WEEKLY ECONOMIC UPDATE

Summary

Equities posted solid gains this week, with the NASDAQ, S&P 500, and DJIA all advancing as markets continued to recover from the April's selloff. Treasury yields climbed across most maturities, reflecting market doubts about near-term rate cuts as employment growth pointed to a still-strong labor market. Oil rebounded strongly, rising over 6% this week, while gold remained elevated amid ongoing uncertainty. The ISM manufacturing index for May fell to 48.5%, slightly below consensus expectations, as trade policy uncertainty continues to challenge the sector. The ISM services index fell into contractionary territory, checking in at 49.9% in May, and severely underperforming consensus expectations. The services sector is historically a key pillar of economic resilience, and a slip into contractionary activity may indicate a weakening economy. Construction spending declined 0.4% in April, against expectations of a 0.1% increase. Factory orders decreased in April, falling 3.7%; this is likely due to heightened levels of uncertainty, causing hesitation from businesses. JOLTS remained relatively stable, with job openings remaining steady at 7.4 million in April. The trade balance narrowed significantly to -$61.6 billion, caused by a massive reduction in imports in response to tariffs. The May employment report indicated a stable labor market, with the unemployment rate remaining steady at 4.2% and average hourly earnings increasing 0.4%. Nonfarm payrolls increased by 139,000, above consensus expectations. Consumer credit was well above consensus expectations, jumping $17.9 billion in April as both revolving and nonrevolving credit rose.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
ISM Manufacturing Index (May – Sun 10:00)	48.5%	49.0%	
Construction Spending (Apr – Sun 10:00)	-0.4%	+0.1%	
Factory Orders (Apr – Mon 10:00)	-3.7%	-3.1%	
JOLTs - Job Openings (Apr – Mon 10:00)	7.391M	NA	
ISM Services (May – Tue 10:00)	49.9%	52.0%	
Initial Claims (05/31 – Wed 08:30)	247K	235K	
Continuing Claims (05/24 – Wed 08:30)	1,904K	NA	
Trade Balance (Apr – Wed 08:30)	-$61.6B	-$117.2B	
Productivity-Rev. (Q1 – Wed 08:30)	-1.5%	-0.8%	
Unit Labor Costs- Rev (Q1 – Wed 08:30)	+6.6%	+5.7%	
Nonfarm Payrolls (May – Thu 08:30)	139K	130K	
Nonfarm Private Payrolls (May – Thu 08:30)	140K	123K	
Unemployment Rate (May – Thu 08:30)	4.2%	4.2%	
Avg. Hourly Earnings (May – Thu 08:30)	+0.4%	+0.3%	
Average Workweek (May – Thu 08:30)	34.3	34.3	
Consumer Credit (Apr – Thu 15:00)	$17.9B	$10.3B	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Wholesale Inventories (Apr – Sun 10:00)	+0.0%	+0.4%	
MBA Mortgage Applications Index (06/07 – Tue 07:00)	NA	-3.9%	
Core CPI (May – Tue 08:30)	+0.3%	+0.2%	
CPI (May – Tue 08:30)	+0.2%	+0.2%	
Treasury Budget (May – Tue 14:00)	NA	$258.4B	
PPI (May – Wed 08:30)	+0.2%	-0.5%	
Core PPI (May – Wed 08:30)	+0.3%	-0.4%	
Initial Claims (06/07 – Wed 08:30)	250K	247K	
Continuing Claims (05/31 – Wed 08:30)	NA	1,904K	
U. of Michigan Consumer Sentiment - Prelim (Jun – Thu 10:00)	53.0	52.2	

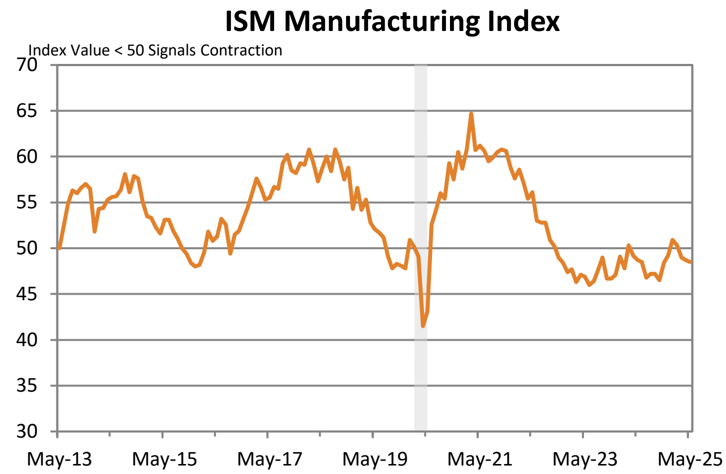
**Sources: www.briefing.com and www.federalreserve.gov*

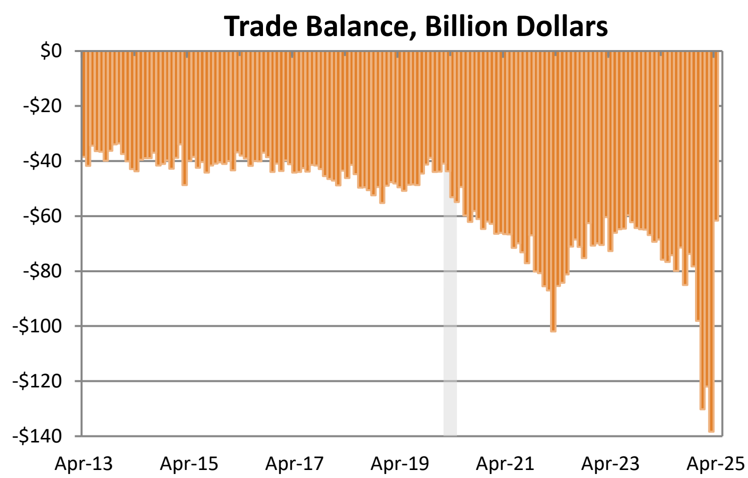
Economic Review

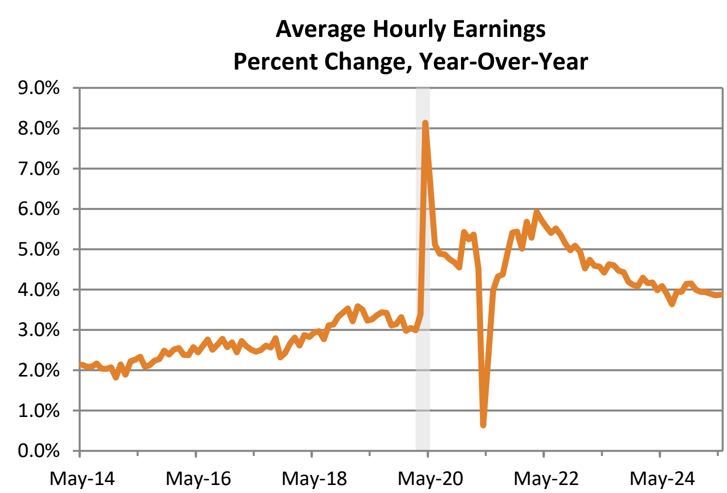
Manufacturing activity continued to shrink in May, with the ISM MANUFACTURING INDEX declining to 48.5%. The prices index fell slightly to 69.4% from 69.8% in May, but overall remained elevated suggesting input prices continue to pressure the sector. Most sub-indices remained below the 50% threshold between contractionary and expansionary economic activity, although some moved closer. Most significantly, the new export orders index dropped to 40.1%, the lowest non-pandemic reading since 2009, due to ongoing trade disruptions. The ISM SERVICES INDEX fell to 49.9%, falling below the 50% threshold for the first time since June 2024 as firms remain cautious amid policy uncertainty. This is the fourth time in the past 60 months that the index has fallen into contractionary territory. The new orders index plummeted nearly six p.p. to 46.4%, while the prices index climbed to 68.7%, the highest since November 2022.

The TRADE BALANCE experienced a dramatic reversal in April, with the deficit narrowing to $61.6 billion from a record $138.3 billion in March and against consensus expectations of a $117.2 billion deficit in April. This was driven by a collapse in imports; which fell $68.4 billion from March to April. Consumer goods imports saw the most significant decrease, falling $33.0 billion in April, followed by industrial supplies and materials ($23.3 billion decrease). The real goods deficit decreased by 42.9% to $85.6 billion. Exports were $8.3 billion higher than in March, with industrial supplies and materials increasing by over $10 billion, followed by exports of capital goods ($1.0 billion increase).

The May EMPLOYMENT SITUATION report offered a reassuring signal about the underlying strength of the U.S. labor market, with payroll employment gaining 139,000, outperforming consensus expectations. The unemployment rate remained steady at 4.2%. With both healthy job creation and a steady unemployment rate, this report suggests the economy remains resilient despite policy uncertainty. The report, however, pointed to some moderation with manufacturing employment decreasing by 8,000 and temporary help services falling by the most since October 2024. Average hourly earnings increased 0.4% in May but remained steady at 3.9% year-over-year suggesting wage growth remains healthy, but some inflationary pressures still exist.







Fed Speeches

In a June 5th speech to the Economic Club of New York, Governor Adriana D. Kugler presented a nuanced view of the U.S. economy that balanced the current economic resilience with rising inflationary risk. While the labor market remains robust and GDP fluctuations are partly attributed to technical trade factors, underlying indicators suggest a moderation in consumer activity and potential headwinds in the months ahead. Notably, Kugler warned that recently implemented and proposed tariffs could generate meaningful price pressures:

> *"[W]e are already seeing the effects of higher tariffs, which I expect will continue to raise inflation over 2025."*

Kugler was especially attentive to the Federal Reserve's dual mandate, placing a sharp focus on price stability. Core inflation remains above the 2% target, with core goods prices showing an unexpected increase after years of deflationary contribution.

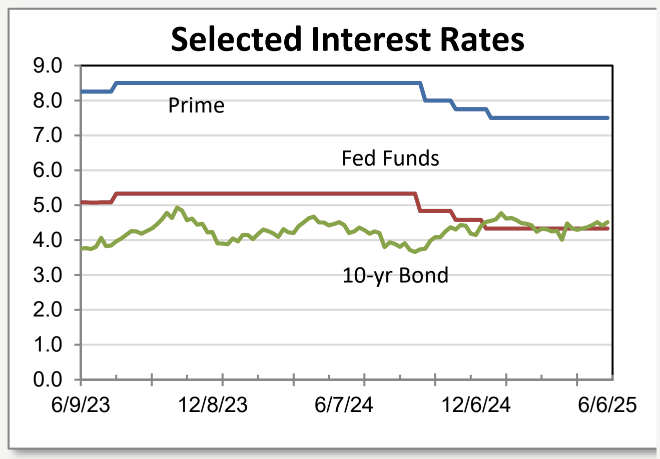
In order to effectively navigate this rapidly-changing environment, Kugler argues a steady hand in monetary policy is necessary:

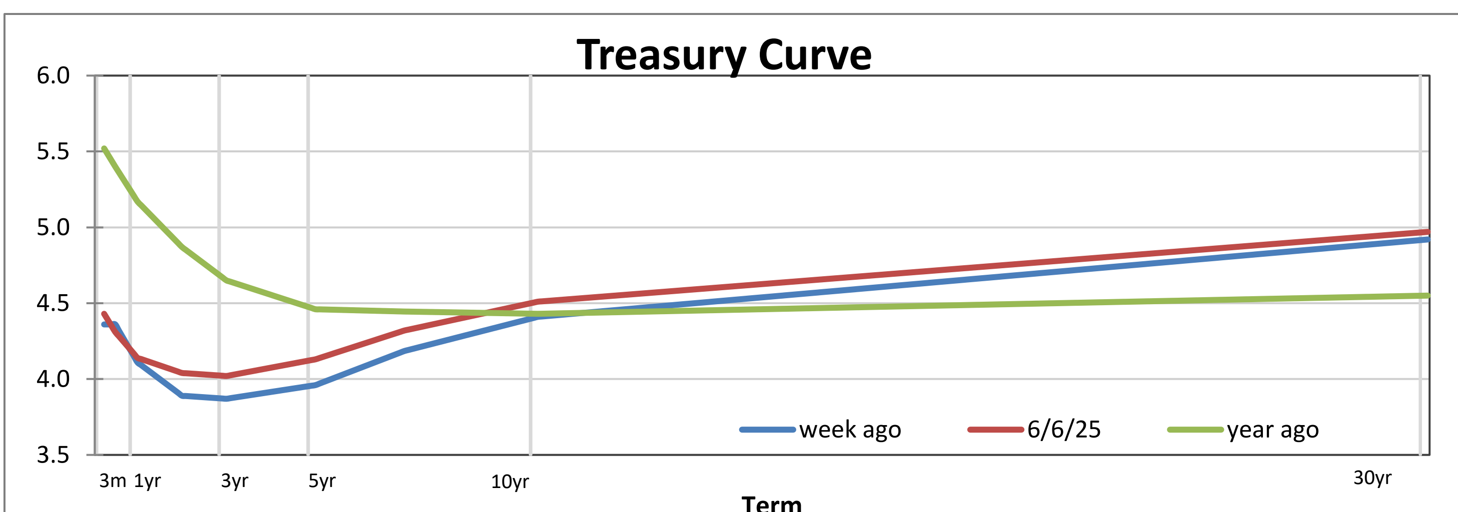
> *"I see greater upside risks to inflation… and potential downside risks to employment and output growth… this leads me to continue to support maintaining the FOMC's policy rate at its current setting… I view our current stance of monetary policy as well-positioned for any changes in the macroeconomic environment."*

Governor Kugler's remarks underscore a cautious but resolute approach to monetary policy at a time of heightened uncertainty.

Financial Markets

Equities markets continued to recover last week, with the DJIA increasing 1.2%, S&P 500 increasing 1.5%, and NASDAQ increasing 2.2%. Both the S&P 500 and NASDAQ have recovered from the Liberation Day lows, with the indices up 4.0% and 7.3%, respectively, from their levels 13-weeks ago. Treasury yields rose across most maturities this week. The most significant moves came from the 2-year and 5-year yields, which surged by 15 and 17 basis points, respectively, as markets recalibrated expectations for the Federal Reserve's interest rate path. These sharp increases reflect growing skepticism that rate cuts are imminent, driven by persistent inflation in services and recent labor market strength. Oil rebounded this week, up 6.5% from last week and over 10% from its value four weeks ago; gold prices remain elevated.





Interest Rate Forecast*

During the Fed's May policy meeting, the Federal Open Market Committee (FOMC) left the federal funds target rate unchanged at 4.25% to 4.50%. In the statement released following the meeting, the FOMC stated, “The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty around the economic outlook has increased further. The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen.” This statement emphasized the persistent economic uncertainty that has continued since the last meeting.

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
2nd Qtr ‘25	7.50	4.33	4.33	4.24	3.89	4.37	4.80	6.75
3rd Qtr	7.44	4.28	4.27	4.24	3.92	4.37	4.73	6.64
4th Qtr	7.25	4.13	4.12	4.17	3.88	4.34	4.64	6.45
1st Qtr ‘26	7.08	3.96	3.95	4.01	3.90	4.28	4.53	6.26
2nd Qtr	6.92	3.79	3.79	3.86	3.91	4.20	4.44	6.13

June 2025

FINANCIAL MARKET SUMMARY

	As of 6/6/2025	As of 5/30//2025	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	7.50	7.50	0	0	0
Secured Overnight Financing Rate (SOFR)	4.29	4.33	(4)	0	(6)
Fed Funds (Wed close)	4.33	4.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	4.43	4.36	7	9	9
6 Months	4.31	4.36	(5)	3	2
1 Year	4.14	4.11	3	9	9
2 Years	4.04	3.89	15	16	5
5 Years	4.13	3.96	17	13	4
10 Years	4.51	4.41	10	14	19
30 Years	4.97	4.92	5	14	35
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.75	2.79	(4)	(15)	17
5-Year Muni	2.85	2.88	(3)	(17)	15
10-Year Muni	3.32	3.31	1	30	37
30-Year Muni	4.58	4.54	4	15	55
30-Year Conventional Mortgage	6.85	6.89	(4)	9	22
MARKET INDICATORS (Changes in %)					
DJIA	42,762.87	42,270.07	1.2	3.7	(0.1)
S&P 500	6,000.36	5,911.69	1.5	6.0	4.0
NASDAQ	19,529.95	19,113.77	2.2	8.9	7.3
CRB Futures	368.58	355.47	3.7	2.3	0.4
Oil (WTI Crude)	64.75	60.79	6.5	10.6	(7.6)
Gold	3,311.03	3,289.25	0.7	(0.4)	13.8
Yen / Dollar	144.85	144.02	0.6	(0.1)	(3.8)
Dollar / Euro	1.14	1.13	0.4	1.3	5.2