William Blair

Equity Research
Macroeconomics

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Richard de Chazal, CFA
rdechazal@williamblair.com
+44 20 7868 4489

Louis Mukama
lmukama@williamblair.com
+1 312 364 8867

Economics Weekly

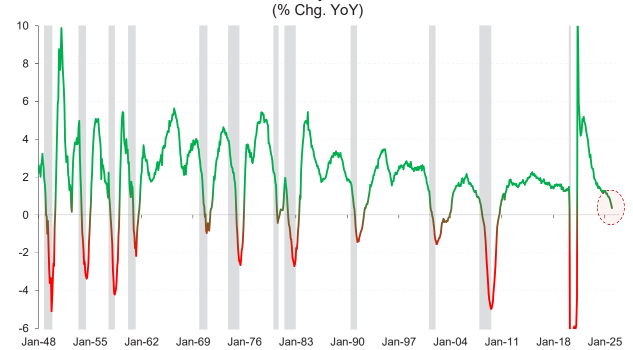
The Labor Market May Not Be Quite as Weak as Believed

Over the last two quarters, the Fed has shifted its emphasis away from the inflation half of its dual mandate and back toward the employment side. It is taking the view that inflation will continue to decelerate, but employment growth is starting to more tangibly slow and further rate cuts were needed to shore up growth and prevent further deterioration. In our view, while there is a clear deceleration in job growth taking place, it looks to be driven as much, if not more, by supply-side dynamics, as opposed to what would be more concerning demand ones. **Following the release of last Friday's December employment report in this *Economics Weekly,* we reexamine the labor market data and the current market narrative of an unfolding deceleration in employment growth that is putting the economy on the verge of a recession.**

To What Extent Is Job Growth Slowing?

The U.S. economy has gone from exceptionally strong rates of payroll growth over the last few years to a sharp deceleration seemingly overnight. In 2023 nonfarm payrolls grew by 2.5 million, in 2024 by 2.0 million, and in 2025 by just 584,000, with the average monthly change dropping to 69,000 from 168,000 in 2024. Meanwhile, the annual rate of change in nonfarm payroll growth has slowed to just above zero—a rate below zero has historically been consistent with the onset of recessions (exhibit 1).

Exhibit 1
Nonfarm Payroll Growth
(% Chg. YoY)



Source: BLS, William Blair Equity Research

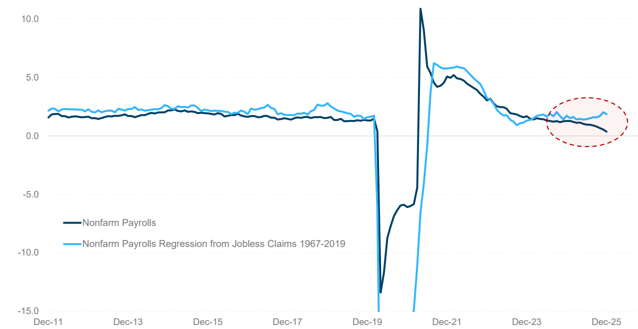
But has the labor market actually deteriorated as much as the establishment survey payroll data seem to be telling us?

Mixed Signals

The fact is that the weekly initial jobless claims data—which were not impacted by the shutdown and do not suffer from data revisions—have remained remarkably low and stable. The data are showing rates that are far from those that might normally raise eyebrows.

If we run a single factor regression of annual rates of change for jobless claims and payrolls from 1967-2019 (just before the pandemic) with a correlation coefficient of 64%, it shows that payroll growth would have increased by 2.3 million in 2025, rather than the reported 584,000 (exhibit 2).

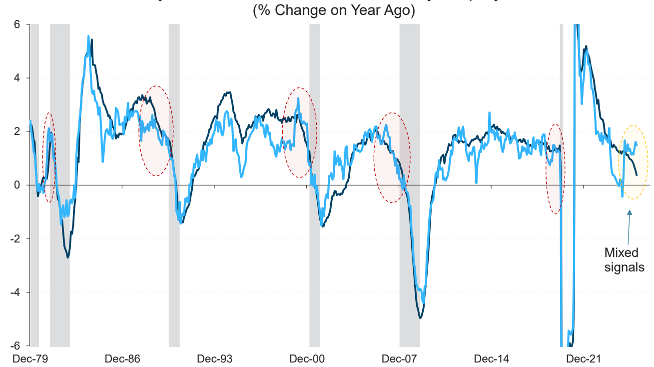
Exhibit 2
Annual Growth in Total Nonfarm Payrolls vs Growth in Payrolls from Initial Jobless Claims Regression



Sources: Bureau of Labor Statistics, William Blair Equity Research

Moreover, employment growth in the household survey of employment has similarly shown no signs of moderation. In fact, there has been a slight acceleration in hiring (exhibit 3).

Exhibit 3
Nonfarm Payroll Growth vs Household Survey Employment Growth
(% Change on Year Ago)



Sources: Bureau of Labor Statistics, William Blair Equity Research

Historically, investors have tended to view the establishment (nonfarm payroll) survey as the better gauge of employment growth. Not only is the sample size much larger than the household survey, but it also involves sampling companies, not "knocking on doors" as the household survey does. As such, the establishment data is less volatile and less skewed by factors such as demographic shifts (e.g., changes in immigration) or misperceptions around what constitutes being employed by the general public.

Companies also normally count undocumented or illegal workers as employed on their books. This is because while workers are required to present their work permits, employers are not obligated to authenticate their documents beyond a "reasonable" inspection. It is also more detrimental for the employer to be caught hiring illegal workers, not declaring them, and not paying tax on their labor, than it is when including them on the books but "finding out" later that their papers didn't match required standards. As a result, the establishment payroll data tend to better capture actual employment.

However, this survey comes with its own set of measurement issues; it is an incomplete sample taken each month, with an imputed births-deaths model to account for new or closing businesses. This is then reconciled with broader tax collection data at the end of each year.

Unfortunately, the monthly mismeasurement from this model in recent years has been substantial; establishment survey growth data were revised down by 818,000 jobs in the year to March 2024 and by 911,000 in the year to March 2025. In his last post-FOMC press conference, Chair Powell stated that the Fed believes that payrolls in the most recent few months are likely being overstated by approximately 60,000 jobs per month—i.e., the Fed would view December's headline increase of 50,000 as a decrease of 10,000.

What Is Driving the Slowdown?

On the supply-side, the two biggest factors contributing to the growth slowdown are the sharp reversal in net immigration and the steady exit of retiring baby boomers from the labor force.

Brookings estimates that the U.S. experienced a negative net migration flow in 2025 for the first time in many decades. This follows very substantial annual net inflows of 2 million-3 million in the few years up to 2024. This reduction in the supply of labor needs to be taken into account when assessing the pace of monthly payroll growth, as it reduces the breakeven level of growth needed to maintain a stable unemployment rate—fewer inflows of people mean fewer jobs are needed.

Whereas between 2022 and 2024 roughly 150,000 to 200,000 jobs were required to stabilize the unemployment rate (the number of unemployed/labor force), in the second half of 2025 this breakeven rate fell to just 20,000 to 50,000. Brookings estimates that in 2026 this will decline further, reaching a lower range estimate of -20,000 to 20,000 and an upper range of 10,000 to 50,000.

This would imply that even if we start to see some negative nonfarm payroll prints in the coming months, they might still be compatible with a growing economy and an unchanged unemployment rate—and as such, not necessarily something that the Fed needs to aggressively respond to.

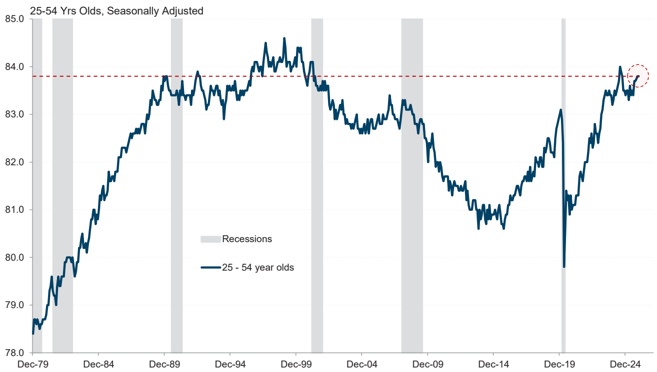
The Market Is Now Focusing on the Unemployment Rate

Due to these substantial and rapid supply-side changes, financial market participants have quite clearly decided that the best way to cut through all of these measurement issues is to effectively ignore the payroll numbers and focus entirely on the unemployment rate. This rate rose from a low of 3.4% in 2023 to a November peak of 4.5%, before dipping back to 4.4% in December.

According to the Sahm Rule, such an increase has just about always been associated with the onset of a recession. But that clearly is not happening today. GDP growth in the third quarter increased 4.3% (including a 3.5% increase in consumer spending), and the Atlanta Fed's GDPNow index is pointing to a 5.3% increase in the fourth quarter (even subtracting the impact from trade, that is a stunning figure).

We think a couple factors may help to explain this new scenario. First, the core members of the labor market—i.e., prime-aged workers 25-54 years old—are still fully employed. Their participation rate has been stable at a high level, as depicted in exhibit 4. Such a high level of participation is inconsistent with a weak labor market, i.e., when companies would be looking to shed labor.

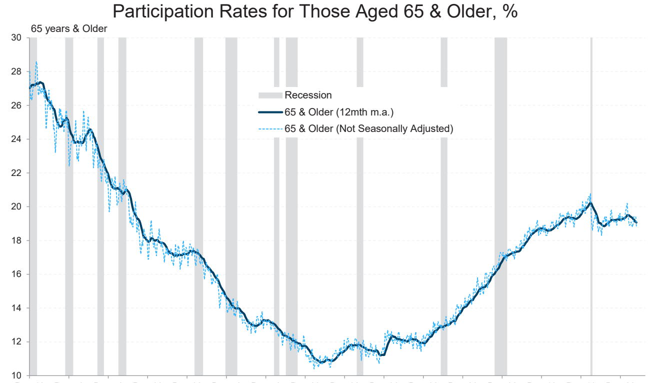
Exhibit 4
Labour Force Participation Rate for Prime Age Workers, %



Source: Bureau of Labor Statistics, William Blair Equity Research

Second, while baby boomers are retiring and pushing down labor force growth and participation rates (exhibit 5), they are also moving out of employment by choice. They have good balance sheets, assets that have been steadily appreciating for years now, and savings that are earning close to 4% just by sitting in money market funds. Furthermore, as they leave the labor force of their own volition, they are often freeing up space for younger workers to enter and step into their shoes.

Exhibit 5
Participation Rates for Those Aged 65 & Older, %

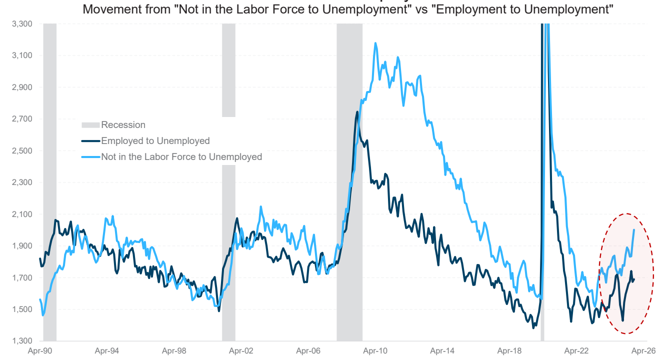


SourceS: Bureau of Labor Statistics, William Blair Equity Research

More Workers Have Been Coming Off the Sidelines to Look for Work

Another factor that has been pushing the unemployment rate higher—but for good reasons—has been an increase in the share of workers stepping off the non-participation labor force sidelines. These individuals are returning to the labor force to actively search for work (and thereby being reclassified as unemployed), as opposed to the ranks of unemployed rising due to workers moving from employment to unemployment (exhibit 6). This is encouraging and consistent with at least some rising demand for labor—likely more than what the market seems to believe.

Exhibit 6
Flows Into Unemployment
Movement from "Not in the Labor Force to Unemployment" vs "Employment to Unemployment"



Sources: Bureau of Labor Statistics, William Blair Equity Research

Small Businesses Have a Labor Shortage Problem

The rising flow of workers back into the labor force is also consistent with what we are hearing from some other surveys such as anecdotal data from this week's Fed Beige Book, and more specifically from the more cyclical end of the employment spectrum, i.e., small businesses.

For example, the latest December release of the NFIB's small business survey included the following quotes from respondents:

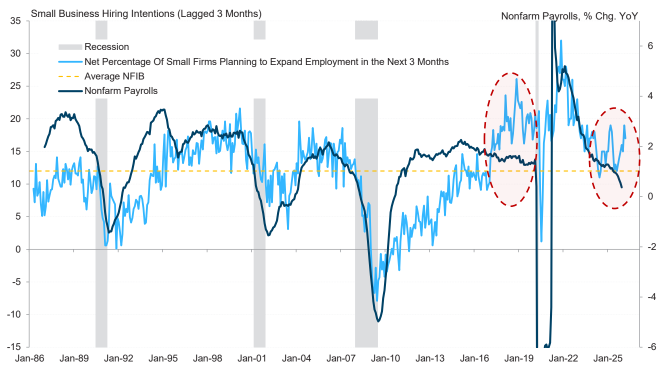
> *We are unable to find anyone willing to work. We have to pass on jobs because we do not have enough employees. – Manufacturing, TN*
>
> *We are a niche business, requiring highly skilled employees. We lost three and are struggling to meet customers' expectations. Most of our work is custom fabrication of vehicles, including engine swaps, custom paint and body modifications. Very difficult to find and retain people with these specialized skills. – Services, TX*
>
> *Businesses that find a way to improve the number of skilled employees and maintain that aspect of business will be able to exceed expectations they set for themselves. The construction industry is lacking currently with skilled numbers of employees and the future looks worse. This holds back any possibility of a small business expansion, simply*

because there is a lack of people to get them there. – Construction, MO

Qualified applicants? Where are they? – Retail, MO

This sentiment is quite similar to what we were hearing back in 2016-2019, when the labor market was also exceptionally tight, and smaller companies were raising their hiring intentions while similarly finding it difficult to find workers (exhibit 7).

Exhibit 7
Small Business Hiring Intentions vs Nonfarm Payroll Annual Growth, %



Source: NFIB, Bureau of Labor Statistics , William Blair Equity

Is Productivity Really a Problem?

Economists have spent the last two decades writing volumes on the "productivity puzzle," i.e., secular stagnation, what was causing it, and what was the best way to fix it. However, now that we actually seem to be at the start of a genuine productivity boom, we find many of those same economists complaining that it's not the right kind of productivity boom—i.e., the one that brings jobs with it. Some economists are even effectively arguing that we should put a halt to the whole thing (e.g., let's get rid of the tractors and put the horse and plow back in the fields).

At the moment, most surveys on AI use would suggest that it is so far having only a limited impact on the labor market. Wednesday's Beige Book, for example, noted that for most companies, "AI's current impact on employment was limited, with more significant effects anticipated in the coming years rather than immediately." Rather, most of the gains we are seeing today are likely due to capital deepening decisions taken in the years immediately following the pandemic, when workers were very hard to find. This does not mean that we should not expect AI-related job losses or friction unemployment in the future.

As we discussed in our Economic Outlook for 2026, strong productivity and rising profit margins might be termed a high-class problem, and they are only a problem if workers don't reap any of the rewards. This was exactly what happened in the early years of the industrial revolution—the so-called "Engels' pause"—when it was the owners of capital who kept the profits while the workers remained impoverished. Exactly how this plays out today will bear watching closely; however, institutional frameworks and workers' rights have significantly evolved since the late 1700s.

Conclusion

The Fed and investors are almost entirely focused on the employment side of the Fed's dual mandate and are paying less attention to the inflation side of the mandate. They believe that employment growth is slowing sharply, and there is a growing risk of recession. Given what we view as the nature of employment, we believe this is less of a risk today than might have been the case in the recent past.

In our view, while growth in employment is slowing, the weakness seems to be more related to supply-side developments (an aging population and reduced immigration) than a sharp contraction in demand.

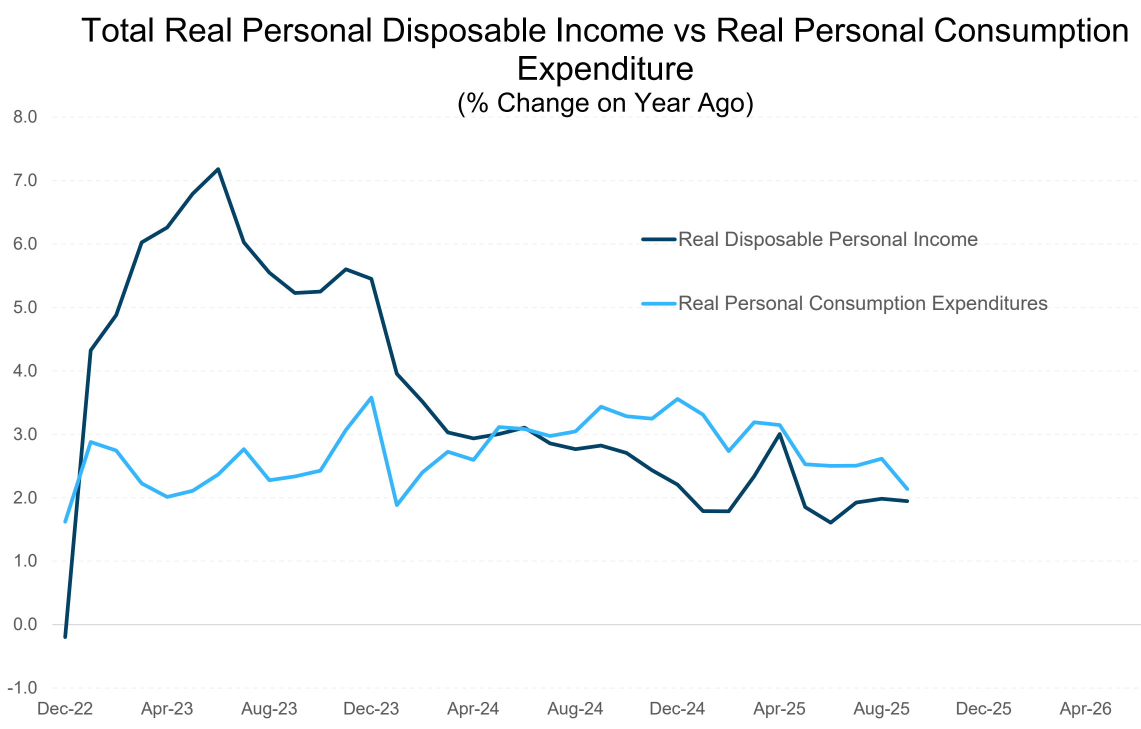
In fact, many small businesses (who tend to be far more sensitive to the economic cycle than the large ones) are increasing their hiring plans and finding that worker shortages are becoming their biggest constraint, rather than weak sales. Where demand has declined, it has in part been due to notable uncertainty about the economic outlook. Undoubtedly, some of that weakness has also been related to stronger productivity growth, which is arguably more of a high-class problem than faltering consumption and falling profit margins (both of which have so far held up very well). Looking forward, as AI does start to play a greater role in lifting productivity growth in the coming years, policymakers will have to find ways to balance the benefit with what are likely to be higher levels of friction unemployment and worker displacement.

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
21 Jan	10:00 a.m.	Index of Leading Economic Indicators (Dec)	-0.3%	NA	NA	
22 Jan	8:30 a.m.	GDP (Q3 Final Revision)	4.3%	4.3%	4.3%	
22 Jan	8:30 a.m.	Personal Income (Nov)	0.4%	NA	0.3%	
		Personal Spending	0.5%	NA	0.3%	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Personal Income



Sources: Bureau of Economic Analysis, William Blair Equity Research

Economic Scorecard

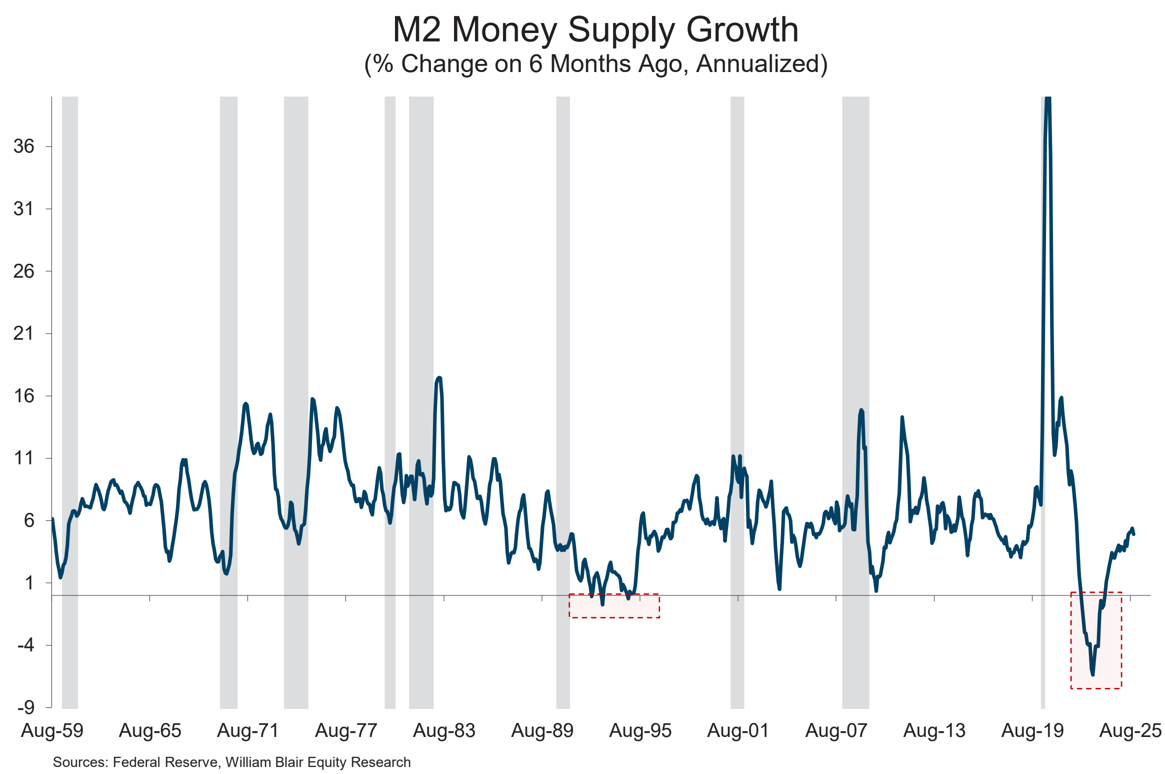
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

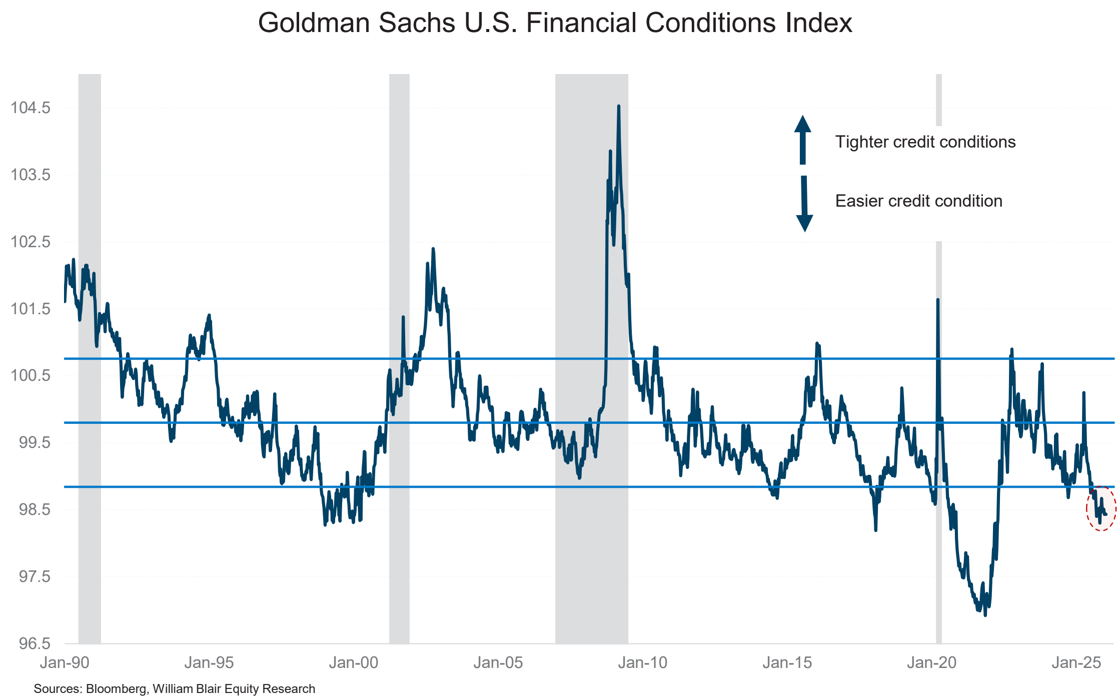
	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Growth																			
US Leading Indicators	-4.7	-4.6	-4.3	-3.7	-3.0	-3.0	-2.7	-3.0	-3.6	-4.3	-3.9	-3.9	-3.4	-3.4	-3.3				
US Coincident Indicators	1.7	1.7	1.6	1.6	1.3	1.7	1.5	1.5	1.8	2.0	1.4	1.4	1.6	1.5	1.4				
US Lagging Indicators	1.0	0.8	0.3	0.1	0.0	0.1	-0.1	0.1	-0.1	-0.2	0.7	0.4	0.4	0.5	1.1				
Consumer																			
Total Retail Sales	3	1.8	2	3.2	3.9	4.6	4.6	3.9	5.1	5	3.4	4.4	4.1	5	4.1	3.3	3.3		
Personal Income	5.6	5.4	5.3	5.5	5.3	5.3	5	5	5.2	5.6	4.5	4.3	4.6	4.8	4.8	4.8			
Real Disposable Personal Income	2.9	2.8	2.8	2.7	2.4	2.2	1.8	1.8	2.3	2.8	1.5	1.2	1.5	1.6	1.5	1.5			
Real Personal Consumption	3	3	3.4	3.3	3.2	3.6	3.3	2.7	3.2	3.1	2.5	2.5	2.6	2.8	2.4	2.4			
Personal Saving Rate (%)	5.3	5.2	4.8	5	4.9	4.3	5.1	5.2	5.1	5.5	4.9	4.6	4.3	4.1	4	4			
Consumer Confidence (Conference Board)**	101.9	105.6	99.2	109.6	112.8	109.5	105.3	100.1	93.9	85.7	98.4	95.2	98.7	97.8	95.6	95.5	92.9	89.1	
Employment																			
Employment Growth	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.2	1.1	1.1	1.0	1.0	1.0	0.9	0.8	0.7	0.5	0.4	
ASA Temporary Staffing Index	-12.5	-12.2	-12.0	-9.5	-6.6	-21.0	-8.2	-7.5	-8.7	-6.4	-5.8	-5.3	-0.8	-0.9	0.8	1.5	4.5	7.3	
ISM Employment Index Manufacturing*	43.6	45.8	44.6	44.8	48.1	45.4	50.3	47.6	44.7	46.5	46.8	45	43.4	43.8	45.3	46	44	44.9	
ISM Employment Index Services*	51	49.6	48.2	52.2	50.9	51.3	52.3	53.9	46.2	49	50.7	47.2	46.4	46.5	47.2	48.2	48.9	52	
Unemployment Rate, %	4.2	4.2	4.1	4.1	4.2	4.1	4	4.2	4.2	4.2	4.3	4.1	4.3	4.3	4.4	4.4	4.5	4.4	
Average Hourly Earnings	3.6	4	3.9	4.1	4.2	4	3.9	3.9	3.9	3.8	3.8	3.7	3.9	3.8	3.7	3.7	3.6	3.8	
Initial Jobless Claims (avg. wkly. chg. '000s)	237	230	225	236	219	222	218	227	223	226	235	241	221	231	235	225	215	219	
Jop Openings	-12.8	-17.6	-23.5	-10.9	-7.3	-12.5	-8.3	-11.4	-11.0	-2.9	-2.4	-0.7	-3.9	-5.5	7.8	-2.2	-11.0	-4.8	
Layoff Announcements	9.2	1	53.4	50.9	26.8	11.4	-39.5	103.2	204.8	62.7	47	-1.6	139.8	13.3	-25.8	175.3	23.5	-8.3	
Housing Market																			
Housing Starts	-13.4	5.6	-1	-1.2	-14.5	-0.5	-1.7	-4	3.3	0.9	-2.6	4.1	12.3	-7.2	-3.8	-7.8			
New Home Sales	1.1	7.4	5.3	-8.8	10.7	11.7	-2.8	-2.4	-4.6	-1.8	-5.7	-1.3	-10	2.6	2.9	18.7			
Existing Home Sales	-2.5	-3.7	-3.0	3.1	6.7	9.7	2.3	-0.9	-2.4	-2.0	-0.5	0.0	0.8	1.8	3.9	2.0			
Median House Price (Existing Homes)	-1.6	-8	-1.2	2.1	-7.4	1.1	-0.2	-1.4	-5.4	-0.4	2.5	-1.2	-7.4	3.5	-3.6	-8			
Existing Homes Inventory (Mths' supply)	3.7	3.9	3.9	3.9	3.8	3.7	3.9	3.8	4.2	4.3	4.3	4.4	4.3	4.3	4.4				
New Homes Inventory (Mths' supply)	7.9	8.2	7.9	9.3	8.7	8.2	9	9.3	9.2	8.5	9.6	9.1	9.3	8.3	7.9				
NAHB Homebuilder Sentiment*	41	39	41	43	46	46	47	42	39	40	34	32	33	32	32	37	38	39	
Inflation																			
Consumer Price Index	2.9	2.5	2.4	2.6	2.7	2.9	3	2.8	2.4	2.3	2.4	2.7	2.7	2.9	3	3	2.7		
CPI Less-food & energy	3.2	3.2	3.3	3.3	3.3	3.2	3.3	3.1	2.8	2.8	2.8	2.9	3.1	3.1	3	3	2.6		
Producer Price Index	2.4	2.1	2.1	2.8	2.9	3.5	3.8	3.4	3.2	2.4	2.7	2.4	3.2	2.7	3	2.8	3		
PPI Less-food & energy	2.6	2.8	3.3	3.6	3.4	3.7	3.9	3.7	3.8	3.1	3.2	2.7	3.5	2.9	2.9	2.9	3		
PCE Price Index	2.6	2.4	2.3	2.5	2.6	2.7	2.6	2.7	2.4	2.3	2.5	2.6	2.6	2.7	2.8	2.8			
PCE Prices Less-food & energy	2.8	2.9	2.8	3.0	3.0	3.0	2.8	3.0	2.7	2.6	2.8	2.8	2.9	2.9	2.8	2.8			
Business Activity - US																			
Industrial Production	-0.9	-0.4	-1.2	-1.0	-1.6	-0.3	0.9	0.8	0.6	0.9	0.1	0.6	1.9	1.2	1.9	2.2	2.5		
New Cap Gds Orders less-aircraft & parts	-0.6	-1.8	0.5	0.2	-1.1	1.9	3.3	-0.9	2.2	0.5	2.2	4.5	4.4	2.5	5.3	6.4	6.4		
Business Inventories	1.6	2.1	2.1	1.9	2.2	2.6	1.9	2.5	2.3	2.5	2.2	1.7	1.6	1.4	1	1.2	0		
ISM Manufacturing PMI*	47	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49	48.7	48.5	49	48	48.7	49.1	48.7	48.2	47.9	
Markit US Manufacturing PMI*	49.6	47.9	47.3	48.5	49.7	49.4	51.2	52.7	50.2	50.2	52	52.9	49.8	53	52	52.5	52.2	51.8	
ISM Services Index*	51.4	51.6	54.5	55.8	52.5	54	52.8	53.5	50.8	51.6	49.9	50.8	50.1	52	50	52.4	52.6	54.4	
Markit US Services PMI*	55	55.7	55.2	55	56.1	56.8	52.9	51	54.4	50.8	53.7	52.9	55.7	54.5	54.2	54.8	54.1	52.5	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	43.2	42.4	40.6	43	43	42.5	45	46.5	48.3	48.4	48.3	49	49.1	49.8	49.5	49.6	48.2	47	
Japan Manufacturing PMI Jibun Bank*	49.1	49.9	49.7	49.2	49	49.6	48.7	49	48.4	48.7	49.4	50.1	49	49.7	48.6	48.2	48.7	50	
Caixin China Manufacturing PMI*	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8	51.2	50.4	48.3	50.4	49.5	50.5	51.2	50.6	49.9	50.1	
China Manufacturing PMI*	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49	49.5	49.7	49.3	49.4	49.8	49	49.2	50.1	
UK Manufacturing PMI Markit/CIPS*	52.1	52.5	51.5	49.9	48	47	48.3	46.9	44.9	45.4	46.4	47.7	48	47	46.2	49.7	50.2	50.6	
France Manufacturing PMI Markit*	44	43.9	44.6	44.5	43.1	41.9	45	45.8	48.5	48.7	49.8	48.1	48.2	50.4	48.2	48.8	47.8	50.7	
Currencies*																			
Euro (EUR/USD)	-1.6	1.9	5.3	2.9	-2.9	-6.2	-4.2	-4.0	0.2	6.2	4.6	10.0	5.4	5.8	5.4	6.0	9.7	13.4	
Renmimbi (USD/CNY)	1.2	-2.3	-3.8	-2.7	1.6	2.8	1.1	1.2	0.5	0.4	-0.6	-1.4	-0.4	0.6	1.5	0.0	-2.4	-4.3	
Yen (USD/Yen)	5.4	0.4	-3.8	0.2	1.1	11.5	5.6	0.4	-0.9	-9.3	-8.4	-10.5	0.5	0.6	3.0	1.3	4.3	-0.3	
Sterling (GBP/USD)	0.2	3.6	9.6	6.1	0.9	-1.7	-2.3	-0.4	2.3	6.7	5.6	8.6	2.7	2.9	0.5	2.0	3.9	7.7	
Canadian $ (USD/CAD)	4.7	-0.1	-0.4	0.4	3.3	8.6	8.2	6.5	6.3	0.2	0.8	-0.5	0.3	1.8	2.9	0.5	-0.2	-4.6	
Mexican Peso (USD/MXN)	11.2	15.8	13.0	11.0	17.2	22.7	20.1	20.5	23.6	14.4	14.3	2.3	1.4	-5.4	-7.0	-7.4	-10.2	-13.5	
US Equities																			
S&P 500	20.3	25.3	34.4	36.0	32.1	23.3	24.7	16.8	6.8	10.6	12.0	13.6	14.8	14.4	16.1	19.9	13.5	16.4	
S&P 400 Midcap	13.5	16.9	24.8	30.9	31.3	12.2	18.6	7.1	-4.2	-0.3	0.6	5.9	1.7	5.3	4.5	4.8	-1.7	5.9	
S&P 600 Smallcap	12.0	15.1	23.5	27.6	30.9	6.8	14.5	4.5	-5.0	-3.6	-3.4	2.8	-6.3	1.8	1.9	3.8	-4.0	4.2	
Russell 2000	12.5	16.7	24.9	32.1	34.6	10.0	17.5	5.3	-5.3	-0.5	-0.2	6.2	-1.9	6.7	9.3	12.9	2.7	11.3	

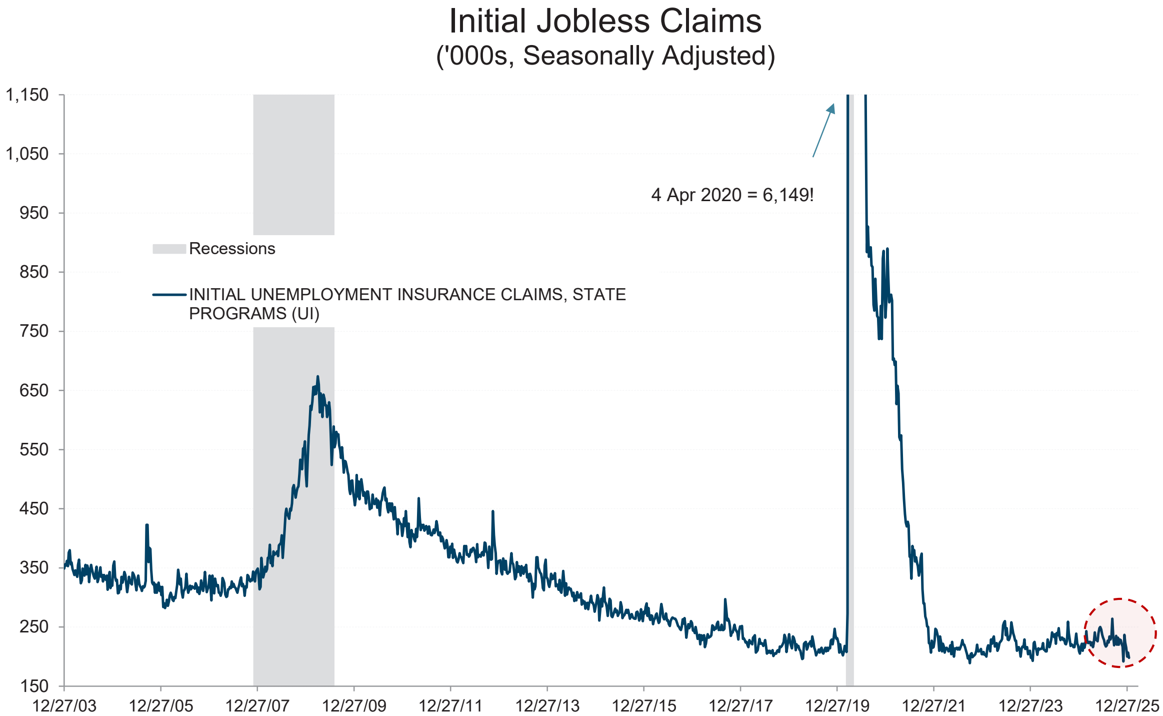
* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

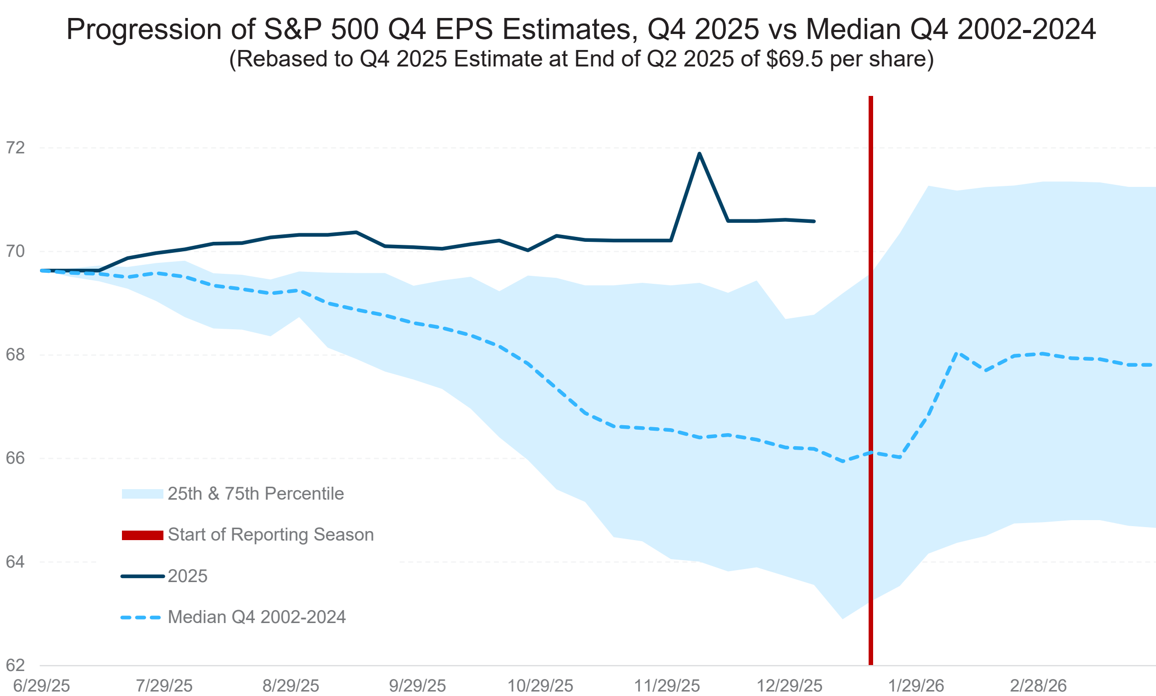
Other Economic Indicators





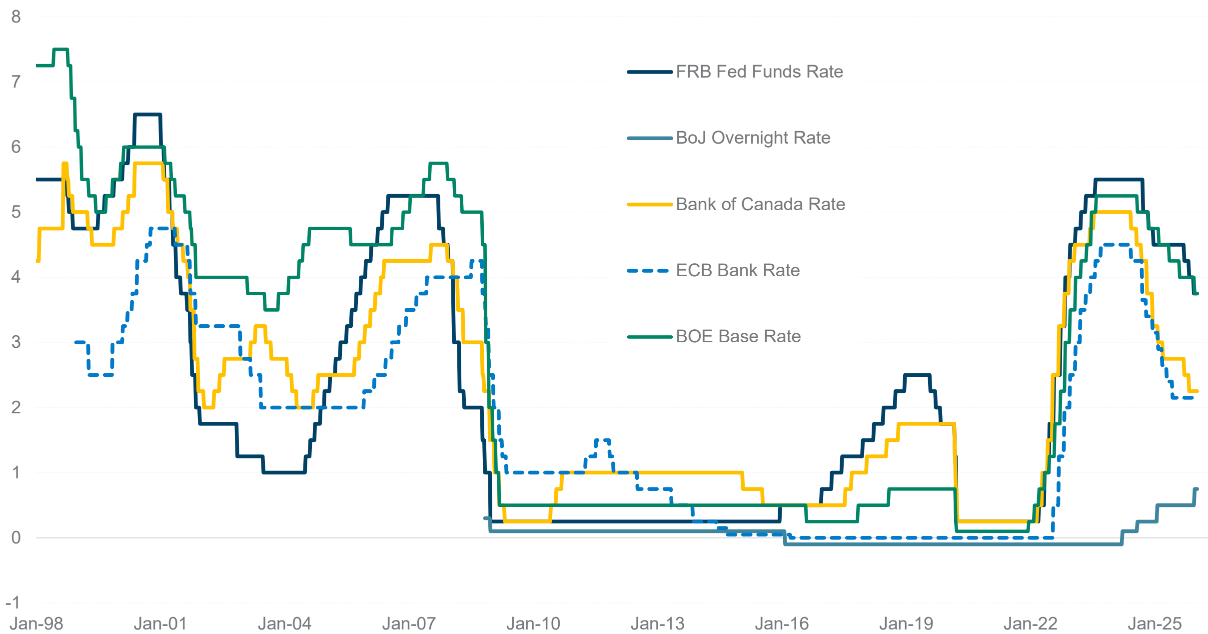


Source: Department of Labor, Bloomberg, William Blair Equity Research



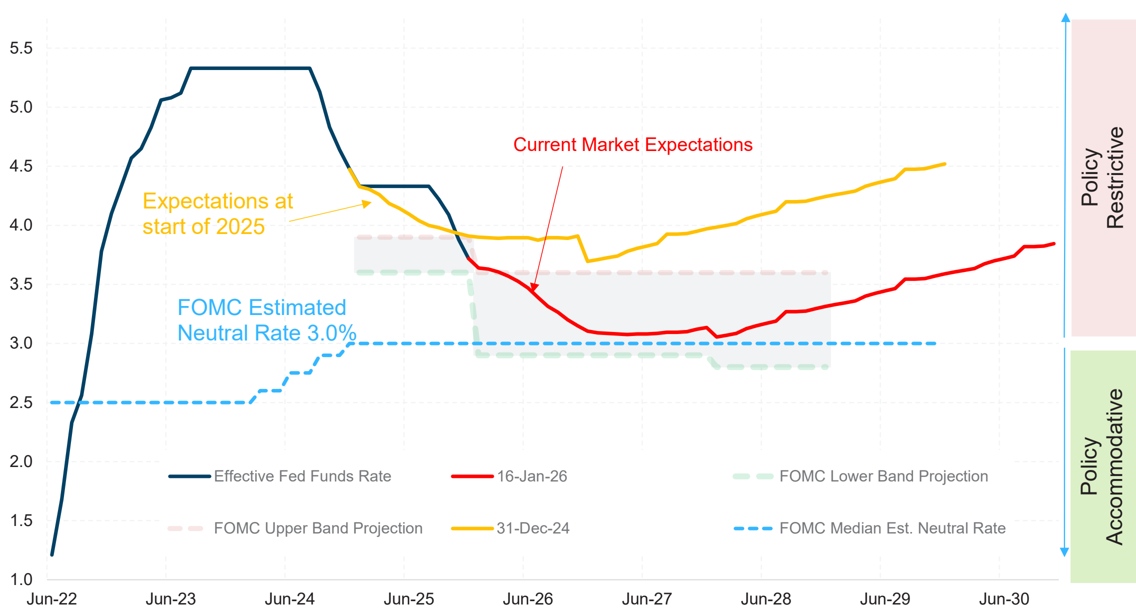
Sources: LSEG, William Blair Equity Research

Central Bank Target Short-Term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 15-Jan-26	Week Ago 08-Jan-26	Month Ago 15-Dec-25	Qtr-to-Date 31-Dec-25	Year-to-Date 31-Dec-25
S&P 500 Index	**100.00**	**0.33**	**1.88**	**1.45**	**1.45**
S&P 400 MidCap Index		**2.51**	**5.22**	**6.41**	**6.41**
S&P 600 SmallCap Index		**2.83**	**4.68**	**7.30**	**7.30**
Dow Jones Industrials		**0.36**	**2.12**	**2.87**	**2.87**
Nasdaq Composite		**0.21**	**2.05**	**1.24**	**1.24**
Communication Services	**10.46**	**-0.08**	**2.74**	**1.15**	**1.15**
Advertising	0.06	0.44	0.32	-1.73	-1.73
Broadcasting	0.07	-3.64	-0.12	-1.70	-1.70
Cable & Satellite	0.04	-7.20	-3.04	-7.61	-7.61
Integrated Telecommunication Services	0.68	-1.73	-2.07	-3.04	-3.04
Interactive Home Entertainment	0.15	-1.57	-0.06	-2.29	-2.29
Interactive Media & Services	7.96	0.43	4.20	2.53	2.53
Movies & Entertainment	1.13	-1.62	-3.02	-3.55	-3.55
Publishing & Printing	0.02	1.08	3.14	2.60	2.60
Wireless Telecommunication Svcs	0.33	-3.67	-2.81	-6.10	-6.10
Consumer Discretionary	**10.57**	**-0.70**	**1.73**	**2.67**	**2.67**
Apparel Retail	0.37	-0.36	1.06	3.17	3.17
Apparel & Accessories & Luxury Goods	0.10	-1.10	2.76	2.22	2.22
Auto Parts & Equipment	0.03	-4.44	6.80	8.57	8.57
Automobile Manufacturers	2.48	0.11	-7.07	-2.08	-2.08
Automobile Retail	0.31	3.49	-1.26	4.55	4.55
Broadline Retail	4.05	-3.14	7.19	3.31	3.31
Casinos & Gaming	0.10	-1.15	-8.00	-4.90	-4.90
Computer & Electronics Retail	0.02	-5.11	-6.52	1.81	1.81
Consumer Electronics	0.06	-0.40	2.59	4.80	4.80
Distributors	0.05	8.30	6.35	12.64	12.64
Footwear	0.14	-1.53	-4.08	1.06	1.06
Home Furnishings	0.01	8.24	10.93	13.15	13.15
Home Improvement Retail	0.83	6.22	7.66	11.51	11.51
Homebuilding	0.19	8.70	2.60	12.19	12.19
Hotels, Resorts & Cruise Lines	0.84	-3.80	-0.04	0.08	0.08
Leisure Products	0.02	-2.52	7.14	5.96	5.96
Restaurants	0.86	1.03	1.06	3.20	3.20
Other Specialty Retail	0.09	-0.02	3.95	5.74	5.74
Consumer Staples	**5.35**	**4.82**	**3.70**	**5.71**	**5.71**
Agricultural Products	0.08	9.66	12.70	17.73	17.73
Brewers	0.01	7.17	6.23	8.48	8.48
Consumer Staples Merchandise Retail	2.44	5.10	6.29	8.87	8.87
Distillers & Vintners	0.06	7.19	6.39	13.19	13.19
Food Distributors	0.06	6.61	4.97	7.45	7.45
Food Retail	0.06	4.52	-0.27	0.02	0.02
Household Products	0.74	2.71	0.95	2.17	2.17
Packaged Foods & Meats	0.37	5.56	1.37	4.06	4.06
Personal Care Products	0.09	3.08	6.38	4.60	4.60
Soft Drinks	0.96	2.81	-1.37	1.27	1.27
Tobacco	0.58	9.07	7.58	7.36	7.36
Energy	**2.83**	**2.58**	**6.64**	**6.56**	**6.56**
Integrated Oil & Gas	1.44	4.62	10.02	7.82	7.82
Oil & Gas Equipment & Services	0.23	3.84	15.73	17.78	17.78
Oil & Gas Exploration & Production	0.55	0.56	0.95	1.78	1.78
Oil & Gas Refining & Marketing & Transportation	0.26	-2.12	1.30	10.34	10.34
Oil & Gas Storage & Transportation	0.34	0.46	1.23	-0.27	-0.27

Financials	**12.30**	**-2.79**	**-1.02**	**-0.90**	**-0.90**
Asset Management & Custody Banks	1.09	2.53	4.53	5.80	5.80
Consumer Finance	0.66	-7.32	-4.47	-3.20	-3.20
Diversified Banks	3.02	-5.51	-2.47	-2.95	-2.95
Diversified Financial Services	7.39	-1.57	0.37	0.48	0.48
Financial Exchanges & Data	1.03	1.94	5.98	4.29	4.29
Insurance Brokers	0.45	-2.29	-1.88	-1.39	-1.39
Investment Banking & Brokerage	1.46	2.52	7.24	6.87	6.87
Life & Health Insurance	0.28	-1.50	-2.31	0.55	0.55
Multi-Sector Holdings	1.06	-1.43	-2.72	-2.00	-2.00
Property & Casualty Insurance	0.87	-4.34	-7.54	-6.44	-6.44
Regional Banks	0.28	-1.33	2.41	3.65	3.65
Reinsurance	0.02	-5.00	-2.26	-5.35	-5.35
Transaction & Payment Processing	1.95	-6.24	-4.73	-4.95	-4.95
Health Care	**9.25**	**-0.79**	**0.92**	**1.37**	**1.37**
Biotechnology	1.50	-2.74	-1.71	-2.50	-2.50
Health Care Distributors	0.36	4.49	3.06	3.81	3.81
Health Care Equipment	1.82	-2.92	-0.77	0.05	0.05
Health Care Facilities	0.19	0.43	0.00	2.24	2.24
Health Care Services	0.36	0.76	1.34	2.90	2.90
Health Care Supplies	0.07	-2.19	1.34	3.31	3.31
Life Sciences Tools & Services	0.93	2.29	6.92	6.93	6.93
Managed Health Care	0.72	-0.89	1.89	5.10	5.10
Pharmaceuticals	3.30	-0.19	1.10	1.18	1.18
Industrials	**8.17**	**3.49**	**5.91**	**6.89**	**6.89**
Aerospace & Defense	2.26	5.92	12.14	10.04	10.04
Agricultural & Farm Machinery	0.22	2.84	5.54	10.63	10.63
Air Freight & Logistics	0.31	2.13	9.76	9.11	9.11
Building Products	0.42	2.86	1.36	1.59	1.59
Cargo Ground Transportation	0.09	2.97	10.24	11.17	11.17
Construction & Engineering	0.21	9.49	7.05	10.16	10.16
Construction Machinery & Heavy Trucks	0.76	5.54	9.42	12.20	12.20
Data Processing & Outsourced Services	0.04	-1.59	-4.31	-1.71	-1.71
Diversified Support Svcs	0.18	3.79	4.79	4.48	4.48
Electrical Components & Equipment	0.54	3.74	4.02	7.43	7.43
Environmental & Facilities Services	0.33	0.88	0.60	0.78	0.78
Heavy Electrical Equipment	0.27	2.20	-5.74	-1.74	-1.74
Human Resource & Employment Services	0.26	-2.26	-2.44	0.22	0.22
Industrial Conglomerates	0.36	4.27	6.57	8.85	8.85
Industrial Machinery	0.66	3.10	4.84	6.72	6.72
Passenger Airlines	0.17	0.29	3.35	3.44	3.44
Passenger Ground Transportation	0.27	-3.67	3.08	3.26	3.26
Railroads	0.42	0.92	-3.41	0.03	0.03
Research & Consulting Svcs	0.15	0.17	2.54	2.88	2.88
Trading Companies & Distributors	0.25	2.54	6.84	9.69	9.69
Information Technology	**31.71**	**0.24**	**1.06**	**-0.67**	**-0.67**
Application Software	2.42	-5.20	-7.15	-6.90	-6.90
Communications Equipment	0.85	2.92	-0.28	-0.88	-0.88
Electronic Components	0.42	12.15	14.91	11.97	11.97
Electronic Equipment & Instruments	0.12	3.42	5.48	7.76	7.76
Electronic Manufacturing Services	0.15	8.19	7.34	7.59	7.59
Internet Software & Services	0.08	-0.21	-1.81	-2.26	-2.26
IT Consulting & Services	0.82	-0.50	-0.46	2.65	2.65
Semiconductor Equipment	1.23	11.67	26.28	25.32	25.32
Semiconductors	12.28	2.11	6.52	2.15	2.15
Systems Software	6.86	-4.16	-3.71	-5.36	-5.36
Technology Distributors	0.03	-0.17	-8.69	-2.87	-2.87
Technology Hardware, Storage & Peripherals	6.45	0.43	-4.46	-3.65	-3.65
Materials	**1.83**	**3.01**	**8.85**	**7.69**	**7.69**
Commodity Chemicals	0.06	7.40	18.44	18.71	18.71
Construction Materials	0.25	-0.55	-0.52	1.12	1.12
Copper	0.13	10.59	26.18	18.05	18.05

Fertilizers & Agricultural Chemicals	0.11	2.07	8.06	7.53	7.53
Gold	0.19	6.85	14.57	14.38	14.38
Industrial Gases	0.41	0.46	6.19	4.17	4.17
Metal & Glass Containers	0.02	1.93	8.35	5.51	5.51
Paper Packaging	0.16	2.76	9.85	8.40	8.40
Specialty Chemicals	0.39	3.75	9.33	8.83	8.83
Steel	0.10	3.20	6.26	5.69	5.69
Real Estate	**1.75**	**3.02**	**2.48**	**3.26**	**3.26**
Data Center REITs	0.21	3.51	5.20	4.31	4.31
Health Care REITs	0.29	1.70	-0.14	2.12	2.12
Hotel & Resort REITs	0.02	1.43	-0.91	4.17	4.17
Industrial REITs	0.19	3.40	1.60	3.98	3.98
Multi-Family Residential REITs	0.00	-1.96	1.18	-1.66	-1.66
Office REITs	0.02	0.08	-6.30	-0.55	-0.55
Other Specialized REITs	0.09	3.92	5.15	5.85	5.85
Real Estate Service	0.12	3.06	4.55	1.73	1.73
Retail REITs	0.24	0.86	1.60	2.52	2.52
Self-Storage REITs	0.13	8.01	8.69	12.94	12.94
Single-Family Residential REITs	0.13	8.01	8.69	12.94	12.94
Telecom Tower REITs	0.23	6.57	0.61	2.34	2.34
Timber REITs	0.03	11.71	14.77	13.13	13.13
Utilities	**2.13**	**3.89**	**1.60**	**2.17**	**2.17**
Electric Utilities	1.40	3.28	1.06	1.42	1.42
Gas Utilities	0.04	1.90	-0.28	1.58	1.58
Independent Power Producers & Energy Traders	0.11	16.48	6.64	9.86	9.86
Water Utilities	0.04	3.16	-0.58	2.19	2.19
Multi-Utilities	0.54	3.43	2.34	2.72	2.72

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 49442.40
S&P 500: 6944.47
NASDAQ: 23530.00

Additional information is available upon request.

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Coverage Universe	**Percent**	**Inv. Banking Relationships ***	**Percent**
Outperform (Buy)	72	Outperform (Buy)	11
Market Perform (Hold)	28	Market Perform (Hold)	3
Underperform (Sell)	1	Underperform (Sell)	0

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