

Key Takeaways:

- Cracks in labor market getting hard to ignore.
- Job openings fell below the number of Americans looking for a job for the first time since 2021.
- Foreign-born workers are leaving the workforce at the fastest pace in history.
- Government jobs trends could distort data in the coming months.
- Expect any Fed rate cut to be delivered with a very hawkish tone.

Taking Cues from the Labor Market

Last week, investors were delivered a better understanding of the health of the labor market and unfortunately the weakness is getting hard to ignore. The Institute for Supply Management surveys showed employment in manufacturing and services is at the lowest level since July 2020 and December 2023, respectively. The July JOLTS report showed job openings decreased to the lowest level since September 2024 (7.18 million). In fact, job openings fell below the number of Americans that are looking for a job for the first time since 2021 (by 55K). Lastly, the Bureau of Labor Statistics reported the U.S. economy added 22K jobs in August bringing the moving 12 month sum of job creation to the lowest level since 2021. The unemployment rate pushed up to a four year high (4.3%). The data has likely confirmed a Fed rate cut at their September 16/17 meeting, with futures pricing in a ~90% chance for a 25 bps cut, while the remaining ~10% are pricing in a 50 bps cut. In this Weekly Insights, we look beyond the headlines and focus on some structural things to watch in the labor market and what it could mean for the economy.

- **Immigration impact is showing up :** According to BLS data, foreign-born workers historically account for ~17% of the workforce. The latest BLS report showed foreign-born workers account for 19% of the workforce, down from a peak of 20% in March. Immigrants have been leaving the workforce at a rapid pace this year, with a net ~1.0 million less foreign-born workers in the labor force today compared to the beginning of the year.¹

However, native-born workers have offset this trend this year. Native born workers have contributed ~2.3 million to the labor force this year. This is the fastest pace since 2019 when total job additions for native-born workers increased by 2.5 million.

- **Job losses from government:** With Trump's DOGE initiative, there is an estimated 148K federal employees who have left their government jobs.³ Some of these employees will start seeing their packages run out in 2H25 and re-enter the workforce which may distort the monthly data.
- **AI hiring trends:** As artificial intelligence gains traction, there

are concerns about what it will do to the demand for workers. This far, we are not seeing a significant impact in jobs losses due to AI intergation. In fact, 11% of service firms said they have hired more because of adoption of artificial intelligence, according to the New York Fed.² The report showed 13% of companies did plan to fire employees in the next six months, but that is unchanged from 2024.

The Bottom Line:

The labor market is weakening enough that our view has changed, and the Fed will deliver a 25 bps rate cut next week. We will receive several inflation indicators this week, but we do not see that data changing the Fed's rate cut next week. The biggest question for investors now is how many more rate cuts we will receive. After this week's inflation data, we will get a better picture on what the Fed can do with rates. However, we are not out of the woods with inflation, and the Fed may deliver a hawkish cut while reminding investors of their dual mandate, especially if inflation continues to move further away from their target.

Weekly Economic Recap –

Labor Market Cracks Getting Wider

According to the ISM survey, manufacturing in the U.S. contracted (a level below 5) for the sixth consecutive month in August. Seven of the 10 components in the survey were in contraction territory for the month. Employment led the weakness by remaining near the lowest level seen since 2020.

The ISM Services Index expanded at the fastest pace in four months in August. The strength was led by imports and new orders. While the prices paid component dipped slightly, at its current level, it suggests inflation may still be problematic.

The monthly JOLTS report showed that U.S. job openings declined to the lowest level since September 2024 in July (7.18 million) and June's data was revised lower. The decrease in openings was led by the health care sector, which witnessed the lowest level of job openings since 2021. The quits rate, which measures the number of people leaving their jobs voluntarily, remained unchanged at ~2%.

U.S. economic activity across most of the Federal Reserve's 12 districts reported "little or no change" according to the Fed's Beige Book. Every region noted price increases, with 10 of the 12 reporting "moderate or modest" inflation, and two seeing "strong input price pressures." Tariff-related price increases were reported across districts.

The U.S. economy added fewer jobs than expected in August (22K vs. 77K est.) and the unemployment rate increased to a four-year high (4.3%). In addition, the prior two months data was revised lower by 21K. The job weakness was led by goods producing, manufacturing, government and professional service jobs.

Key Takeaways:

- Manufacturing activity contracts for sixth straight month.
- Job openings in the U.S. fall to the lowest since Sept. '24.
- U.S. economy adds fewer jobs than expected in August.
- Global equities rally on hopes for Fed rate cuts.
- Bond yields fall on prospect of lower interest rates.
- Commodities weaker driven by softs underperformance.

Weekly Market Recap –

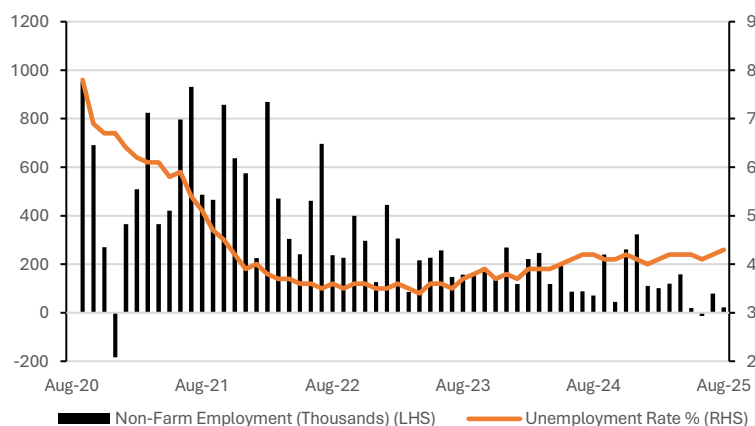
Global Equities Climb on Expectations for Fed Rate Cuts

Equities: The MSCI AC World Index was higher for the fourth time in the last five weeks as weaker-than-expected economic data raised expectations for Fed rate cuts in September. Most major U.S. averages were higher, with the exception of the Dow Jones Industrial Average. The tech-heavy Nasdaq outperformed, and small and midcap stocks outperformed the S&P 500.

Fixed Income: The Bloomberg Aggregate Index was higher for the fifth straight week as bond yields moved lower amid expectations for Fed rate cuts. All sectors of fixed income markets were higher for the week, with outperformance coming from investment grade corporate bonds.

Commodities/FX: The Bloomberg Commodity Index was lower for the first time in three weeks. Crude oil prices were lower after OPEC+ announced plans to increase oil production starting in October. Soft commodities were lower for the first time in five weeks driven by lower coffee prices. The lower prices were in response to the expectation of lower demand given the recent surge in prices.

Unemployment Rate Ticks Higher as Job Growth Stalls



Footnotes: Data is as of August 2025.

Data Source: FactSet Research Systems, Verdenance Capital Advisors.

Likelihood of Rate Cuts Boost Risk Assets

U.S. Equities		Current	1WK	1MO	3MO	1YR	YTD	International Equities		Current	1WK	1MO	3MO	1YR	YTD
	Dow Jones Industrial Average	45,401	-0.3%	3.2%	7.7%	13.3%	8.0%		MSCI AC World (USD)	956	0.5%	3.2%	8.1%	19.3%	14.8%
	S&P 500	6,482	0.4%	3.0%	9.5%	19.3%	11.2%		MSCI EAFE (USD)	2,728	0.3%	4.0%	4.2%	17.0%	23.1%
	Russell 1000 Growth	4,518	0.8%	2.8%	11.5%	27.6%	12.2%		MSCI Europe ex UK (USD)	3,025	0.2%	3.4%	1.4%	15.7%	25.3%
	Russell 1000 Value	1,978	0.0%	3.6%	7.2%	11.6%	10.0%		MSCI Japan (USD)	4,611	0.7%	6.1%	9.5%	17.0%	18.6%
	Russell 2500	4,189	1.2%	6.4%	12.2%	15.3%	9.0%		MSCI UK (USD)	1,479	0.4%	3.4%	5.1%	18.7%	25.1%
	Russell 2000	2,391	1.1%	7.6%	14.4%	13.7%	8.2%		MSCI EM (USD)	1,276	1.4%	2.4%	8.6%	21.0%	20.7%
	Nasdaq	21,700	1.2%	3.8%	12.7%	27.6%	12.9%		MSCI Asia ex Japan (USD)	835	1.5%	2.5%	9.0%	23.7%	20.5%
Fixed Income		Current Yield	1WK	1MO	3MO	1YR	YTD	Commodities		Current	1WK	1MO	3MO	1YR	YTD
	U.S. Aggregate	4.3%	0.9%	1.1%	3.3%	2.9%	6.0%		Bloomberg Commodity Index	255	-0.3%	2.5%	0.7%	12.5%	6.8%
	U.S. Govt/Credit	4.2%	0.9%	1.1%	3.1%	2.7%	5.8%		Crude Oil (USD/bbl)	\$63.1	-1.4%	-0.8%	-1.5%	-4.6%	-8.6%
	U.S. 10 Year Treasury	4.1%	1.1%	1.4%	3.7%	1.4%	7.2%		Gold (\$/oz)	\$3,586.7	4.3%	4.8%	9.5%	45.1%	38.1%
	U.S. TIPS (1-10YR)	3.8%	0.3%	1.3%	3.5%	6.7%	7.5%		Copper	\$448.3	0.4%	2.2%	-9.1%	9.9%	11.3%
	U.S. High Yield	6.7%	0.3%	1.4%	3.6%	8.3%	6.7%		Wheat	\$519.3	-2.4%	-2.5%	-11.6%	-17.3%	-12.9%
	EM Bonds (USD)	6.0%	0.7%	1.5%	4.5%	7.9%	8.0%		U.S. Dollar	98	-0.2%	-0.6%	-1.6%	-3.5%	-10.0%
	Municipal Bonds	3.8%	0.9%	1.1%	2.3%	0.6%	1.2%		VIX Index	15.2	-1.2%	-15.0%	-17.9%	-23.7%	-12.5%

Footnotes: Data is as of September 5, 2025.

Source: Bloomberg Finance LP, Verden Capital Advisors.

1: <https://www.pbs.org/newshour/nation/1-2-million-immigrants-are-gone-from-the-u-s-workforce-under-trump-preliminary-data-shows>

2: <https://www.bloomberg.com/news/articles/2025-09-04/ny-fed-finds-modest-impact-of-ai-on-jobs-even-as-usage-increases>

3: https://www.govexec.com/workforce/2025/08/least-148000-federal-employees-have-left-government-under-trump-good-government-group-reports/407171/?utm_source=chatgpt.com

Disclaimer:

© 2025 Authored by Megan Horneman, Chief Investment Officer, Verdenance Capital Advisors, LLC. Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

Verdenance relies heavily on unaudited third-party data. Data sources include public data, such as mutual fund data, and non-public data, such as information provided by other investment advisors and managers of limited partnership pooled accounts. Data and/or statistics included on this Portal, including references to performance, opinions, ratings, rankings, manager statistics and demographic information, product or strategy descriptions, either quantitative or qualitative, are based upon information reasonably available to us as of the applicable date(s) then-published. Information has been obtained from sources that we believe to be reliable, but these sources cannot be guaranteed as to their accuracy or completeness. All data and information produced by a third party has the potential to be incorrect, incomplete or otherwise misleading. No implication shall be created that the information contained on the Site is correct, including as of any time subsequent to the publish date, and Verdenance does not undertake an obligation to update such information at any time after such date. Verdenance makes no warranty or representation of the veracity of the data and information and its use of the information should not be implied as an endorsement of any material or statements made. Data, particularly non-public data, is subject to error and where the information is not audited, the potential for error is greater. Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Certain products shown may have account minimums or minimum investment sizes that are unattainable for your clients and therefore they may not be eligible to invest in these products. Reference to registration with the Securities and Exchange Commission ("SEC") does not imply that the SEC has endorsed or approved the qualifications of Verdenance or its respective representatives to provide any advisory services described on the Site.