

Summer 2025

Many of us find a warm bath relaxing, even luxurious. Others, like *Seinfeld's* Kramer, find the activity nothing more than "sitting there in a tepid pool of my own filth." Regardless of where one stands (or sits), nobody finds the topic of bathing controversial.

But that wasn't always the case. According to an article published in 1917, bathtubs were introduced to the U.S. in 1843 and caused an immediate uproar. A large swath of people found the new invention unsanitary and, perhaps worse for a burgeoning democracy, decadent to the point of being monarchical. Some big cities even tried to outlaw bathing. It wasn't until President Millard Fillmore had a tub installed in the White House that the bathroom fixtures of today began to be widely accepted by the public. Bath-lovers have our thirteenth president to thank. Or so the story goes.

The story of the bathtub's rise to ubiquity is a beguiling one, in no small part because it's pure fiction. Journalist H.L. Mencken wrote and published the piece, which became famously known as the "Bathtub Hoax," for amusement. He explained that the hoax was "done in a time of war [World War I], when more serious writing was impossible." But by the time he'd confessed, the bathtub story had been picked up by newspapers across the country and made its way into medical literature and reference books. The tale became so entrenched in American history that as late as 2004 the *Washington Post* was forced to embarrassingly run a correction on a column claiming Fillmore was the first president to install a bathtub in the White House.

The Bathtub Hoax is a good reminder that just because something is published (or aired) doesn't mean it's true. And yet, if a story is repeated often enough, it can become, to the naive, fact. That goes for myriad topics across the financial and investing world, including labor markets, which are currently an under-the-radar but crucial piece of the global economy, especially when it comes to the U.S. and Canada, the first and tenth largest economies in the world, respectively.

Aptly, labor markets can be understood by thinking about...the bathtub! Northwestern University economist Kirabo Jackson used a bathtub model to explain where unemployment is heading. Job openings are like water pouring into the tub, while layoffs and retirements are water draining out of the tub.

Ideally, one wants the tub two-thirds full, with enough water (net job openings and exits) to soak in and get clean. When the tub is filling faster than it's draining (more jobs than exits), water will slosh over the sides of the tub, leaving a mess. When water is draining faster than it's filling, the water level falls too low, leaving the rubber duck resting on the bather's bare thigh. As such, labor markets are shrinking, leading to expectations of rising unemployment and deteriorating job market fundamentals.

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This bathtub analogy helps us understand why zero unemployment (water gushing over the sides of the tub) would be just as bad as 10% unemployment (exposed toes, say). If there were no workers available, starting new businesses becomes difficult, existing companies' expansion plans stall, and workers would require higher wages in order to change jobs. Inflation becomes inevitable. And, of course, if there's not enough jobs for those seeking work, unemployment rises and the economy isn't functioning at full capacity, likely leading to falling inflation and workers accepting lower wages.

So, where are we now? Good-ish. Maybe an inch or two of water below that ideal. Currently, the U.S. has an unemployment rate of just 4.1%, which is low by historic standards, and Canada is at 7%, which is elevated but not too high. As always, we need to dig deeper and look forward.

Yes, last month's U.S. job market numbers surprised some with a higher-than-expected payroll gain of 147,000 workers. But 85% of those gains were in government (including education) and health care, while hiring in other sectors was stagnant. Perhaps, in the wake and uncertainty brought on by President Trump's "Liberation Day" tariffs, employers are waiting for more clarity before hiring—and/or they are figuring out how to use AI to coax more productivity from their current workforce.

Yes, the number of layoffs in the U.S. fell by 188,000 in May, close to the lowest level in decades. But the number of new hires fell by 112,000, below pre-pandemic levels. For recent college grads (new entrants) and those unsatisfied with their current jobs, it's a tough market. Which may be why the number of folks continuing to collect unemployment benefits is at the highest level in four years.

We're not the only ones keeping an eye on these things. Jerome Powell, chair of the U.S. Federal Reserve Bank, who, it should be noted, views the labor market as "sound," recently pointed to the lack of layoffs coinciding with the lack of job creation as obstacles for those seeking work. "So that's an equilibrium we watch very, very carefully," he said, "because if there were to be significant layoffs and the job seekers were to remain this low ... you would have an increase in unemployment fairly quickly."

In other words, the water level in our tub would begin declining quickly.

None of this to say, in the least bit, that it's time to panic. It's just something we, like Fed Chair Powell, are watching carefully, along with another component of labor—wage growth. In other words, the amount of money that workers are taking home. When wages grow faster than inflation, workers have more money to spend on additional goods and services, and that's when economies grow. When wages fail to keep pace with inflation, workers have less to spend. This was, you may recall, the case in 2023. Since then, wages have outpaced inflation (this year more than last). Currently, wage growth in the U.S. is running around 4.1% and Canada 4.4%. This tells us, for the time being, that we are in an environment of excess spending or savings.

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We believe a balanced portfolio is akin to that ideal water level in the bath. And, with your financial goals in mind, we're constantly working to pour in investments that make sense for the current and coming climate and drain out those that don't.

Have a great summer.