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In Practice

Current Trends: Labor Dynamics

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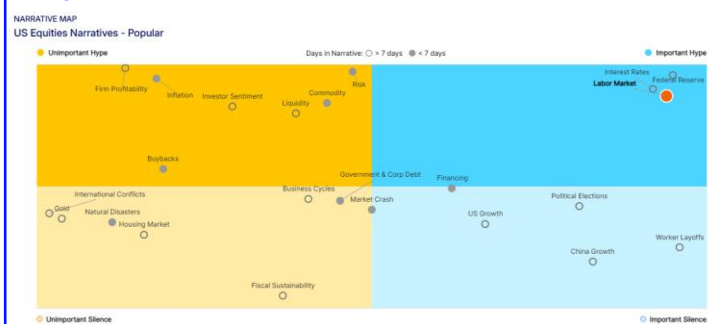
ABSTRACT

This paper investigates the impact of media narratives surrounding worker layoffs, worker hiring, and labor shortages on stock returns. Drawing on narrative economics and financial econometrics, we quantify how these labor-related themes propagate through market sentiment and stock returns. Using long/short portfolio return series based on media narrative stock exposures, we find that stocks associated with layoff narratives consistently underperform, while those linked to hiring narratives outperform, reflecting investor optimism about growth. Conversely, stocks exposed to labor shortage narratives have lagged in the past year, as persistent labor constraints signal operational risk and margin pressure. Our findings highlight the importance of narrative-aware investing and risk management in an environment where labor market stories drive investor perception and capital flows.

Figure 1. Labor Markets in Focus



Source: State Street Associates, MKT MediaStats (as of Dec 16, 2025).

Labor markets have become a dominant macro theme recently, positioned in the *Important Hype* quadrant in our Narrative Map. The important hype quadrant reflects high media intensity and strong explanatory power of market returns for a given media narrative. Labor conditions can reflect economic activity, while wage pressures can influence margins and inflation expectations, impacting valuations. As employment trends feed into consumption and monetary policy, their explanatory power for market performance has intensified, making labor dynamics a key theme for equity investors navigating macro-driven markets.

CONCEPTUAL FRAMEWORK

Recent advances in narrative economics emphasize that stories circulating in media—especially those relating to labor market dynamics—can exert a powerful influence on investor expectations and asset pricing. We conceptualize three key labor narratives as thematic macro risk factors:

Worker Hiring: Proxy for expansion, confidence, and growth. Hiring stories tend to be associated with positive sentiment and upward revisions to earnings expectations.

Worker Layoffs: Signals cost-cutting, operational stress, or deteriorating demand. Often interpreted as a negative indicator for future growth and profitability.

Labor Shortages: Indicates supply-side constraints, wage inflation, and potential operational bottlenecks. Persistent shortages can erode margins and signal sectoral vulnerability.

EMPIRICAL ANALYSIS

Data and Methodology

We construct long/short basket return series by quantifying positive media narrative intensity for worker layoffs, hiring, and labor shortages using the State Street MediaStats Narrative indicators. The analysis is performed across the broad US market universe of roughly 3,000 US stocks.

To quantify a stock's exposure to a given media narrative, we estimate a univariate regression of the stock's returns on the positive intensity of the narrative proxy. The resulting beta coefficient serves as our measure of exposure, capturing the sensitivity of the stock to shifts in media attention to that narrative. Formally, the model is specified as:

$$Stock\ Return_t = \alpha + \beta_t * Narrative\ Proxy_t$$

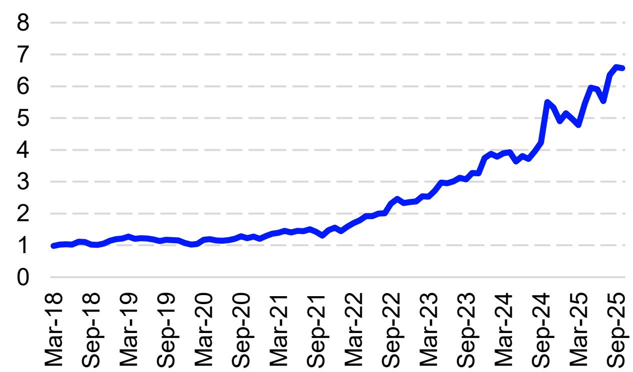
Stocks are classified as "exposed" if their returns tend to co-move with media attention to a given labor theme. Portfolio returns are computed by going long the top 100 stocks with the highest narrative exposure and short the 100 stocks with the lowest exposure.

Key Findings

1. Hiring Narratives and Outperformance

Our hiring narrative portfolio—constructed as the market-cap-weighted returns of the 100 stocks most exposed to the worker hiring narrative minus the market-cap-weighted returns of the 100 least exposed—has significantly outperformed since 2018. Media stories highlighting expansion, recruitment drives, or talent acquisition are viewed as proxies for growth, sectoral momentum, and management confidence.

Figure 2: Cumulative Portfolio Returns: Worker Hiring



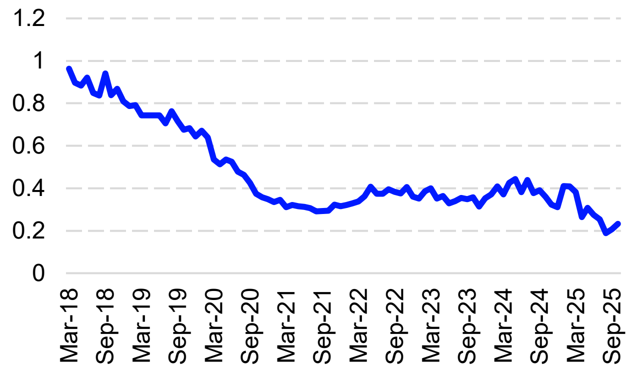
Source: State Street Markets®, MKT MediaStats (2018-2025).

Hiring can signal future revenue growth, capacity expansion, and competitive positioning. Furthermore, this theme may be interpreted as a leading indicator of positive earnings surprises and upward revisions to guidance, leading to stock outperformance.

2. Layoff Narratives and Underperformance

Conversely, stocks associated with the layoffs narrative tend to underperform. The persistent decline in cumulative portfolio returns for companies associated with the worker layoffs narrative (Figure 3) reflects a structural shift in the current cycle: layoffs are no longer just a symptom of weak growth but a strategic retooling around automation and AI. Many firms announcing workforce reductions today are reallocating resources to technology-driven efficiencies, replacing roles in customer service, operations, and even software development with AI-powered tools. This transformation, while aimed at long-term margin expansion, creates short-term uncertainty for investors, as cost-cutting headlines often signal disruption.

Figure 3: Cumulative Portfolio Returns: Worker Layoffs



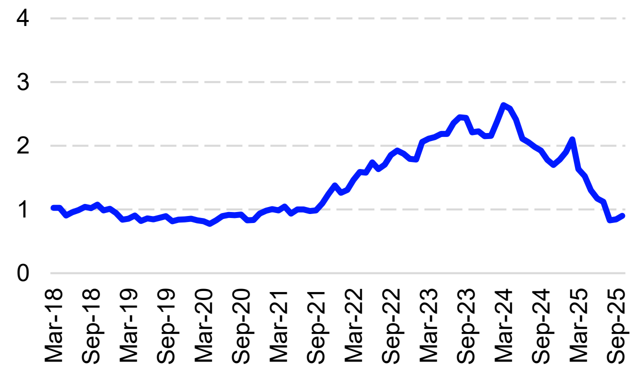
Source: State Street Markets®, MKT MediaStats (2018-2025).

Combined with broader economic pressures—high interest rates, inflation, and investor demands for leaner operations—layoffs entail amplified narrative risk, keeping returns depressed despite the promise of future productivity gains. The chart underscores this paradox: even as companies position for innovation, markets continue to penalize layoff-related themes amid structural change.

3. Labor Shortage Narratives and Underperformance

Figure 4 shows cumulative returns for labor-shortage-linked companies rising sharply from late 2021 through early 2024, then reversing in 2024–2025. Initially, shortages were viewed as a positive narrative: firms were expected to gain pricing power and benefit from strong post-pandemic demand. However, by 2024, the market began pricing in the downside of persistent shortages—higher wages, reduced output, and delayed projects—directly impacting profitability. Early optimism gave way to concerns that structural constraints were not temporary but chronic, forcing companies to absorb rising labor costs and operational inefficiencies. This shift explains why returns have fallen sharply in the past year: the narrative moved from “shortages as an opportunity” to “shortages as a margin risk,” especially as demographic pressures have proven harder to solve quickly. Compounding this downturn, immigration policy changes under the new administration have further restricted labor supply, reducing the inflow of foreign-born workers in critical sectors like healthcare and construction. These policy shifts have reinforced the perception that shortages are structural rather than cyclical, amplifying investor concerns and accelerating the reversal in returns.

Figure 4: Cumulative Portfolio Returns: Labor Shortages



Source: State Street Markets®, MKT MediaStats (2018-2025).

Lastly, we present performance statistics for all three labor-related narrative portfolios in Figure 5.

Figure 5: Narrative Portfolio Performance Statistics

	Worker Layoffs	Worker Hiring	Labor Shortages
Annualized Returns	-13.9%	27.0%	2.1%
Annualized Vol	31.3%	21.8%	26.0%
IR	-0.44	1.24	0.08

Source: State Street Markets®, MKT MediaStats (2018-2025).

The performance table highlights distinct return and risk profiles across the three labor-related narrative portfolios. Worker hiring stands out with the highest annualized return of 27% and an Information Ratio (IR) of 1.24, indicating strong risk-adjusted performance. In contrast, the worker layoffs narrative portfolio exhibits the weakest annualized returns, at -13.9%.

CONCLUSION

Labor market narratives—worker hiring, layoffs, and shortages—can be important drivers of equity returns. Investors react strongly to labor market stories due to their direct link to company fundamentals and macroeconomic health. Layoff stories trigger risk aversion, while hiring stories foster optimism. Labor narratives also often coincide with shifts in monetary policy, business cycles, and sectoral rotation.

By systematically quantifying media exposure and integrating narrative risk into portfolio construction, investors can better anticipate market movements and manage risk across portfolios. The predictive power of these themes underscores the need for narrative-aware investing in today’s information-driven markets.

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