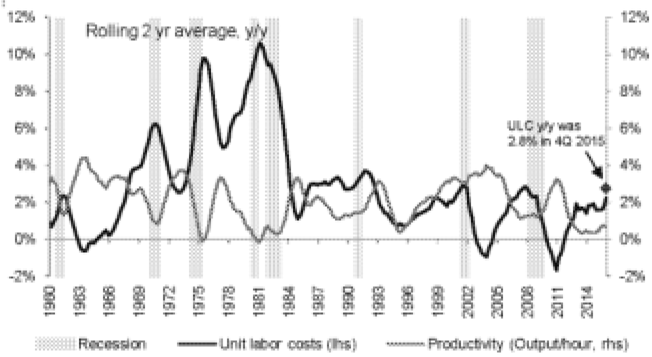
No fed hikes in 1H16, but slow hikes will come eventually

Strong jobs and falling UE despite still slow GDP justifies Fed hikes by Sept. This likely boosts the dollar a bit more, keeps US inflation very low and flattens the yield curve. If a strong dollar and some slow hikes stave off rising unit labor costs, then, given scant long-term real interest rates globally, the FF rate and 10yr yield are likely plateau well below historical norms this cycle. This supports S&P PE upside.

Figure 41: Unemployment rate and labor participation rate

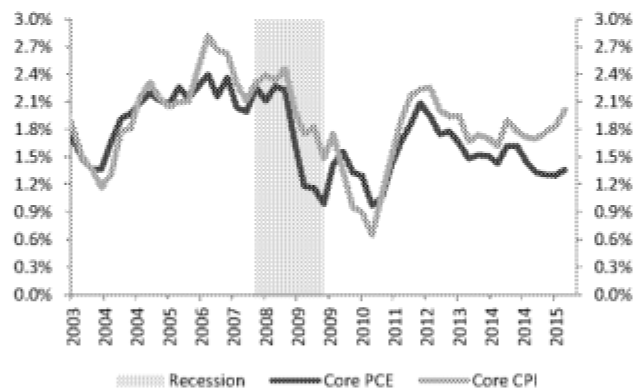
Source: BLS, Haver Analytics, Deutsche Bank

Figure 42: Productivity and unit labor cost



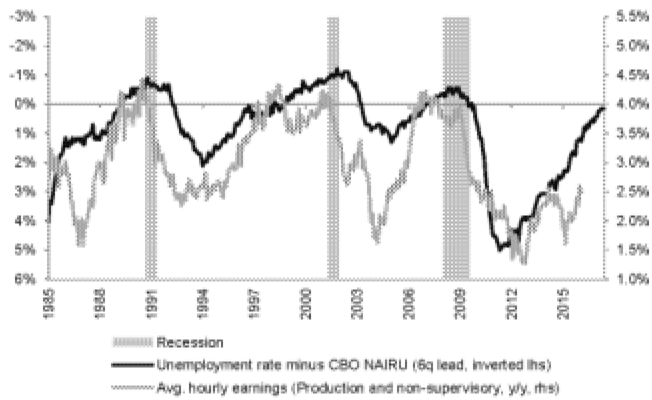
Source: BLS, Haver Analytics, Deutsche Bank

Figure 43: Consumer price inflation: Core CPI and Core PCE



Source: Haver Analytics, Deutsche Bank

Figure 44: Less labor slack signals wage inflation



Source: BLS, Haver Analytics, Deutsche Bank