

Research @ Citi Markets Edition: A Jevons Job Market

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Host: Dirk Willer, Global Head of Macro Strategy and Asset Allocation, Citi

Guest: Adam Pickett, Head of Global Macro Strategy Team, Citi

Transcript:

Opening Teaser: (00:00)

Research @ Citi, Markets Edition.

Dirk Willer (00:03)

Welcome to Research @ Citi Markets Edition, where we break down global macro in 10 minutes or less.

I'm your host, Dirk Willer, Citi's Global Head of Macro, and with me today is Adam Pickett, our London macro head. Welcome to the show, Adam.

Adam Pickett (00:16)

Thanks, Dirk. Pleasure as always to be here.

Dirk Willer (00:18)

We are recording this podcast at 10.45 on Thursday, May 14, 2026.

The single most important macro question for the next year, and maybe even longer than that, is whether AI will destroy jobs in a meaningful way and in line with warnings from the likes of Elon Musk, or whether the higher productivity — and maybe also the wealth effect — lead to new job creation, possibly more than offsetting the expected job losses.

Adam, last week we talked about the issue in some depth. What are the key findings?

Adam Pickett (00:45)

Thanks, Dirk.

So just as a prelude to those that don't follow it, Jevons Paradox is an old economic theory around the time of the Industrial Revolution, basically talking about the counterintuitive idea that when you become more efficient at using a resource, you would think you might use less of it, and ultimately you use more of it. Despite your per-unit output use of the resource going down, your total use of the resource goes up. This is because more entrants come into the market and use it, and you grow the entire pie.

It was true with coal. It was true with water. Crucially, if you remember back to the DeepSeek market scare of early 2025, it was true for compute as well. The market got scared that because DeepSeek was a compute-efficient LLM, that would somehow map onto less chips being needed, and NVIDIA and other tech stocks were sold. This was unfounded.

So we're begging the question: Could the same be true for labor? A couple of examples that we're looking into. So job postings for two sectors of the economy that people talk about as being highly vulnerable to AI: software engineering and customer services. Job postings in those sectors have started to pick up quite markedly on the Indeed data, even more so than the aggregate job-postings data.

Secondly, we refer back to some of the work done by Stanford last year, taking further ADP data in those two sectors, splitting them up by hiring amongst different age cohorts. And what they found is that post-ChatGPT, actually it was only really early-stage headcount, sort of younger-worker headcount that was falling, but the mid-to-senior career age cohorts were still seeing increases in headcount. And again, this adds to the rotational augmentation debate.

And then beyond that, we'd also use a couple of interesting analogues from history. Two sectors that people thought would see a lot of job disruption due to the internet were retail trades — so physical stores, rather than everything going online. And the other was the admin and business-support functions. If you look at the BLS data, even throughout the dot-com boom and beyond through the 21st century, hiring in those sectors has been pretty robust.

You know, history is full of big proclamations for the job losses. Blinder in 2007 talked about as much as 25% of the U.S. job market potentially being offshored. And Frey and Osborne in 2014 also talked about as much as 50% of the U.S. job market being vulnerable to atomization.

What ultimately occurs, we think, is that institutional frictions can be large. And we would point investors to one of the recent Anthropic papers on the labor market, suggesting that despite potentially far-reaching impact for a lot of services, their own data at Anthropic suggests that the industry coverage for usages of their LLMs is significantly smaller than what would be required to make a meaningful impact.

So, for now, we think some of the worst-case scenarios are probably being undercut by reasonably slow rollout, but also we would beg the question as to whether the technology can be augmenting rather than purely destructive. So far, there's some evidence within certain sectors that were expected to be hit hard that actually they are thriving at the moment.

Dirk Willer (04:14)

That's a very reassuring message, Adam. Thank you for that. But are there any concerns that you're still having here with respect to the job market?

Adam Pickett (04:22)

Yes, churn has picked up in some of those sectors. Quits and firings have also picked up a little bit as well. So it's not completely rosy. And we would also make the case that the seasonal coming into the summer tends to be sequentially worse from here. So we may just be coming off of a particularly good patch.

And lastly, one thing that gets pushed to us as bullish, which is the sharp increase in new business formation in the last year to 18 months, when we dig a little bit deeper, the sub-series of new businesses with planned wages and payrolls has actually been decreasing, suggesting that a lot of the new businesses might be side hustles or solo entrepreneurs.

So it's not a panacea. This theme may ultimately have to wait until 2027, but given the pace of the technology rollout, we think it's something that certainly bears watching into the summer and beyond.

Dirk Willer (05:42)

Great. Thank you so much, Adam.

In summary, it's early days, certainly, to make a definitive call. But so far there's very little evidence of AI destroying jobs in a sufficient size to matter for the overall economy.

And, of course, that means a few things for markets. In particular for Chair Walsh, it means he will find it quite difficult to push forward with cuts based on this AI narrative that he has been certainly mentioning in some of his speeches. And so if seasonality should not come to the rescue, and assuming there's no Iran deal either, it will, of course, be really quite difficult to convince the committee.

Now, as allocation, we are there for a neutral duration, where we have long TIPS offset by Gilts and JGBs. So, in a sense, it's a sort of fairly cautious positioning here, given that TIPS are quite defensive, really. And of course, the Iran deal could always turn the tide, and we would not overstress the recent headlines that suggest maybe there is no imminent resolution. But certainly, we think without that and without seasonality, duration might remain somewhat difficult to own.

For the dollar, our main workhorse model for the big dollar actually flipped dollar-bullish a few days ago. It's based on terms of trade. It's based on macro momentum. It's based on the right of activity performance and the right of rates performance. And of course, the same that holds for rates also holds for the dollar. If there was a quick year round here that would obviously undermine the impact of this model. But certainly, I think it's also something to keep in mind.

Last, there has been this concern that rates will disrupt the equity bull market. We think we are not there yet. While in the big picture rates are often part of the top in equity markets, we have to keep in mind that in 2000, it took both 175 basis points of hikes

and a major liquidity withdrawal in early 2000 after the Y2K liquidity injection late in '99—that really was fundamentally important to stop the bull market. So it will take time to play out. While there can easily be a pullback due to rates, we do think it would not be the end of this equity bull.

So in summary, Jevons Paradox may be in play in the US job market, and we do not see AI-related job losses yet that Chair Walsh has been worrying about. So unless seasonals or the Iran deal come to the rescue, this will make Chair Walsh's life quite difficult in terms of pushing for cuts. And that implies some caution both for the rates trade but maybe also for the dollar trade. But we don't think that rates will be ending this equity bull market.

Thank you for joining us today. This episode was recorded on May 14, 2026. And I'm your host, Dirk Willer. For more details, Citi clients can check out our report on Citi Velocity.

Next week's Research @ Citi Markets Edition will be hosted by Beata Manthey, Citi's Global Head of Equity Strategy. And be sure to watch our Research at Citi podcast, which you can view on the same channel.

The Macro Strategy Team will be back in two weeks. Stay sharp!

Disclaimer (08:08)

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