

8% Cheaper While Nobody Was Looking

Thoughts on the Market



DUALITY RESEARCH
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With Labor Day weekend behind us, summer is officially over, and those slow market days can now finally go in the rearview mirror. Market activity should start picking up from here as investors return to their desks and get back to business.

And when they do, you can bet some of them will be making changes. Increase exposure here, cut some risk there, and adjust positioning — not just for the remainder of the year, but also to account for what changed over the past three months while markets were in summer mode.

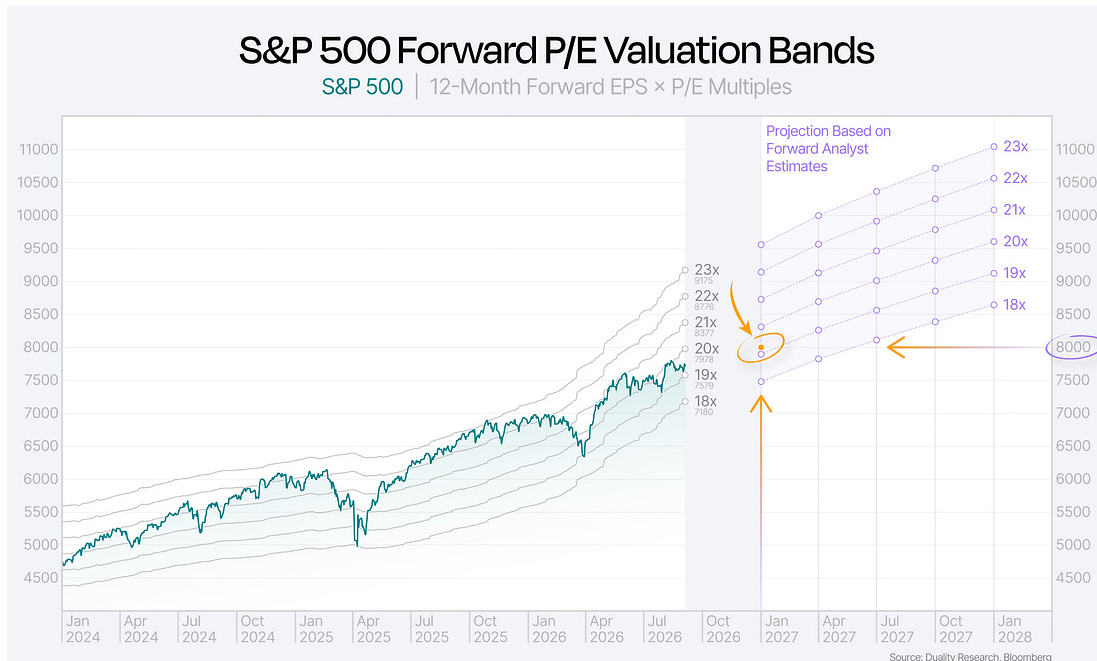
For us, the biggest takeaway is pretty straightforward: *since June, the S&P 500 is up less than 2%, while forward earnings estimates have jumped 10.7%.* **Put differently, the market has become roughly 8% cheaper over the summer while everyone was busy soaking up some sun.**

And that's actually an important distinction heading into September. While the month has a reputation for being the worst one of the year, the combination of earnings moving sharply higher with prices still around the same level should reduce the risk of large positioning shifts that could trigger a major volatility spike.

At the same time, though, with the midterms now coming into view, we also shouldn't necessarily expect investors to rush out and add risk — even with valuations becoming less demanding.

Right now, S&P 500 forward earnings estimates are closing in on \$400. And with that figure expected to move toward \$420 by year-end, **the S&P 500 may only need a 19x forward P/E multiple to reach 8000 by year-end.**

In other words, earnings continue to do a lot of the heavy lifting.



Now, if we want to rely on forward analyst estimates, we always need to make sure the odds of a recession over the next 9-12 months remain extremely low. And there's a good reason for that: **when the economy is not in recession, forward earnings estimates tend to be surprisingly accurate.**

So, to get a better read on what's actually happening in the economy, let's run through some of our favorite labor market indicators — the ones that tend to give us a much more timely picture of economic activity.

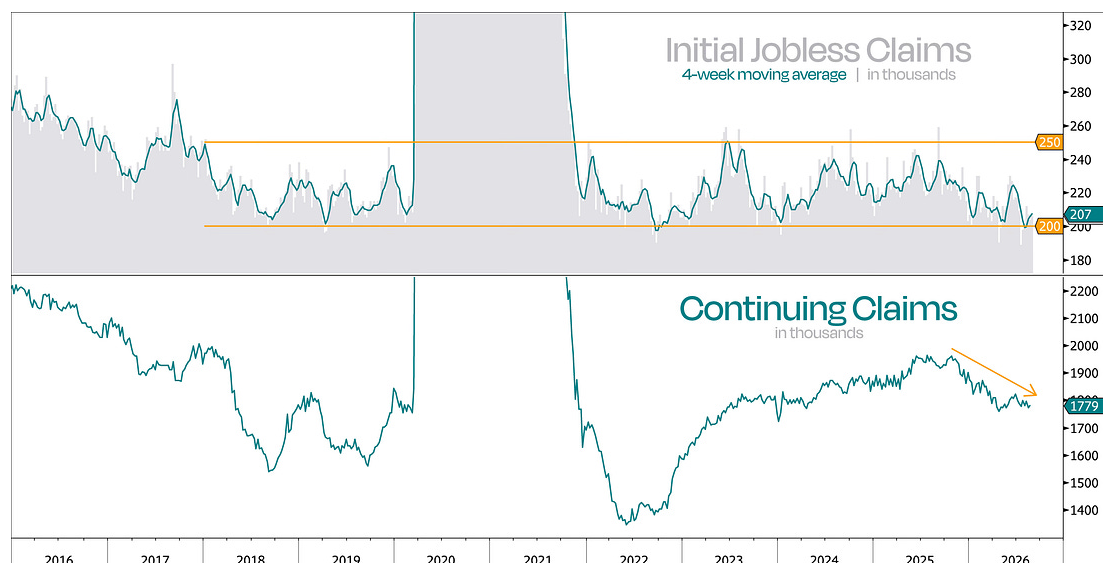
We've all seen last week's much bigger than expected Nonfarm Payrolls print. But what's important to keep in mind here is that this number roughly reflects what happened 6–9 months ago. So by the time the number hits the headlines, much of the underlying economic activity it reflects has already happened.

That's why we always want to have some more *real-time* data in the mix, like the weekly **Jobless Claims** and **Continuing Claims** numbers, which give us a much timelier read on what's happening in the labor market.

As the top panel of our next chart shows, **Initial Jobless Claims** are still sitting comfortably in the healthy 200k–250k range, with the 4-week average at just 207k. In other words, this is still very much a *low-firing environment*.

Now even more interesting is the lower panel. **Continuing Claims** are essentially the running scorecard between *hiring and firing*. And the fact that they continue to fall tells us that *more* unemployed workers are finding jobs than people are losing them.

Bottom line: still nothing here that's ringing any alarm bells.



But as always, the real edge comes from looking at the stuff that tends to *lead* the labor market.

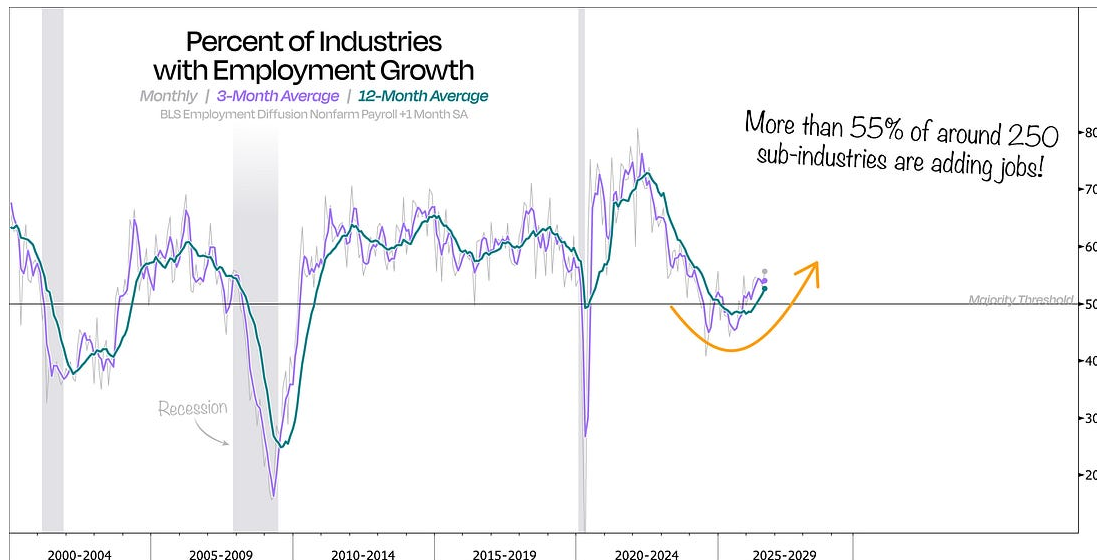
For us, that means watching things like Overtime Hours, Temporary Help Services, as well as the [ASA Staffing Index](#), which tracks weekly changes in temporary and contract work. The reason we watch these data points is because they often move early in the cycle. When business picks up, companies usually test the waters by adding hours and temp workers before making the bigger commitment of hiring full-time employees.

And right now, all of those indicators are still moving in the right direction. As our chart below shows, all three remain in an improving trend, suggesting the recent *re-acceleration* we've been seeing in the ISM still has more room to run.



Now, what's especially encouraging here is just how broad the improvement has become. Right now, more than 55% of roughly 250 sub-industries are adding jobs — the highest reading since January 2024.

In other words, this is no longer just about stabilization. The labor market continues to *re-accelerate* beneath the surface and, perhaps more importantly, the improvement is becoming much more widespread.



Taken together, these charts paint a pretty healthy picture, likely supported by AI investment, an ongoing industrial resurgence, and the fiscal boost from the “One Big Beautiful Bill.” So, circling back to our first chart from today, we should probably expect those projected analyst estimates to remain fairly accurate — at least over the next 12 months.

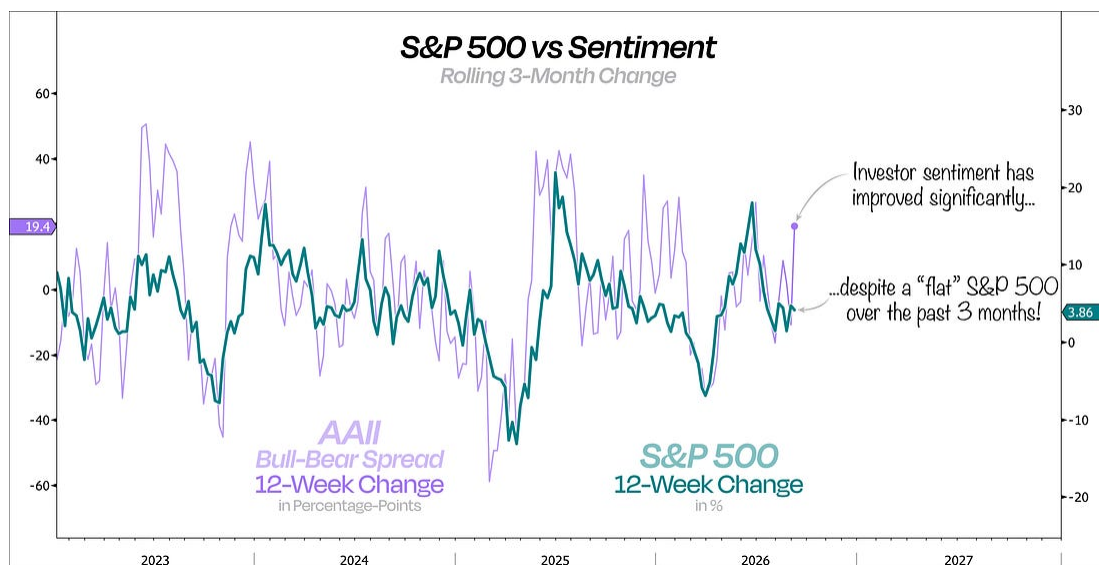
Indeed, this ongoing resilience in economic activity despite still much higher energy prices seems to have helped improve investor sentiment. In fact, our chart below shows an interesting development over the past three summer months.

The S&P 500 has gone basically *nowhere* over the past 12 weeks, yet investor sentiment has improved significantly during that same timeframe.

That's not exactly the typical way sentiment improves.

The last time we saw investors turn significantly more bullish while the S&P 500 was essentially flat was around late last year / early this year. What followed was a market with no clear direction for a while, before eventually turning lower and moving into a correction.

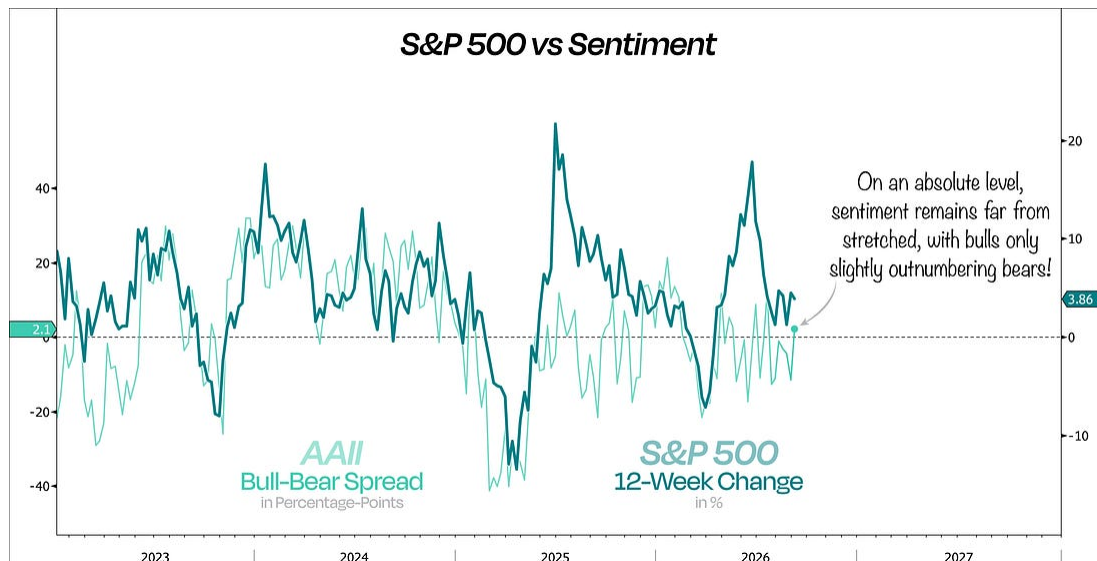
So, while improving sentiment is certainly encouraging, this particular setup is worth keeping an eye on.



But an important point, of course, is **where absolute sentiment actually stands**. So, when we look at the same S&P 500 3-month price change but now pair it with the Bull-Bear spread, two things immediately stand out:

1. **Bulls have *just* edged ahead of bears** — for the first time in several weeks.
2. Back in late '25 / early '26, sentiment had become much more stretched, especially when taking price action into consideration. At its peak, the survey showed **75% more bulls than bears**.

So yes, sentiment has improved over the summer. But we're nowhere near the kind of exuberant levels that preceded the correction earlier this year.



So, where does that leave us?

The incoming labor data from *real-time* and *leading* indicators continue to point to a pretty healthy job market, and by extension, a firm economy. For us, that means we can keep putting some weight behind those *forward analyst estimates*, at least for the foreseeable future.

For many investors, though, this resilience has been surprising — especially with everything going on and what always seems to be the *next* potential threat waiting to derail this bull market. Yet despite all of that, sentiment has quietly improved over the summer, despite stocks barely budging.

But the important caveat is that **sentiment itself remains far from stretched**. Couple that with a market that has become 8% cheaper over the summer, and you get a pretty interesting setup that, *in our view*,

makes a major volatility spike heading into the midterms a lower-probability outcome — though certainly not an impossible one.

So for now, the setup remains pretty straightforward: the economy is holding up, sentiment is improving — and the market has quietly gotten cheaper.

Not a bad place to be heading into the final stretch of the year.

That's all for today. Thanks for reading! 🙌🧐
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