

Flash Macro Update

U.S. Jobs Report | September 2025



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What You Need to Know

1 How are we thinking about the August 2025 U.S. jobs report?

The August payroll report contributes to the emerging fact pattern we are seeing of a U.S. jobs market near stall speed. Jobs increased by only +22k in August, below consensus of +75k. Just as importantly, prior months continued to see downward revisions, which we view as a symptom of underlying softness. Specifically, the report revised down estimates for the prior two months by -21k, building on the outsized -258k revision last month. Net of these revisions, the economy has now averaged fewer than 30k new jobs per month over the past four months.

WHAT DO WE THINK THIS MEANS FOR MARKETS?

This report confirms our thesis that the Fed needs to be in cutting mode. Revisions leave June at a negative payroll, and job growth slowed across a broad majority of sectors, all of which suggest we should get a dovish September reaction from the Fed. Unemployment moved up to 4.3% from 4.2% last month, but a lack of worker supply is masking why we think the Fed needs to cut. All told, we estimate that unemployment would be closer to 5.0% if supply had not been curtailed in recent months. In our view, this reality is being underestimated by market participants. What else are we focused on?

1. **Services over Goods thesis - unfortunately - is accelerating while our job concentration thesis remains in play.** While all the current tariff work is focused on restoring the \$1.2 trillion goods deficit, it is not showing up in the data. Goods in total has now had three months in a row of negative job growth. Combine that with 32 of 34 months where the manufacturing ISM has been below 50, and it is hard to argue we are not in a manufacturing recession (especially when it appears

that tariffs are not helping employment trends in the near-term). In fact, Manufacturing has actually lost 31k jobs in aggregate the last three months, with all five subsectors of the goods arena negative over past 90 days. Importantly, our concentration thesis remains intact: over 100% of jobs, or 46k jobs, came from just Healthcare/Education.

2. **Why not 50 basis points in September?** Public data actually suggest a strong back to school season, while we are hearing of some capex plans firming on the heels of the OBBB. Meanwhile, inflation is not falling as fast as it should, especially given tariff-related noise. Looking at the bigger picture, our work still shows that GDP will be 1.5-2.0%. As such, we think the Fed needs to cut to help housing (20%+ of U.S. states now have negative home price appreciation), lower income workers, who are feeling the adverse impact of inflation, and levered structures that need lower rates, especially companies with EBITDA below \$100m, we believe.
3. **What does this mean for markets?** Let's not lose sight of the fact that the Fed is cutting into a balance sheet that is still 22% of GDP. Said differently, financial conditions are still very accommodative. Credit spreads are tight, equity markets are robust, and the dollar is weakening. Moreover, the technical picture (or lack of supply) is as good as we have seen in three decades. In this market we still see the 'Glass Half Full', though we are tilting more towards operational improvement stories in Private Equity (especially corporate-carve outs), collateral-based cash flow (Infra, Real Estate Credit, and Asset Based Finance), and structured deals (including structured equity with both downside protection and upside equity opportunity). We still see a weaker dollar, which means more money should flow overseas. That said, the U.S. story is not over, given what we are seeing on the productivity front.
4. **Key themes intact:** We feel really good about our major investment themes. Specifically, we favor capital heavy to capital light, collateral based cash flows, productivity enhancement stories, the Security of Everything, and intra-Asia trade.

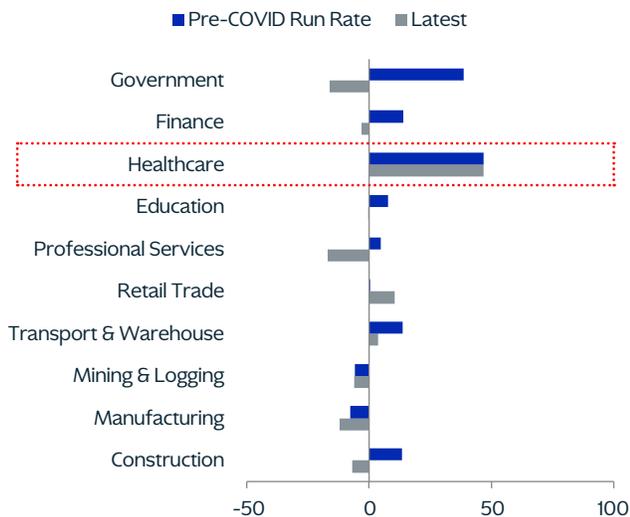
KEY DETAILS FROM THE DATA

- We are seeing more signs that the 'old' drivers of job growth (government-exposed sectors including Healthcare/Education) are slowing, without enough of an offset from the 'new' drivers in rate-sensitive sectors (e.g., Construction and Manufacturing). Consider that Healthcare and Education, which has been a key stabilizer for job growth over the last year, just printed its weakest number since 2022 (+46k) while Manufacturing (-12k) and Construction (-7k) remain in contractionary territory.
- Our view is that job growth is running at or near stall speed (something we have been highlighting), which will require Fed intervention. However, we are not seeing the bottom fall out of the consumer economy in 2008 fashion (e.g., back to school season has been fairly strong), nor in credit markets (consumer defaults remain elevated but stable, and spreads remain tight across asset classes). As such, we stick to our call that the current period will feel more like malaise vs. a big GFC-style credit/macro unwind, assuming the Fed delivers the easing currently priced into the forward curve.
- For the Fed, we are sticking to our call for two cuts this fall followed by three more in 2026, but we continue to see risks as skewed towards more cuts. In our view, the key barrier to the Fed adding a cut this fall will be the August inflation report due next week, where we will likely see some signs of upside risk from Goods prices. As such, we are holding our forecasts in place but expect more downside vs. upside risk, especially if CPI is more benign.

Importantly, our concentration thesis remains intact: over 100% of jobs, or 46k jobs, came from just Healthcare/Education.

Exhibit 1: Healthcare Continues to Drive Majority of Job Gains In August, While Government Job Growth Is Negative

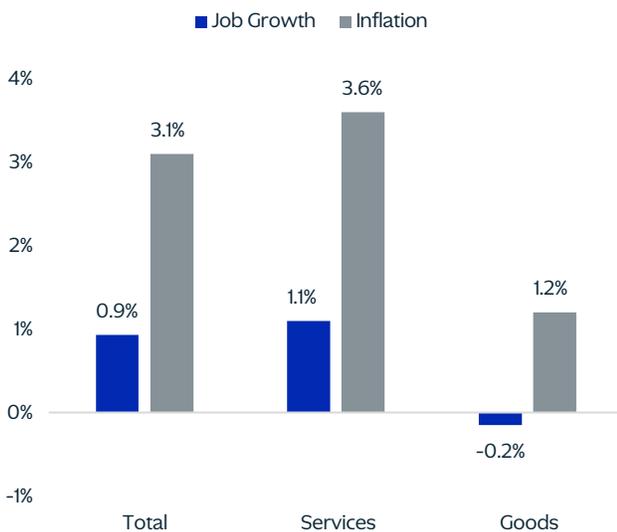
Payroll Growth: Major Services and Goods Sectors (Change '000)



Data as at September 5, 2025 Source: U.S. Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

Exhibit 2: We Continue to See Divergence Between Goods and Services, Which Is Evident Across Job Growth and Inflation

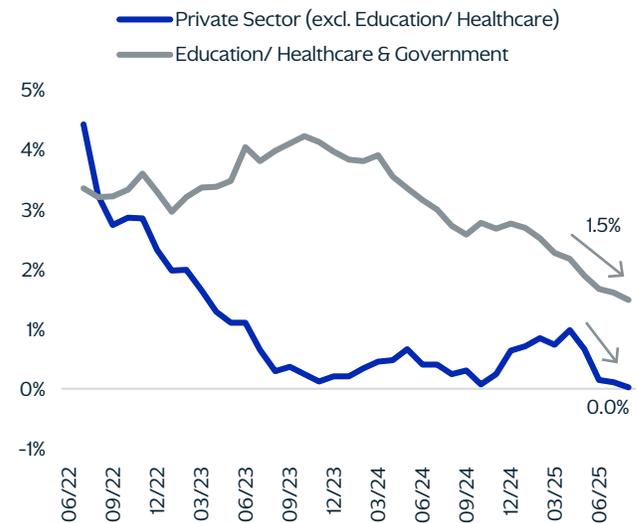
Goods vs. Services (%chg yoy)



Data as at September 5, 2025 Source: U.S. Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

Exhibit 3: Education/Healthcare and Government Job Growth Slowing Down Alongside Stagnant Private Sector Growth

Job Growth By Sector (6m chg, annualized)



Data as at September 5, 2025 Source: U.S. Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

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