer were little known or non-existent.

The Jevons paradox suggests that the cheaper a technology becomes, the more use cases (and individuals needed to guide/create/work those use cases) are created. Earlier this week, Lilly and Nvidia announced a partnership to accelerate scientific discovery. AI enables a flip in the proportion of work done in the lab versus what's done on the computer. It also facilitates a significant increase in science (and also, theoretically, faster drug discovery).

**New environments need new/enhanced skills** – We suspect at least some of 2025's softer labor statistics were necessary to give companies a moment to re-acclimate (and rerun models/scenarios) in the wake of the rapid evolution of significant policy and technological change. But companies cannot stand still – especially public companies – which must answer to shareholders, customers, boards and employees. Employees who lean into the pace and direction of change should be positioned to benefit. Many senior leaders know that paths for entry-level workers must be defined and nurtured in order to build a deep leadership bench that will take companies into the future. *Employees of any age who learn to use and apply the technology as partners, not replacers, stand to benefit.*

**Policy change needed** – That said, businesses also bear responsibility for creating opportunities and pathways to retool and retrain their work force. Wouldn't it be refreshing if business leaders, along with federal, state and municipal administrators, leaned into creating a framework that helps accelerate and systematize those transitions? We're talking tech schools, apprenticeships, and entrepreneurship programs.

## Implications for investors

Over the past few years, both stock and bond markets have frequently demonstrated that they pay attention to employment numbers. In the U.S., the nonfarm payrolls report (typically released the first Friday of every month) is a closely watched gauge that can move markets in the short term. Some industries are ripe for deployment of new technologies and reskilling of workers, e.g., manufacturing, distribution, logistics, AVs, communication services, technology, finance and healthcare. While gainful employment is vital, the numbers used to assess it may well be changing – and increased employment may be less necessary to produce economic growth compared to recent years.

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

#### **U.S. Federal Reserve's independence in the crosshairs (again)**

Late last week, the Justice Department served a grand jury subpoena on Fed Chair Jerome Powell over his congressional testimony concerning the renovation of the Federal Reserve's Washington, D.C., headquarters. The action prompted a forceful public response from the Fed chair. In both a written and widely circulated video statement, Mr. Powell said that the "unprecedented action" should be seen as an attempt to pressure Fed officials into setting interest-rate policy according to the executive branch's wishes rather than allowing the Fed to do its work based on economic fundamentals. The administration's actions have drawn bipartisan criticism – and renewed the debate around the central bank's independence. According to *Axios*, Treasury Secretary Scott Bessent warned President Donald Trump that attacks on the Fed chair could be bad for financial markets, reinforcing the importance of the role's stabilizing force within the administration. On Capitol Hill, Republican Senator Thom Tillis said the investigation calls into question the independence and credibility of the Department of Justice. Senate Majority Leader John Thune cautioned that targeting the Fed chair could complicate future Fed confirmations, and many Republicans expressed discomfort over legal action against Mr. Powell. Former Fed chairs Janet Yellen, Alan Greenspan and Ben Bernanke, plus numerous economists, signed a joint statement in support of chair Powell. The combination of broad institutional resistance to the administration's actions and visible public support helped calm market nerves during Monday's trading session. While initially claiming to have no involvement in the indictment, President Trump reiterated his view that Mr. Powell has not done a good job and is either crooked or incompetent. *This was a signal that the confrontation is far from over and could remain a market overhang.*

**Canadian employment rises modestly** – Jobs increased a modest 8,200 in December following an incredible three-month run of strength (an average monthly job gain of 60,000). Importantly, the unemployment rate largely reversed the stunning pullback in the previous month, rising three ticks to 6.8%, and leaving it a bit above year-ago levels – which, frankly, seems to jibe much better with reality. The details of the report were mixed; job growth was powered by a strong advance of 50,200 full-time positions, although hours worked fell 0.3% month over month and private sector payrolls reported a small dip. December's moderation in job growth is likely not soft enough to stir much interest at the Bank of Canada, but it also should quiet some of the chatter about potential rate hikes later in 2026. This supports the BMO Economics view that the central bank will remain on hold this year.

**Canadian merchandise trade balance deteriorated** – The trade balance came in at a \$0.6 billion deficit in October, down from a \$0.2 billion surplus in September. Exports increased 2.1% even after a 6.7% jump in September; gold exports drove the increase.

Without the precious metals, exports declined 2.5%. Imports were up 3.4%, a broad-based increase driven by electronic equipment (+10.2%) and industrial machinery (+5.7%) that suggests some firming in business investment. The mild deterioration in the trade balance was expected and was partially offset by ongoing strength in gold exports. While some evidence of diversification can be seen in the data, trade flows will continue to be under pressure while tariff and geopolitical uncertainty remains elevated.

**U.S. oil execs at the White House** – Last Friday, President Trump hosted a summit for oil executives to discuss Venezuelan oil. He called on those assembled to collectively invest more than \$100 billion into that country's dilapidated oil industry. CEOs offered a notable level of pushback to the idea of quickly returning to the country. Concerns included a lack of political, legal and security stability, which will take time to restore. Secretary of State Marco Rubio laid out a three-stage process to address these problems. First, develop a cooperative framework with the current government, during which every penny of oil revenue would go to the U.S. and be used to purchase American-made goods and services for Venezuela. Second, recover to a normal economy where revenues flow directly to benefit Venezuelans. Third, transition to a country with a strong economy and friendly U.S. relations. Exxon CEO Darren Woods said that Venezuela is "uninvestable" in its current form. President Trump pushed back on this prognosis and suggested Exxon could be excluded from any Venezuelan investment opportunity. Chevron is the American oil company best positioned in Venezuela since it's the only company currently doing business there. CEO Mike Wirth said Chevron could increase utilization of existing assets by roughly 100% almost immediately, followed by another 50% over the next 18 to 24 months. Halliburton, Shell, and ENI were forced out of the Caribbean nation in 2019 by Trump administration sanctions. They now believe some operations reassembly could happen in relatively short order if operating conditions permit.

**Affordability still on President Trump's mind** – In recent months, congressional Republicans and administration officials have increasingly emphasized the need for concrete action to address cost-of-living pressures. Over the last two weeks, there have been indications that Mr. Trump increasingly recognizes the issue's importance for voters. Financial sector investors were caught off guard last Friday by a Truth Social post that called for credit card companies to set a 10% cap on interest rates by a January 20 deadline. Implementation may prove difficult given the lack of a clear legal mechanism. Such a cap would likely reduce credit availability, creating a headwind to economic growth. Earlier in the week, Mr. Trump said he wanted to bar large institutional investors from buying single-family homes, framing the policy as a way to improve housing affordability (although institutional buyers accounted for only about 1.0% of home purchases in 2024.) The President has also directed the Federal Housing Finance Agency to pursue \$200 billion of agency mortgage bond purchases in the hopes of pushing down mortgage rates. House Republicans have

begun drafting a second reconciliation framework titled “Making the American Dream Affordable Again,” which the Republican Study Committee said was a “bold roadmap” to address the affordability crisis, including housing, healthcare and energy costs. Affordability has been a longstanding voter concern; recent commentary from President Trump suggests the administration is moving toward a more active policy response ahead of midterm elections.

## Next week

Earnings season continues – mid-sized banks, consumer and other companies will report Q4 results. The most noteworthy U.S. data will come in Friday’s much-anticipated PCE report, the Fed’s key inflation measure. In Canada, influential inflation and sentiment

survey readings will be released. Markets will also be on the lookout for a Supreme Court decision (due any day) on the legality of President Trump’s “reciprocal tariffs” applied under IEEPA.

**Monday 1/19** – U.S. ML King Jr holiday | Canada Inflation, CPI, BoC Business outlook and Survey of Consumer expectations

**Tuesday 1/20** – None scheduled

**Wednesday 1/21** – U.S. Construction spending | Canada PPI, raw materials prices

**Thursday 1/22** – U.S. Initial jobless claims, GDP | Canada CFIB Business barometer, New housing prices

**Friday 1/23** – U.S. PCE, Consumer sentiment, Services and Manufacturing PMIs | Canada Retail sales

## Data scorecard as of January 14, 2026

Equity Market Total Returns						
	1/14/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	6,927	-0.6%	1.2%	17.9%	25.0%	14.4%
NASDAQ	23,472	-0.8%	1.0%	21.2%	29.6%	13.4%
DOW	49,150	-0.7%	2.3%	14.9%	15.0%	11.6%
Russell 2500	4,564	0.6%	6.1%	11.9%	12.0%	7.3%
S&P/TSX	32,916	0.9%	3.9%	31.7%	21.7%	16.1%
MSCI EAFE	10,966	1.4%	3.4%	31.2%	3.8%	8.9%
MSCI EM	808	1.9%	5.4%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		0.2%	0.3%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		0.2%	0.2%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		0.3%	0.4%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		0.1%	0.5%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.1%	0.8%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.2%	0.5%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.2%	0.5%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.2%	0.5%	4.4%	6.9%	1.5%
Government Bond Yields						
	1/14/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.13%	4.17%	4.17%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.36%	3.43%	3.43%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.34%	4.48%	4.48%	4.48%	4.56%	3.16%
German 10-Year Bund	2.81%	2.85%	2.85%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.18%	2.06%	2.06%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	1/14/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	99.06	-0.1%	0.7%	-9.4%	7.1%	1.8%
CAD:USD	\$0.72	0.2%	-1.1%	4.8%	-7.9%	-1.5%
Bitcoin	\$97,557.56	7.9%	11.3%	-6.5%	120.5%	24.8%
Gold	\$4,626.58	2.6%	7.1%	64.6%	27.2%	17.9%
Oil (WTI)	\$62.02	4.9%	8.0%	-19.9%	0.1%	3.4%

\*Annualized

5-Year data as of December 31, 2025. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

## Index Definitions

### Equity indices

**S&P 500® Index** is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

**NASDAQ Composite Index** is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

**Dow Jones Industrial Average (“DOW”)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

**Russell 2000® Index** (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

**S&P/TSX Index** is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

**MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index)** is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

**MSCI Emerging Markets Index** is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

### Fixed income indices

**Bloomberg U.S. Aggregate Bond Index** is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

**Bloomberg U.S. Treasury Index** is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

**Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg U.S. Corporate High Yield Index** is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

**Bloomberg 1-10 Year Blend Municipal Bond Index** is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

**Bloomberg Canada Aggregate Bond Index** measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

**Bloomberg Canada Aggregate Bond Index - Treasury** is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

**Bloomberg Canada Aggregate Bond Index - Corporate** is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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<sup>i</sup> A Cornucopia of U.S. Labour Market Metrics

<sup>ii</sup> BLS Employment Situation Dec 2025

<sup>iii</sup> Labour Statistics, What’s Ahead for Canada’s Job Market?