Summary

Economic data for the holiday-shortened week included a rise in manufacturing sentiment and small drop in services sentiment, despite both remaining solidly expansionary. House prices continued to increase at a dramatic pace. The May employment situation report outpaced expectations, although results were not as strong as in recent months.

Global equity markets fell back from a steep recovery the prior week, except for emerging markets, which gained ground as Chinese lockdowns eased. Bond prices declined as the result of higher treasury interest yields. Commodities were mixed, with higher energy prices offsetting a pullback in grains.

Economic Notes

(+) The **ISM manufacturing index** for May rose by 0.7 of a point to 56.1, exceeding the median forecast of 54.5. Of the industries covered, 15 of the 18 reported positive growth. Production and new orders both rose as well, reversing course from the most recent months, moving further into expansion; however, employment dropped over a point below 50 into contraction. Logistical conditions also improved, with prices paid and supplier deliveries declining, but remaining at high levels. Overall, it appeared from index respondents that shutdowns were still affecting supply from China (while that's improved more recently), coupled with domestic demand that remains high. Additionally, tight labor conditions and difficulty in finding workers continue to weigh on manufacturing activity. Overall, the reading points to sustainable strength, albeit with challenges that keep the reading from elevating further.

(0/+) The **ISM services/non-manufacturing index** for May fell by -1.2 points to 55.9, below the expected 56.5 reading. Under the hood, new orders and employment both rose, further into expansionary territory. However, business activity overall fell by -5 points, but remained solidly in expansion. On the supply side, prices paid and supplier deliveries both fell by a few points, which suggests that pressures there continue to improve, but still remain at high levels. The goods sector has largely recovered from the pandemic, but the services sector has been catching up, and hasn't quite surpassed pre-Covid levels yet. Interestingly, the anecdotal business comments in the report included frustration at the ongoing shortages, delays, and higher costs, which dampen fulfillment of order activity.

(0/-) **Construction spending** in April rose 0.2% in April, but fell short of the 0.5% median forecast. Private construction spending rose a half-percent, as gains in residential offset declines in non-residential and all public construction for the month. As these were nominal results, cost inflation of 2% resulted in a net decline in real after-inflation terms.

(+) The **S&P/Case-Shiller home price index** in March rose by 2.4%, just stronger than the prior month and was, in fact, the best month in history, exceeding the 1.9% increase expected. For the single month, all 20 cities experienced gains, led by Dallas, Tampa, and Seattle, which had increases between 3-4%. The year-over-year national rate of increase re-accelerated by 0.9% to 21.2%, which is a new all-time high for that metric.

(+/0) The **FHFA house price index** for March rose by 1.5%, but fell short of the consensus gain of 2.0%. Every region experienced a rise, led by Mountain (ID/MT south to NM/AZ) and East South Central (KY/TN/MS/AL)—both of which rose in the 2-3% range. The year-over-year rate of increase decelerated by -0.4% to 19.0% nationally, but remaining quite strong relative to historical averages.

(-) The Conference Board index of **consumer confidence** for May fell by -2.2 points to 106.4. Consumer assessments of present conditions declined to a slightly larger degree than did expectations for the future. However, there was a perceived softening in labor market conditions, although only by a few percentage points, with jobs slightly less 'plentiful' and slightly more 'hard to get'. With other labor data, this may be starting to indicate that conditions may continue to remain strong, but also may not show drastic improvement from here.

(0) The **JOLTs** job openings report showed a drop of -455k to 11.400 mil, above the median forecast calling for 11.350 mil. This results was driven by a -266k decline in health care/social assistance jobs, as well as -149k in professional/business services, and -147k leisure/hospitality. The job openings rate fell by -0.3% to 7.0%, while the hiring rate was unchanged at 4.4%. The layoff rate fell -0.1% to 0.8%, and the quits rate ticked down -0.1% to 3.2% (notably in leisure/hospitality and construction). The number of job openings relative to workers remains elevated, and in fact, near post-WWII highs.

(-) The **ADP private employment** report for May showed an increase of 128k, well below the 300k gain expected. This included a downward revision for April by -45k. Services jobs rose by 104k to lead the way, with half coming from the education/health services segment. Goods-producing jobs rose by 24k, with manufacturing taking nearly all of the gains, with smaller gains in natural resources/mining (likely energy-related) offsetting a small drop in construction employment.

(+) **Initial jobless claims** for the May 28 ending week fell by -10k to 200k, further than the 210k median forecast. **Continuing claims** for the May 21 week fell by -34k to 1.309 mil., well below the 1.340 mil. expected by consensus. Initial claims fell in KY, PA, and GA, while gaining in NY by several thousand, however, there were no extreme reports. After a bit of a rise in recent weeks, claims have settled back down near all-time lows when measured by a proportion of covered workers.

(+/0) The employment situation report for May came in better than expected, but at a decelerated pace of the gains compared to earlier in the year. **Nonfarm payrolls** rose by 390k, exceeding the 318k expected by consensus, but well below the average of the past several months. Additionally, the prior several months featured -22k in net revisions downward. Gains overall were broad, with private jobs up 333k, most notably in leisure/hospitality (84k), professional services (75k), education/health (74k), government (57k), and construction (36k). On the downside, manufacturing gained by only 18k and retail declined by -61k.

The **unemployment rate** was unchanged for the third straight month at 3.6%, despite expectations of a slightly improvement to a tenth lower. The U-6 underemployment rate rose for the third straight month, by another tenth to 7.1%, with a gain in part-time workers returning to the workforce. The household survey component saw a rise in 321k jobs.

Average hourly earnings rose 0.3% in May, a tenth below expectations, and pulling the trailing 12-month growth rate down to 5.2%. The **average workweek** length was unchanged at 34.6 hours.

Prior to the employment situation report, **nonfarm productivity** for Q1 was revised up by two-tenths to -7.3% on an annualized quarterly rate, while the true year-over-year rate was static at -0.6%. **Unit labor costs** were revised up 1.0% for Q1 to an annualized rate of 12.6%, with the year-over-year rate similarly up to 8.2%. Compensation per hour was revised up by over a percent as well in Q1 to an annualized rate of 4.4%, with the trailing 12-month rate to 7.6%. All reflect the impacts of wage inflation.

Market Notes

Period ending 6/3/2022	1 Week (%)	YTD (%)
DJIA	-0.83	-8.62
S&P 500	-1.15	-13.23
NASDAQ	-0.96	-22.96
Russell 2000	-0.22	-15.70
MSCI-EAFE	-0.28	-11.70
MSCI-EM	1.77	-13.11
Bloomberg U.S. Aggregate	-0.88	-9.28

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2021	0.06	0.73	1.26	1.52	1.90
5/27/2022	1.08	2.47	2.71	2.74	2.97
6/3/2022	1.21	2.66	2.95	2.96	3.11

U.S. stocks continued a back-and-forth last week, with more volatility than usual day-to-day based on economic news, anticipated impacts on the Fed, and probability of recession. More dire comments from folks such as JPMorgan CEO Jamie Dimon and Elon Musk appeared to fuel additional negativity, although with little detail provided.

By sector, energy fared best, with gains of a percent, followed by industrials, which fared positively. All other sectors were in the negative for the week, led by health care and financials. Real estate was also down over -2%, not helped by higher interest rates. Year-to-date, nearly every sector remains in the negative, with the exception of energy, which is up 60% for the period, but remains a small portion (<5%) of the S&P 500.

Foreign stocks in developed markets were down, as in the U.S., along with the same inflationary and slower economic growth pressures. Added uncertainty in recent weeks has been due to political pressures to wean off of Russian energy oil imports, although such moves are expected to exacerbate economic slowing and high inflation readings. The ECB is sounding more 'hawkish' as well, with hopes to pull back on easy monetary policy later this year. As in the U.S., this has become more controversial, with the economy showing further slowing pressures, but coupled with higher prices, creating a difficult policy choice. Emerging markets outperformed, however, with gains in China. There, the official end of the two-month lockdown in Shanghai was celebrated, although many citizens remain under restriction and public activity remains limited. More so, dozens of government stimulus measures boosted investor spirits.

U.S. bonds fell back as interest rates resumed their path higher, with the 10-year treasury reaching just under the 3.0% level again. This appeared to be fueled by a rise in European inflation as well as speculation about a Fed 'pause' in the fall after expected consecutive 0.50% rate hikes. Treasuries fared a bit better than corporates, as credit spreads widened, with floating rate bank loans the only positive-performing segment for the week. Foreign bonds generally fell back due to a stronger dollar.

Commodities continued to gain ground on the week, as positive returns in energy outpaced a pullback in agriculture, while metals were less drastically changed. The price of crude oil rose by over 3% to just under $119/barrel. The OPEC+ meeting last week resulted in an agreement to raise production to some degree, but to levels far less than hoped, with Russian output having fallen over the last few months. An overriding factor was the European Union's push to ban 90% of Russian oil imports by the end of 2022. (The 27 countries in the EU bloc rely on Russia for 25% for their oil.) Grain prices (notably wheat and corn) fell back with Ukrainian/Russian shipments resuming to some extent. This is positive news for many nations with food security issues, notably in Africa, which imports significant amounts of grain for the region and where food shortages and high prices can be a potential source of political disruption.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.