
Weekly Market Flash

Jobs Disappoint, Market Gives Two Cheers

July 2, 2026

The second half of the year is underway, and it's beginning with the market doing a reprisal of one of its favorite schticks, the "bad news good" routine in which what's bad for Main Street America is good for, well, the market and its myopic focus on whether interest rates. Recall that, following the Federal Open Market Committee's meeting two weeks ago, the punters were penciling in September as the likely timing for a hike in the target Fed funds rate. Inflationary pressures, exacerbated by the ongoing war in the Middle East, had already taken a long-hoped-for rate cut off the table, and the market odds were now on as many as two rate hikes before the end of the year.

Jobs Blow Hot, Then Cool

Inflation was not the only factor driving rate hike expectations. The labor market, which had been all over the place late last year with alternating declines and advances in monthly nonfarm payrolls (NFPs), found its footing in the second quarter of this year with three successive barnstormers of a BLS report in April, May and June. The June report, containing data for May showing 174,000 payroll gains, arrived at the FOMC's doorstep just in time to unleash a spate of hawkish Fed speak by Committee members and chairman Warsh himself ahead of, during and following the June meeting.

Hence the market's relief this morning when the BLS report containing June data came out well shy of the 100,000 NFPs economists had predicted. And the modest 57,000 payroll gains for June was not the only treat in the bag, as the BLS revised down the previous two months' worth of payroll gains by 74,000. Those 174,000 jobs from the previous month got hacked down to 129,000. That suggests a jobs market that is cooling – but far from going into deep freeze. In 2025 the average monthly gain in nonfarm payrolls was just 9,670. For the first six months of 2026 the comparable number is 92,000, even after the downward revisions.

Apocalypse Not Now

Economists have spent the last year trying to figure out what the jobs numbers tell us about the threat of AI to result in widespread layoffs and permanent job losses. To be perfectly honest, they have come up with few compelling insights – other than to say that nothing in the current cache of data suggests an immediate "jobs-pocalypse." Yes – it's rough going for recent college grads dealing with the vagaries of AI hiring tools and resumes that disappear into the black holes of online employment sites. The monthly layoff data provided by Challenger, Gray and Christmas have also trended bleak recently. But the national overall unemployment rate remains relatively low – 4.2 percent in today's BLS report. And average hourly wage growth of 3.5 percent over the past year has, it would seem, more or less kept up with inflation.

One might think that this sets up a bullish picture for the market in these early days of the second half. A cool, but not cold, labor market along with subsiding tensions in the Middle East (maybe) sounds like a buy recipe. But not necessarily. Even in the brief time it has taken to write this report, the S&P 500 has

retreated into negative territory for the day (hence the two, not three, cheers in the title above). Volatility in the AI trade, as we discussed at length last week, is not taking a summer break. As always, there are plenty of ways for things to go pear-shaped. But at least from the standpoint of the macroeconomic picture, things could look worse.

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