



THE SHORT AND LONG

Weekly Bulletin

Jobs noise masks resilient labor market

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TAKEAWAYS

- Reading the signal through the noise in the employment data for January can be more difficult than usual because of seasonal job swings associated with the holidays and new year. Meanwhile, there are signs of manufacturing green shoots, and the macro profits backdrop remains constructive.
- Software equity volatility presents a potential opportunity but also highlights the risks associated with AI disruption. Many incumbents now trading at lower valuations could be positioned to capture this opportunity, while names without a clear AI strategy should be avoided.
- Cycicals and energy may benefit from improving manufacturing activity, rising power demand, and the AI buildout and electrification supply chain, supporting selective exposure to commodities and global cyclical sectors.

This week in charts

FIGURE 1: Software swing presents fresh entry points for industry winners.



Source: Factset as of February 9, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

Looking closer

AI model updates and disruption have led to historic downward moves for software names. Valuations have contracted, and we see this as a potential opportunity for active management in this space as bifurcation will likely continue between winners and losers.

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Employment data can be noisy in January, layoffs remain subdued

Monthly changes in nonfarm payrolls are volatile, which makes it challenging to separate the signal from the noise on job creation. This difficulty grows with the January payrolls data given large seasonal swings in employment between December and January related to temporary, holiday-related hiring and firing. In January, the raw payrolls data, i.e., unadjusted for seasonality, commonly shows declines of close to three million jobs. The Bureau of Labor Statistics (BLS) adjusts the raw data for seasonality and reports seasonally adjusted changes in payrolls.

In the last two years, seasonally unadjusted payrolls fell by an average of 2.8 million in January, whereas payrolls were reported up an average of 115,000 per month once the January data were adjusted using seasonal factors. The magnitude of the seasonality makes seasonal adjustments difficult, increasing volatility and surprises. In the last 25 years, the month that delivered the largest surprises relative to expectations was January (excluding 2020 when payrolls surprises were extremely large following Covid).

In assessing the strength of job creation in the U.S., labor supply also merits important consideration. The working-age population grew by slightly more than one percentage point per year in the 1990s and 2000s, slowing to a half percent in the 2010s. The Census Bureau projects no growth in the working age population over the next five years. Thus, there will be fewer labor market entrants in 2026 and beyond who will need to be absorbed and, providing layoffs do not pick up sharply, the pace of job creation needed to stabilize the unemployment rate has declined.

On layoffs, despite a rise in announced job cuts in January—as reported by the outplacement firm Challenger—actual involuntary job separations appear subdued (also, a rise in announced layoffs at the start of the year is routine). Initial claims for unemployment benefits averaged only 212,000 in January, the lowest monthly average since February 2024.

On U.S. manufacturing, there are signs of green shoots for the sector. The Institute for Supply Management (ISM) manufacturing index surprised to the upside in January 2026, driven by a jump in the new orders index to a four-year high. The restocking of low levels of customer inventories should provide support for manufacturing activity going forward. The net share of respondents reporting inventory levels that are too low rose to 23% in January, the highest since June 2022.

An improved environment for U.S. manufacturing may have been signaled by South Korea's exports data. With Korea sitting upstream in global manufacturing, Korea's export growth and the ISM are correlated. Exports by Korea to the U.S. rose 27.5% year-over-year in January, the fastest since May 2022. The U.S. manufacturing green shoots may still be a technology story given that Korea's export growth is led by semiconductors. This is also the message of exports to the U.S. from Taiwan, which rose 151.8% year-over-year in January on a 267.6% surge in exports of information and communications products.

Bottom Line: Stability in the labor market, and the signs of strength in investment demand given imports of technology-related inputs, is consistent with our profits-based macro framework. Earnings reports thus far in the current reporting cycle show earnings growth for S&P 500 firms of 13.6% on average, which suggests that the strong profits environment demonstrated by the third-quarter GDP report likely continued into the fourth quarter.

Historic move in software reminds investors of AI disruption potential

Investors are grappling with assigning new terminal values to software companies that must adapt and invest to survive in a world where AI can help an individual develop a new application in a day with no prior coding experience. New AI model updates are also showing sufficient competency in automating tasks around tax and accounting work, data analysis, and compliance – raising fear of disruption to a large cohort of business services software companies. Near-term cracks in earnings reports over the last few weeks around higher capex, capacity constraints, and slowing growth rates led to swift and severe price action for the software industry group, where valuations contracted by 28% relative to its 5-year average for a -2.2 standard deviation move since the October highs (see Figure 1). We see this as a potential opportunity, with a few caveats.

Not all software companies are created equally. This provides a great long-term entry point for many large, profitable names that have properly invested in the AI opportunity, while many names without the capacity or foresight to invest should be avoided. The latter will be subject to market consolidation and M&A as technology budgets evolve to spend more on the AI layer of the technology stack and less on smaller, legacy software vendors. We expect a theme of bifurcation within software, and the broader market, to continue as the AI investment cycle evolves.

This dispersion bodes well for active management picking winners and losers. For portfolio allocations, we continue to believe owning (and buying dips in) the large, U.S., most profitable exposures such as software will provide outperformance over the long-term. In the near-term, we recommend deploying new capital into beneficiaries of the AI capex theme – including potential upstream opportunities around the AI supply chain like natural resources and regions outside of the U.S.

Bottom line: Recent volatility in software names demonstrates the shifting technology environment from the AI buildout, presenting potential opportunities for long-term investors in select names. We believe bifurcation will continue within software and the broader market, highlighting the need for diversification and complementary exposures to core portfolios.

Cyclicals and energy gain support from the macro regime and the AI buildout

From a macro-regime standpoint, our research indicates that the U.S. economy remains in a mild “overheating” phase – an environment in which cyclically sensitive sectors and markets have historically delivered relative outperformance.

Today, that backdrop is reinforced by several improving indicators: the ISM Manufacturing New Orders survey has inflected higher, the National Association for Business Economics (NABE) capex plans survey points to strengthening corporate investment intentions, and the ongoing AI supply-chain buildout is accelerating demand across key cyclical industries. Together, these factors lay the groundwork for a more constructive stance toward select cyclical and economically linked sectors from a tactical perspective.

More broadly across U.S. equities, fourth-quarter earnings have continued to show solid growth, in contrast to markets relying on multiple expansion alone. Overall earnings growth reached a 4-year high of 14.5% in the S&P 500 and the number of sectors exhibiting positive earnings growth rose to eight out of eleven sectors, up from six in the third quarter. This dynamic is a key reason behind our strategic overweight to U.S. Large Caps, where earnings strength remains a core pillar of support.

While we maintain a structural preference for growth-oriented markets with high technology exposure – notably the U.S. and China – we continue to believe the current macro regime argues for balancing portfolios tactically with select cyclical sectors, including areas potentially benefiting from improved manufacturing momentum and the deepening AI investment cycle. As such, we retain tactical preferences for global upstream natural resources and energy. This balance, in our view, may position portfolios more effectively for the combined influence of cyclical tailwinds and structural growth trends.

Bottom line: Structural investment in power, infrastructure, and commodities tied to AI and electrification may continue to support cyclicals and energy. These sectors can complement core growth exposures and seek diversification of portfolios across the evolving investment cycle.

What happened		What's ahead
ECONOMIC DATA	U.S. Employment data was generally weaker amid weather disruptions. Institute for Supply Management (ISM) surveys showed strength.	U.S. February employment, Consumer Price Index (CPI)
	Global Eurozone CPI was slightly below forecasts.	Global Japan GDP UK GDP China CPI
POLICY	U.S. Trump Administration lowered tariffs on imports from India given progress toward a trade deal.	U.S. Progress toward formalizing Kevin Warsh's nomination to be the next Fed Chair given a stalled process on Justice Department investigations of Chair Powell. U.S. and Iran holding nuclear talks.
	Global The Bank of England (BoE) left rates unchanged but signaled a rate cut in March. The European Central Bank (ECB) left rates unchanged.	Global Aftermath of Japan elections
MARKETS	U.S. Megacap tech stocks fell after reporting massive surprises to capex expectations before recovering some ground late in the week. Software stocks fell sharply after Claude's latest release before rebounding on Friday.	U.S. Notable Retail and Tech earnings 36% of companies have beat on top and bottom lines and are being rewarded/punished less than the prior quarter.
	Global Extreme swings in cryptocurrency and commodity markets behind levered plays and options activity.	Global Memory shortages from AI capturing headlines. Rotation vs. risk-off in equity markets

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[The Short and Long: Q1 Macro Investment View](#)

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[February 3, 2026 | CIO Bulletin: AI capex keeps rising as investors debate returns](#)

In last week's Bulletin, we looked at how AI spending continues to accelerate, with S&P 500 capex expectations rising and hyperscalers pushing investment higher even as investors debate how quickly those dollars will translate into returns. At the same time, resilient labor data, sticky inflation, and persistent U.S. dollar dominance reinforce the case for focusing on AI beneficiaries and maintaining core exposure to U.S. assets.

[Global Investment Committee](#)

The Citi Wealth Global Investment Committee met December 8, 2025, and added to U.S. Large Cap Equities and Gold. Emerging Markets Asia ex-China equities and Developed Markets High Yield were trimmed to fund the moves. These tilts seek to capture a seemingly stronger macro backdrop while being selective on risk and maintaining diversification.

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