



Jobs Report Masks a Still-Resilient Economy

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The June employment report's headline readout was softer than expected, but the details reinforce my view that the U.S. economy remains on a stable footing. Headline payroll growth disappointed, yet the previous two months—which had surprised to the upside—were revised lower, bringing hiring back toward a pace that is far more consistent with a mature expansion. Rather than signaling a sharp deterioration in labor demand, the report largely erased what had appeared to be an unsustainably strong burst of hiring earlier this spring.

The more surprising development was the sharp decline in labor force participation. Excluding the extraordinary distortions during the pandemic, participation has fallen to its lowest level in roughly half a century. According to the Household Survey, employment declined substantially, but the unemployment rate also fell because an unusually large number of workers exited the labor force altogether. Household Survey data are inherently volatile, so I hesitate to draw sweeping conclusions from a single month, but this bears close watching. The fact that most of the decline was among males ages 25–34 admits the possibility that this is a data aberration. The broader labor market, however, continues to look remarkably steady. Weekly jobless claims remain well-behaved, the JOLTS report still points to healthy labor demand, and there is little evidence elsewhere that the economy is slipping into recession.

The most important development for monetary policy continues to be energy prices. WTI crude has fallen to roughly \$67 per barrel, commodity prices have largely surrendered their earlier gains, and shelter inflation remains subdued as rent growth flattens and home price appreciation slows dramatically. Gasoline prices have not declined as quickly because refining margins remain unusually elevated, reflecting refining capacity taken offline globally rather than rising crude prices. If those crack spreads normalize, they should provide another meaningful source of disinflation in the months ahead.

I continue to believe the Federal Reserve will not need to raise interest rates again this year if oil prices remain near current levels. The dot plot reflects past data, not where inflation is headed. With commodity inflation retreating and shelter inflation continuing to moderate, the underlying inflation backdrop is improving—consistent with the message Warsh delivered during the Q&A last week. While shocks can always alter the outlook, the case for additional tightening has weakened considerably.

Equity markets continue to demonstrate impressive resilience despite extraordinary internal volatility. The broad indexes have remained relatively stable, but the rotation beneath the surface has been unusually violent. Value had dramatically outperformed growth only to see growth reverse sharply within days. Similar swings have occurred within technology itself, where semiconductor memory companies, AI infrastructure providers, and hyperscalers have traded in dramatically different directions. Much of this reflects speculation surrounding AI spending, options activity, and changing expectations about future compute demand rather than a deterioration in overall market fundamentals.

The continued surge in AI investment reinforces my long-held belief that artificial intelligence is fundamentally a productivity story, not simply a cost-cutting story. Recent research showing stronger employment growth among firms aggressively adopting AI supports that view. Companies embracing these technologies are expanding because they are becoming more competitive. Firms that fail to invest are the ones most at risk. Higher margins for the earliest AI leaders do not imply that later adopters should reduce investment. Competitive markets force companies to adopt productivity-enhancing technologies even if the gains are eventually shared with customers through lower prices. That is precisely how major technological revolutions have historically raised living standards while supporting long-run economic growth.

Taken together, the latest economic data reinforce a constructive outlook. Labor market volatility should not distract investors from an economy that remains fundamentally healthy. Inflation pressures continue to ease, particularly if energy prices remain contained, and the Fed is becoming increasingly likely to stay on hold. Against that backdrop, the long-term investment case for equities—and especially for companies driving the next wave of productivity through artificial intelligence—remains firmly intact.

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Professor Jeremy Siegel is Senior Economist to WisdomTree. This material contains the current research and opinions of Professor Siegel, which are subject to change, and should not be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. The user of this information assumes the entire risk of any use made of the information provided herein. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.