RCK ANALYTICS

MACROMATRIX

Labor Friction

Manufacturing, Earnings, and Trade Data Show Selective Strength

#37

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Executive Overview

> ***Manufacturing hit a four-year high while services hiring contracted, ADP job growth slowed sharply, the trade deficit narrowed on weaker imports, and Amazon's Anthropic stake drove nearly half of Q2 earnings growth.***

Recent Four releases revealed an economy sending mixed signals just two days ahead of July's official jobs report. ISM Manufacturing PMI rose to 55.6 on August 1, a four-year high, while ISM Services Employment fell to 47.4 by August 5, back into contraction.

ADP reported just 44,000 private-sector jobs added in July, the weakest gain in six months, while June JOLTS data showed openings little changed at 7.4 million.

The U.S. trade deficit narrowed to $73.3 billion in June, driven by falling imports rather than rising exports.

Meanwhile, S&P 500 Q2 2026 earnings growth accelerated to 47.4%, the fastest since 2021, though nearly half of that growth traced to two companies' investment gains, including Amazon's $53.4 billion gain tied to its stake in Anthropic.

Together, the data shows manufacturing strength alongside services and hiring caution, a narrowing trade gap driven by weaker imports, and a headline earnings number that overstates broad-based corporate strength, all landing just before the Fed's next major labor data point.

Manufacturing Surges, Services Stalls

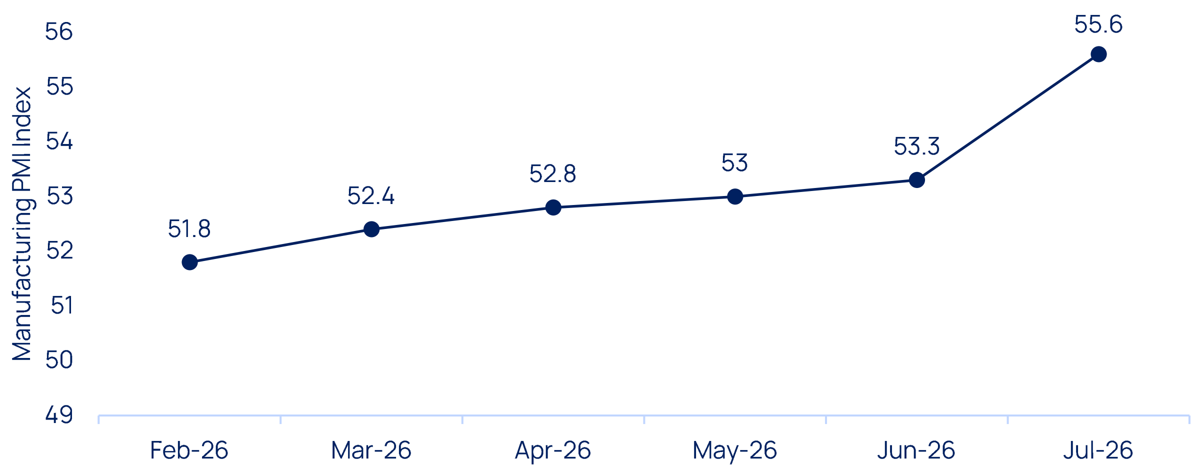
ISM Manufacturing hit a four-year high while Services Employment fell into contraction, a sharp sector divergence

The Institute for Supply Management reported on August 1, 2026 that its Manufacturing PMI rose to 55.6 in July, up from 53.3 in June, the strongest reading since May 2022 and a seventh consecutive month of expansion. A reading above 50 indicates sector growth.

Four days later, on August 5, 2026, ISM's Services PMI report showed a sharply different signal within the same broader survey: the Services Employment Index fell to 47.4 in July from 51.2 in June, moving back into contraction territory even as services new orders and business activity remained firm. That divergence, expanding manufacturing output alongside contracting services hiring, complicates any single narrative about the health of the US economy heading into the second half of 2026. Manufacturing's strength has been linked to continued business investment in artificial intelligence infrastructure, which has kept new orders elevated despite ongoing supply chain strain tied to conflict in the Middle East.

Services employment softness, meanwhile, aligns with broader signs of hiring caution across the economy this summer. For investors and corporates tracking sector-specific exposure, the gap between these two indices, both released within the same week, is the more informative data point than either reading in isolation.

Figure 1: ISM Manufacturing PMI



Source: Institute for Supply Management

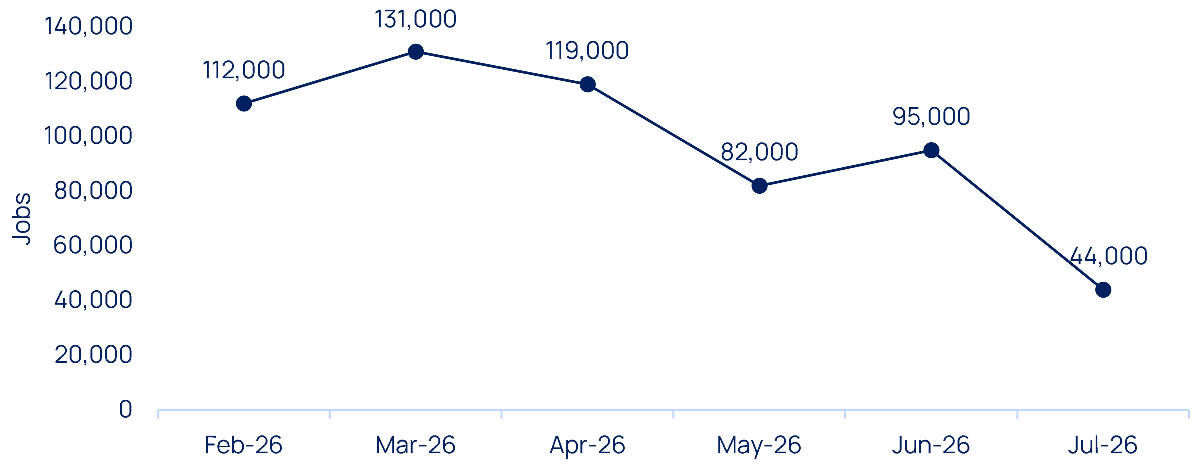
Hiring Slows Before Payrolls

ADP job growth hit a six-month low as JOLTS openings held flat ahead of Friday's jobs report

ADP Research reported on August 6, 2026 that private-sector employers added just 44,000 jobs in July, the smallest monthly gain in six months, missing the 75,000 consensus forecast and falling well below June's revised 95,000. One day earlier, on August 5, 2026, the Bureau of Labor Statistics reported that job openings were little changed at 7.4 million in June, down from a downwardly revised 7.5 million in May. Hires held steady at 5.3 million, while both the quits rate and layoffs rate remained unchanged, at 2.0% and 1.1% respectively. Together, the two releases reinforce a labor market pattern economists describe as low-hire, low-fire: employers are neither expanding headcount aggressively nor cutting staff at scale.

The Leisure and Hospitality sector recorded the sharpest month-over-month decline in hires, falling 87,000 between May and June, a 0.5 percentage point drop in that sector's hiring rate.

Figure 2: ADP Private Employment



Source: ADP Research

This data lands two days ahead of the Bureau of Labor Statistics' official July employment report, giving markets a preview of labor conditions heading into a release that will directly inform the Federal Reserve's September 15-16 policy meeting, particularly following the three-way dissent in favor of a rate hike at the Fed's July 29 decision.

Trade Deficit Narrows Sharply

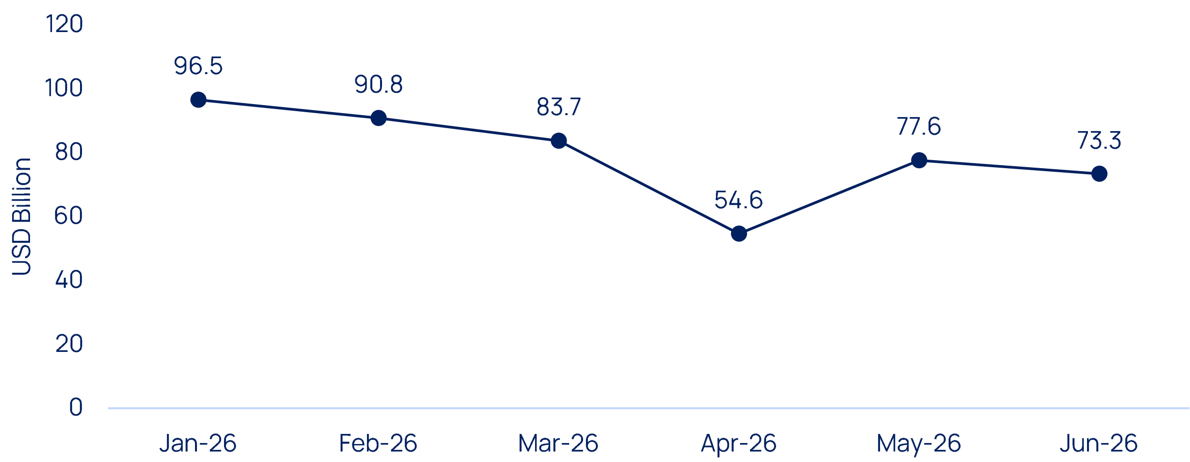
June's trade deficit fell to $73.3 billion, driven by weaker imports rather than stronger exports

The U.S. Census Bureau and Bureau of Economic Analysis reported on August 4, 2026 that the goods and services trade deficit narrowed to $73.3 billion in June, down $4.4 billion from a revised $77.6 billion in May. June exports totaled $314.7 billion, a decrease of $2.9 billion from May.

Imports totaled $388.0 billion, a decrease of $7.3 billion, meaning the narrower deficit reflected falling imports more than rising exports. The goods deficit alone decreased $3.9 billion to $102.1 billion, while the services surplus increased $0.5 billion to $28.8 billion. Year-to-date through June, the goods and services deficit has decreased $189.3 billion, or 33.8%, compared to the same period in 2025, with exports up $198.3 billion, or 11.7%, and imports up just $9.0 billion, or 0.4%. Import declines were concentrated in capital goods and consumer goods, particularly computers and pharmaceuticals.

For corporates managing cross-border supply chains and for investors assessing dollar-denominated trade exposure, the sharp divergence between export and import growth rates this year, roughly 11.7% versus 0.4%, signals a structural shift in trade flows rather than a single-month fluctuation, with implications for sectors dependent on imported capital equipment.

Figure 3: U.S. Trade Deficit



Source: Bureau of Economic Analysis

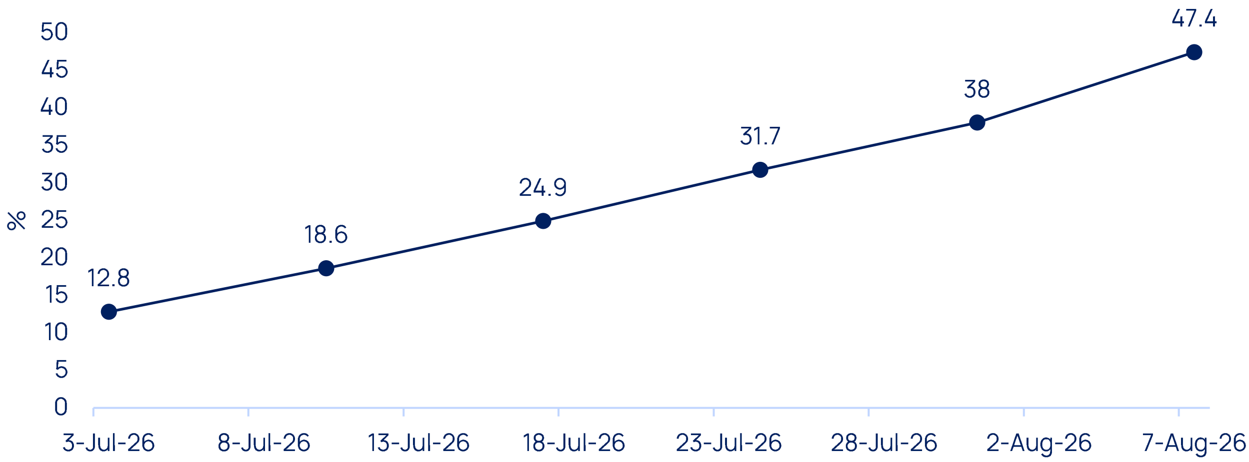
Earnings Surge Hides Concentration

Q2 earnings growth hit 47.4%, but Amazon and Alphabet alone account for nearly half that gain

As of July 31, 2026, with 61% of S&P 500 companies having reported second-quarter results, the index's blended earnings growth rate stood at 47.4%, up sharply from 38.0% the prior week and the highest year-over-year growth rate since Q2 2021's 91.6%. Two companies drove most of the acceleration. One reported earnings per share of $5.75 against a $1.82 estimate, boosted by a $53.4 billion pre-tax portfolio investment gain. Another reported earnings per share of $9.11 against a $2.88 estimate, boosted by a $98.0 billion gain on equity securities. Excluding these two companies, the S&P 500's blended growth rate falls to 28.8%, still a strong quarter but a materially different figure from the 47.4% headline.

Eight of eleven sectors are reporting double-digit year-over-year earnings growth, led by Energy at 135.3% and Communication Services at 109.8%. The aggregate earnings surprise for the index stands at 31.4%, the largest FactSet has recorded since it began tracking the metric in 2008.

Figure 4: Weekly Jobless Claims Edge Higher



Source: FactSet - S&P 500 EARNINGS SEASON UPDATE: JULY 31, 2026

For investors and portfolio managers, the gap between headline and ex-outlier growth rates this quarter, 47.4% versus 28.8%, underscores the importance of examining earnings composition rather than relying on index-level growth figures alone when assessing broad market valuation.

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