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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"There are always flowers for those who want to see them. "Henri Matisse"

MARKETS

Macro Recap: The week was shaped by a mix of encouraging labor data and ongoing geopolitical and policy tensions. The U.S. economy showed resilience, with the May employment report exceeding expectations—nonfarm payrolls rose, unemployment held steady at 4.2%, and wages grew at a healthy pace. This bolstered confidence in the economy's growth trajectory, even as it reduced the likelihood of near-term interest rate cuts by the Federal Reserve.

However, signs of economic strain were also evident. The OECD downgraded its global and U.S. GDP forecasts for 2025, and both the ISM Manufacturing and Services PMIs slipped into contraction territory. Productivity declined while unit labor costs surged, raising concerns about stagflation. Meanwhile, the ADP report showed weak private-sector job growth, especially among small businesses.

Trade developments added further complexity. The U.S. trade deficit narrowed sharply in April due to a steep drop in imports, likely influenced by new tariffs. Tensions with China persisted, though a phone call between Presidents Trump and Xi led to a tentative agreement to resume trade talks. The U.S. also doubled tariffs on steel and aluminum, stoking inflation concerns.

Globally, the European Central Bank cut interest rates by 25 basis points, signaling a potential end to its easing cycle. Despite these mixed signals, equity markets remained buoyant, supported by strong performances in tech and energy sectors, and a rotation from bonds into stocks as Treasury yields climbed.

Equity Recap: The major U.S. stock indexes notched their second consecutive week of gains, climbing approximately 1% to 2%. These advances lifted the indexes to their highest levels in over three months, though the S&P 500 still remained more than 2% below its record high set nearly four months ago. The strongest daily gains came on Friday, buoyed by an employment report that slightly outperformed expectations. The U.S. economy added 139,000 jobs in May, surpassing the consensus forecast of around 130,000. However, job growth figures for the prior two months were revised downward by a combined 95,000.

Bond/Rate Recap: Following Friday's jobs report, bond market activity reinforced the view that the Federal Reserve is unlikely to lower interest rates at its June 18 meeting or the one scheduled for late July. Interest rate futures, as tracked by CME Group's FedWatch tool, indicated that most investors anticipate two quarter-point rate cuts by the end of the year, with the first likely to occur in September. The 10-year U.S. Treasury yield climbed to 4.51% and the 2-year yield jumped to 4.04% to end the week. Overall, the bond market continues to reflect a tug-of-war between growth concerns and inflationary pressures, leaving investors recalibrating their expectations for future monetary policy.

Week Ahead: Markets will be focused on Wednesday's release of the Consumer Price Index (CPI) report, which will reveal whether a recent trend of moderating inflation extended into May despite elevated tariffs and global trade tensions. Last month's CPI report showed an annual rate of 2.3% in April, down from 2.4% the previous month. Excluding volatile energy and food prices, core inflation was unchanged at 2.8% in April relative to March.

INDICES

	June 6 Close	June 2 Open	Weekly Change	Dec 31 2024	YTD Change
DJIA	42,763	42,270	1.2%	42,544	0.5%
S&P 500	6,000	5,912	1.5%	5,882	2.0%
NASDAQ	19,530	19,114	2.2%	19,311	1.1%
Russell 2000	2,132	2,066	3.2%	2,230	-4.4%
KBW Bank Indx	130.6	127.5	2.5%	127.5	2.5%
Bitcoin	$104,622	$104,125	0.5%	$93,714	11.6%
Oil (WTI)	$64.74	$63.65	1.7%	$71.72	-9.7%
Gold	$3,312	$3,362	-1.5%	$2,625	26.2%
Prime	7.50	7.50	0.00	7.50	0.00
Effective Fed Funds	4.33	4.33	0.00	4.33	0.00
3m Tbill	4.34	4.33	0.00	4.31	0.03
2yr UST	4.03	3.92	0.11	4.24	-0.21
10yr UST	4.50	4.43	0.07	4.57	-0.07
2-10yr UST Spread	47	51	-5	33	14
2y AAA Muni/10y UST	68.0%	71.4%	-3.4%	66.5%	1.6%
10y AAA Muni/10y UST	73.7%	75.3%	-1.6%	68.4%	5.3%
5yr Inflation Forecast	2.36	2.42	-0.06	2.42	-0.06

Week Ahead

- **Monday:** Wholesale Inventories
- **Tuesday:** No major reports
- **Wednesday:** CPI, Federal Budget Balance
- **Thursday:** PPI, Jobless Claims
- **Friday:** Consumer Sentiment

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