# Flash Macro: U.S. Jobs Report July 2026

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

This is a market friendly report because it tones down the narrative that the Fed is well behind the curve. We continue to think Chair Warsh would like to delay any rate moves until the task forces have had more time to advance their work. As such, we are seeing little urgency for a September hike: we have now had two months of jobs on the softer side and also saw a notable moderation in core inflation last month. Importantly, consistent with our Divergence Conundrum thesis, the Chair will be hesitant to tighten financial conditions via rate increases on the segment of the American population who are clearly struggling from rising input costs as well as the more rate-sensitive parts of the U.S. economy.

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## Highlights from the report itself including sector detail:

The U.S. payroll report came in distinctly weak, showing -23k jobs lost in July, far below consensus (+80k) and marking the first contraction since February. Payrolls over the last two months were also revised down by a combined -103k. Even so, there were likely some seasonal adjustment issues around summer school closings as local government education posted a large -50k decline. The unemployment rate fell to 4.1% (from 4.2%) but for the wrong reasons as the labor force participation rate slipped again to the lowest level in more than five years (61.4%).

Meanwhile, labor inflation was also soft: average hourly earnings rose just 3.2% year-to-year, down from 3.4% in June and the weakest since 2021. Overall, the three-month rolling average payroll is down to just +20k, which is likely under the 'breakeven' rate of roughly +50k.

The strength in Construction (+22k) and Durable Goods Manufacturing (+18k) is notable, especially relative to the weakness in Retail (-19k) and Leisure/ Hospitality (-40k) (Exhibit 1). Unusual for this cycle, but goods employment outpaced services employment in July. We'll need to watch for any further signs of a shifting trend.

Private Education & Healthcare stayed resilient, contributing +25k.

Our indicator for AI-exposed jobs was -6k this month (Exhibit 3), a modest decline but finance-related fields (e.g. insurance, credit intermediation) were notably soft. On the other hand, Tech employment turned positive for the first time in 19 months and job openings in software have actually been growing in recent months (Exhibit 2).

## What do we think this means for our Outlook?

We think the economy is on much firmer footing than this report indicates. ISM Manufacturing numbers (strong leading indicator of industrial economy) accelerated to the strongest level since 2022 last month. Unemployment claims remain near the low end of the historic range. GDP for 2Q showed broad strength across consumer spending (both goods & services) and business investment (both AI capex and non-

AI). Also important to remember is that we are in a productivity-led cycle, driven by output per worker, not simply a surging workforce. Softer job growth trends do not particularly undermine this narrative.

The Goods vs. Services narrative shifting somewhat at the margin. More importantly, the composition of growth continues to evolve. In past cycles, even early in this expansion, consumer spending did most of the heavy lifting. Today, however, capital investment is increasingly becoming the marginal driver of growth, with Construction and Manufacturing outperforming while portions of the traditional consumer economy, including Retail and Leisure & Hospitality, soften at the margin. We suspect the AI buildout is driving some of the strength on the Goods side. Meanwhile, softer Services trends look like further evidence of the unusually robust productivity surge that has played out for services this cycle.

## What do we think this means for markets?

When we pull it all together, our view remains that strong earnings growth, heavy capex investment, and solid productivity will propel risk assets higher in 2026. All told, we are using a 17% EPS growth rate forecast for the S&P 500. So, unless the S&P 500 multiple contracts by that much, equities are likely to end the year in the green. However, unlike the past three years, the technical picture is turning less supportive, given AI-related debt issuance and related equity capital raising IPOs. This ‘less good’ technical backdrop, in addition to a concentration of EPS in the semiconductor sector and less guidance from the new Fed, likely means a lot more volatility this year. Meanwhile, in 2027 our outlook is less optimistic, as we see earnings growth potentially slowing more than the consensus thinks, especially in 2H27.

On the interest rate front, we maintain our 10-year 4.75% forecast for 2026 and 4.25% in 2027. On the front end, we maintain our ‘long hold’ baseline for the Fed but remain on watch to add a brief hiking campaign to our outlook (two to four hikes) should we see a more definitive re-acceleration relative to recently softer jobs and inflation prints.

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