

Key Takeaways:

- Labor market cracks appear in the tech sector.
- Demand for labor is stagnating.
- Rising number of companies report AI and “technological update” as primary reason for layoffs.
- Mega-cap tech companies announce layoffs at an aggressive pace.
- “AI-Washing” might be taking place; we suspect cost-cutting amid economic weakness.

Alarm Bells Growing Louder in the AI Space

Labor market concerns have started to emerge in the technology space and have been a key driver of recent market volatility. Amid the ongoing U.S. Government shutdown, now officially the longest in history (41 days), investors have turned to alternative data sets for clues on the labor market. These reports are showing a broad-based decline in demand for labor, particularly in the tech industry. This week, we analyze labor trends (especially in the tech sector) and offer our outlook.

- **Weak demand for tech labor:** Without official employment data being released by the Bureau of Labor Statistics, we have monitored the Indeed Job Postings Index. Last week, the Index fell to its lowest level since December 2020. Software development job postings have registered 34 monthly losses in the 44 months since their February 2022 peak.
- **Challenger tech layoffs surge:** According to layoff data from Challenger, Gray & Christmas, companies have been cutting jobs at the fastest annualized pace since 2020. The tech sector has recorded ~141K total layoffs in

2025, surpassing 2024 layoffs for the sector (134K). A total of ~69K jobs have been cut by companies citing AI or a “technological update” as their rationale.

- **Mega-cap tech cutting jobs:** Mega-cap tech companies have announced heavy job cuts this earnings season with many citing increased usage of AI as a key driver. Amazon reported the largest aggregate job cuts in the history of the company (~30K), ~14K coming from tech-specific areas. Meta laid off ~600 employees from AI-related businesses as competition for computing power had been growing among teams within the company. Microsoft has laid off 15K employees so far this year.
- **Are companies “AI-Washing?”** “AI-Washing” refers to a process in which companies blame the adoption of AI for layoffs. Companies anticipate investors will be more optimistic about increased efficiency, rather than looking at job cuts as a negative. While this may be evident, we think it is also a cost-cutting campaign from overhiring post-COVID and broad economic weakness.

The Bottom Line:

We understand that the headlines about layoffs may spur anxiety as we navigate through what the evolution of AI means for American workers. However, the recent weakness in the labor market can not be solely blamed on AI. There are other contributory factors. There was massive overhiring in the aftermath of the pandemic. At one point there were two jobs postings for every one unemployed American. It has taken three years to bring this closer to an equilibrium (now ~1:1). The weakness in tech jobs has a lot to do with old tech vs. new tech. Old tech jobs that focus on areas like IT and software services are seeing job losses.¹ While those innovative tech jobs linked to AI are growing. We are also seeing changes to the labor force with the crackdown of illegal immigration marked by the number of unemployed native born Americans rising less than those that are foreign born. This can have negative and positive effects on labor market data. Lastly, the economy is slowing which is reducing the demand for workers.

Weekly Economic Recap –

Labor Market Cracks Getting Larger

The ISM Manufacturing Index remained in contraction territory (a level below 50) for the eighth consecutive month in October. The weakness was driven by production, inventories and a drop in the prices paid component. In fact, the prices paid gauge fell to the lowest level since January.

The ISM Services Index expanded in October at the fastest pace since December 2024.. The new orders component jumped to a one-year high and business activity rose back into expansion territory (a reading above 50). However, inflation pressures persisted, as the prices paid index rose to a three-year high.

Private companies added jobs in October for the first time since July (+42K). The services sector registered 32K net job gains, but job losses were seen in information services (-17K) and professional and business services (-15K). Small companies (1-49 employees) reported the most net jobs lost (-10K).

Job postings fell to their lowest level since February 2021 according to Indeed's monthly Job Postings Index. The index, which began tracking job postings in February 2020, showed job postings in software development hover near their lowest index reading since the COVID pandemic.

According to the firm Challenger, Gray & Christmas, U.S. companies announced the most job cuts for any October since 2003 (153K). In total, companies have cut ~1.1 million workers this year, the most since 2020. The technology sector registered the highest level of layoffs (~33K), nearly six-times the level from the previous report.

Key Takeaways:

- Manufacturing activity remains in contraction territory.
- Job postings fall to lowest level since February 2021.
- Job cuts top 1 million year to date, the most since 2020.
- Mega-cap tech leads U.S. equity declines.
- Bond yields whipsawed by uncertainty.
- Natural gas outperforms as colder weather begins.

Weekly Market Recap –

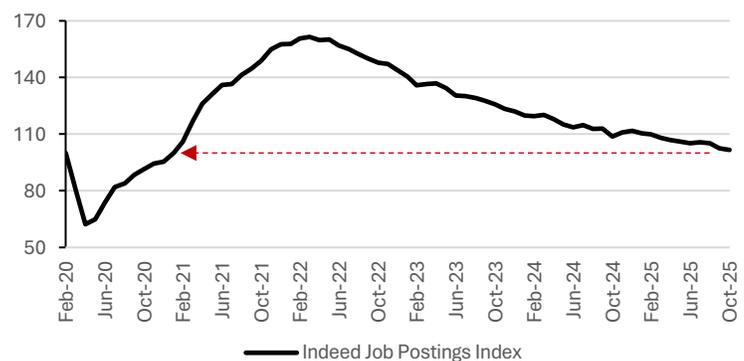
Global Equities Fall Amid Fresh AI Valuation Concerns

Equities: The MSCI AC World Index was lower for the first time in four weeks. Concerns emerged regarding elevated valuations for mega-cap AI names. In addition, the ongoing U.S. Government shutdown weighed on consumer sentiment. Within the U.S., all major indices finished the week lower. The tech-heavy Nasdaq posted its worst weekly performance since April's "Liberation Day" induced sell-off. The Russell 1000 Growth Index underperformed its value counterpart by the most since February (~290bps).

Fixed Income: The Bloomberg Aggregate Index was flat for the week as bond yields were whipsawed by the U.S. Government shutdown and weaker-than-expected economic data. Municipal bonds generated a positive return for the fifth time in six weeks. The risk-off sentiment led to negative returns for high yield bonds, specifically.

Commodities/FX: The Bloomberg Commodity Index was marginally higher for the third time in four weeks. Natural gas prices were higher for the third straight week as colder temperatures begin to hit the U.S. Gold prices were higher for the first time in three weeks as safe-haven demand increased.

Demand for Labor at Lowest Level Since Feb '21



Footnotes: Data is as of October 2025.
Data Source: Hiring Lab, Indeed, Verdence Capital Advisors.

¹: https://www.sfchronicle.com/tech/article/tech-sector-job-losses-march-20267066.php?utm_source=chatgpt.com

²: https://insight.factset.com/highest-forward-12-month-p/e-ratio-for-the-sp-500-in-more-than-5-years?utm_source=Direct&utm_medium=Email&utm_campaign=EQ-11-04-2025&utm_content=httpsinsightfactsetcomhighestforward12monthperatioforthesp500inmorethan5years

Disclaimer:

© 2025 Authored by Megan Horneman, Chief Investment Officer, Verdence 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.

Verdence 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 Verdence does not undertake an obligation to update such information at any time after such date. Verdence 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 Verdence or its respective representatives to provide any advisory services described on the Site.