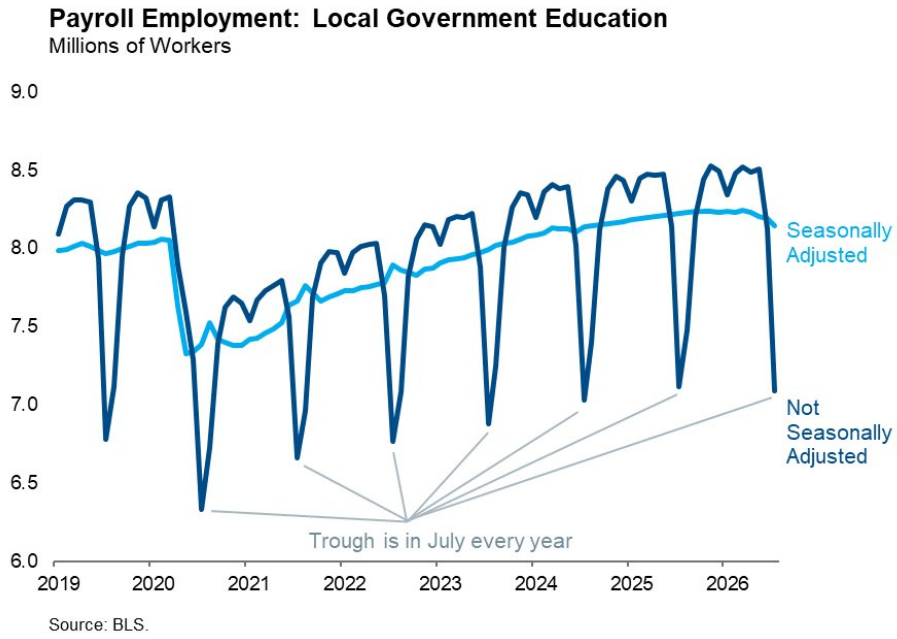
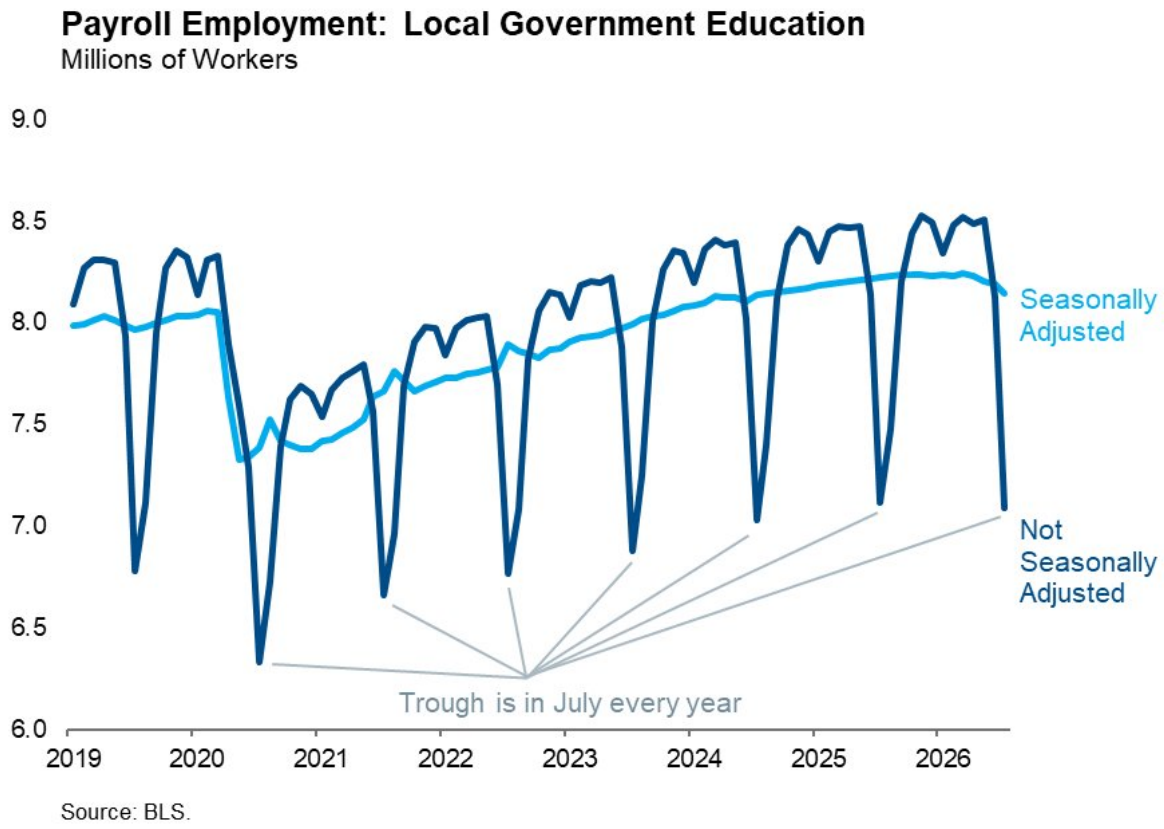
CHIEF ECONOMIST UPDATES

July Payrolls Report is a Win for the Hold and Hope Caucus

August 7, 2026
Author: Stephen Douglass



The July payrolls report printed below expectations and weakened the case for a rate hike at the September meeting. The U.S. economy lost 23,000 jobs in the month of July, the net result of a 30,000 increase in private payrolls and a 53,000 decline in government jobs. The decline in government payrolls was explained by local government education. This sector is one of the most seasonal in the labor market, as one might expect given the school calendar, and seasonal adjustment factors have been noisy since the pandemic. But even the not-seasonally-adjusted decline was larger than most years, so the July result could reflect a reduction in summer school attendance resulting from funding cuts to the Department of Education.



Leisure and hospitality shed jobs (possibly an early indication of a World Cup hangover), while healthcare exhibited strong growth once again. The one-month diffusion index declined for the third straight month and shows that 51.8% of industries created jobs in July. Payroll employment in the prior two months was also revised lower by 103,000, undercutting some of the labor market optimism from the springtime. Average hourly earnings rose by 0.05% in the month, the weakest rate of wage growth since April 2025, and the second weakest since the pandemic. The unemployment rate declined by a tenth of a percentage point to 4.1%. However, this was caused by a decline in the labor force participation rate, so it is not a positive sign for the labor market.

While inflation remains the Fed's primary focus, we believe this report reduces the likelihood of a rate hike in September. Those odds had been as high as 75% this week but fell to 45% after the print. With labor supply still constrained by immigration policy, low or negative payroll prints are to be expected. We still believe the labor market is stable, but today's print moves the needle slightly towards the risk of a more concerning slowdown and therefore increases the chance that a near-term rate hike might later be regretted by the FOMC. The gap between the July and September FOMC meetings is always the longest of the year, so the Fed will get to see one additional payrolls print and two CPI prints before their next meeting.

This report is a win for what we're calling the Hold and Hope Caucus, those FOMC members who favor holding rates steady while hoping that the war concludes soon and allows energy prices to normalize without causing a broader inflation problem. We believe that this group presently includes both Chairman Warsh and a majority of FOMC voters. While a prolonged Iran war could sustain high energy prices and cause the Fed to lose patience, we maintain our modal expectation that the Fed will leave rates unchanged this year and the next move will be a cut in March 2027.

Disclosure Information

This material has been prepared by NISA Investment Advisors, LLC (“NISA”). This material is subject to change without notice. This is for information and illustrative purposes only. It is not, and should not be regarded as “investment advice” or as a “recommendation” regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) NISA is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to NISA that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. NISA does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. NISA shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of NISA except for your internal use. This material is being provided to you at no cost and any fees paid by you to NISA are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of NISA and (ii) the terms contained in any applicable investment management agreement or similar contract between you and NISA.