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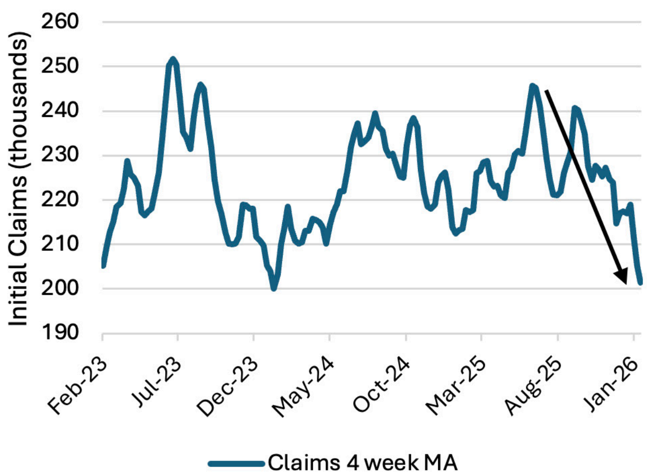
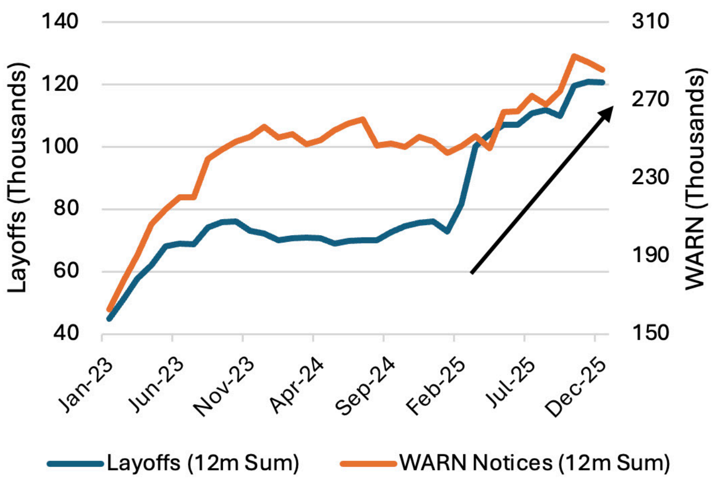
## Currently, Claims Are the Signal; Layoffs Are the Noise

- **Historically, layoffs and jobless claims have provided a reliable real time signal of earnings stress.** Companies typically turn to job cuts as a last resort, usually when revenue is falling short of plan and management confidence in near term demand deteriorates.
- A broad based and persistent increase in claims has typically preceded downward earnings revisions, margin compression, and equity multiple contraction. By contrast, when claims remain contained, firms are generally able to defend profitability without sacrificing labor, and earnings risk tends to stay manageable—even in periods of elevated uncertainty or slowing growth.
- Why claims matter, especially now. Even excluding the Technology sector, S&P 500 valuations are near record highs, leaving little room for multiple expansion and, as such, earnings need to do the heavy lifting. Outside the AI supply chain, demand has become more discretionary, making volume growth more difficult. Up to now, companies have managed through these pressures via a combination of pricing, productivity enhancements, and hiring restraint. Claims can act as a canary for when cost control becomes reactive. Once firms are forced to cut labor broadly, equities tend to react quickly, not gradually.
- Currently, claims data indicate little cause for concern; in fact, they suggest a relatively healthy earnings backdrop. In contrast, layoff announcements have risen to concerning levels.
- Layoff announcements can provide an early warning signal, and we monitor them closely. However, the 2025 surge in Challenger and WARN data appear to be more noise than signal. A spike in early 2025 was composed mostly of Federal workers. Remove those announced layoffs, and the upward trend disappears. Importantly, it was not a broad, cyclical wave of private sector layoffs that would typically raise earnings concerns. The fact that these government layoffs failed to show up in jobless claims suggests that most of these workers either found jobs or left the labor force.
- Companies do appear to be reshaping workforce composition, but not in response to collapsing demand. The macro backdrop is one of uncertainty and more selective spending. In response, companies are reducing or eliminating roles with lower marginal productivity and using attrition, buyouts, and hiring restraint rather than involuntary layoffs. Firms expect productivity gains to offset slower growth, and that was true in 2025.

### Weekly Jobless Claims Data




### Layoff Announcements




*Source: Bloomberg. 3 years of data through Jan 2026 for claims and Dec 2025 for layoffs. Layoffs based on the Challenger Report. The Worker Adjustment and Retraining Notification (WARN) Act requires larger employees to notify affected workers at least 60 days before a potential mass layoff.*

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