Summary

Economic data included stronger job openings, while the ISM manufacturing and services PMI indexes weakened. The employment situation report showed in showing growth, but prior revisions downward, so generally neutral.

Equities gained globally, with few surprises on the trade front, and unsurprising economic data. Bonds fell back as interest rates ticked higher. Commodities gained, led by a sharp rise in crude oil prices.

Economic Notes

(-/0) The **ISM Manufacturing PMI index** ticked down by -0.2 of a point to 48.5, in contrast to a slight increase expected to 49.5. The underlying data included gains in new orders, production, and employment, although these all remained below 50 in contraction. Supplier deliveries rose by another point, further in expansion, while prices paid fell slightly, but remained sharply expansionary, just below the 70 level. Inventories, in a reversal from pre-tariff activity, remained the primary cause of the monthly drop. Interestingly, the formal release noted “tariffs” nearly two-dozen times, but this was actually a decrease from the April report. Survey respondents noted that “most suppliers” were passing through tariffs “at full value” to U.S. companies, and the underlying “uncertainty” continues to weigh on “profitability and service.” The final **S&P Global US manufacturing PMI** for May was similarly revised down by -0.3 of a point to 52.0. That included a downgrade for output and new orders, while employment improved a bit. Manufacturing was generally operating at a contractionary pace for some time before the tariff talk started, but uncertain tariff policy certainly hasn’t helped get this sector off the ground.

(-/0) The **ISM Services/Non-Manufacturing PMI index** fell by -1.7 points to 49.9, below the 52.0 median forecast. This moved the overall index figure back into contraction, even if just slightly. Under the hood, new orders fell the sharpest, by -6 points to 46 (the lowest level in three years), while business activity fell -4 points to a neutral 50 level. Supplier deliveries rose by several points, further into expansion, implying faster speed. Prices paid rose by another 4 points to over 68, which represented strong expansion. Tariffs were mentioned 14 times in the press release, similar to the April report, with respondents noting that tariffs have increased costs, and variability about tariffs, specifically, “has thrown residential construction supply chains into chaos.” The **S&P Global US services PMI**, on the other hand, rose by 1.4 points to 53.7, as opposed to the unchanged 52.3 expected. Notably, new business and employment rose, further into expansion.

(-) **Construction spending** fell -0.4% in April, contrary to the median forecast that called for a 0.2% increase. By category, public non-residential spending saw gains of a half-percent, while all other categories saw declines, including private construction spending. As construction costs fell by a tenth of a percent, spending fell by -0.3% on a real after-inflation basis.

(0) **Initial jobless claims** for the May 31 ending week rose by 8k to 247k, above the 235k median forecast. Continuing claims for the May 24 week fell by -3k to 1.904 mil., below the 1.910 mil. level expected. Little changed overall, with initial claims mixed by state, with perhaps some influence in coming weeks/months from summer break effects.

(+) The **JOLTS** report of job openings for April showed an increase of 191k to 7.391 mil., well above the 7.100 mil. expected. Openings rose the most in professional/business services (171k) and private education/health services (115k), while they fell the most in leisure/hospitality (-92k) and other services (-60k). The job openings and hiring rates each rose by a tenth to 4.4% and 3.5%, respectively. On the departure side, the layoff rate rose a tenth to 1.1%, while the quits rate fell a tenth to 2.0%. The layoff rate for the federal government fell a sharper -0.2% to 0.1% for April, while the hiring rate was unchanged 1.0%. Based on JOLTS, labor conditions haven't deteriorated dramatically, which is the main change markets have been looking for.

(+/0) The employment situation report for May continued to come in a bit better than consensus expectations. **Nonfarm payrolls** rose by 139k, relative to the median forecast estimate of 126k, but a slight slowing from the prior month. It also included revisions downward for April (-30k) and March (-65k). By segment in May, jobs rose in health care/social assistance (78k) and leisure/hospitality (48k); on the other hand, Federal government jobs continued to fall (-22k, which was offset by a 21k gain in state/local government jobs), as did professional/business services (-18k), durable goods and retail trade to lesser degrees. The Federal government's deferred resignation retirement program data was included in this dataset, as administrative leave began on May 1. The U-3 **unemployment rate** was unchanged at 4.2% for the third straight month, staying just two-tenths higher than a year ago, as small business start-up declines matched a similar drop in the size of the labor force. The U-6 underemployment rate was also unchanged at 7.8%. **Average earnings** rose by 0.4% for the month, a tenth stronger than expected, and twice the pace of the 0.2% growth the prior month. Year-over-year, earnings were up 3.9%. The **average workweek** was unchanged for the third month in a row at 34.3 hours. Overall, this was a decent report, not too robust and not too soft, not showing any meaningful change in trend.

The earlier final report on **productivity** for Q1 showed a sharper revision down by -0.7% to -1.5% on a quarterly annualized basis. The year-over-year rate was revised down just a tenth to 1.3%, which continues to run below the 1.8% seen since late 2019, just before the pandemic. **Unit labor costs** for Q1 were revised up by nearly a percent from the prior figure to 6.6% on a quarterly annualized basis. Year-over-year costs were revised up by 0.6% to 1.9%.

Some questions have surfaced about the impact of lessened immigration this year. While immigration rates have certainly slowed dramatically, relative to the 2023-24 surge, they remain similar to the pre-pandemic trend of about a million a year. Anomalies remain around certain immigrants from Venezuela, as well as students from China. While current employment has not appeared to have been sharply affected, labor growth can and will likely slow.

Market Notes

Period ending 6/6/2025	1 Week %	YTD %
DJIA	1.23	1.31
S&P 500	1.54	2.62
NASDAQ	2.20	1.44
Russell 2000	3.23	-3.84
MSCI-EAFE	0.73	17.72
MSCI-EM	2.28	11.21
Bloomberg U.S. Aggregate	-0.44	2.00

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2024	4.37	4.25	4.38	4.58	4.78
5/30/2025	4.36	3.89	3.96	4.41	4.92
6/6/2025	4.43	4.04	4.13	4.51	4.97

U.S. stocks fared positively again last week, with small caps leading large caps. While trade tension between the U.S. and China remains, a late week phone call between the two leaders "resulted in a very positive conclusion for both countries," as the President put it, and buoyed sentiment. Further discussions are scheduled in London this week. The Friday jobs reports, not too hot nor too cold, also was taken positively by markets. Overall, the U.S. stock market volatility from prior months appears to have calmed down a bit, with a general consensus that trade deals are expected to be in the works, and the maximum tariff rates won't end up being a reality. On the other hand, U.S. steel and aluminum tariffs doubled to 50% last week.

By sector, communications and technology led the way (based on positive AI sentiment), along with energy as oil prices rose. Conversely, consumer staples, consumer discretionary, and utilities lagged as the sectors showing declines. Real estate gained slightly, despite interest rates moving again higher. Consumer discretionary would have fared decently for the week, other than the -15% drop in Tesla, which was negatively affected by the growing interpersonal falling out between Elon Musk and the President. Musk continued to rail against the large size of the Congressional tax bill, and pullback of EV incentives within it, along with a favorite choice for NASA leadership being overlooked, with the President threatening to pull further subsidies and contracts affecting the firm.

Foreign stocks also experienced gains for the most part, with Europe and the U.K. outpacing Japan, which lagged. The German corporate tax relief package aimed at helping push growth was a positive sentiment factor. At the same time eurozone growth was revised higher, to 0.6% for Q1, the ECB lowered their policy rate by another -0.25% to 2.00%, with President Lagarde noting moderating inflation and downside risks to economic growth as justifications. She also alluded to being near the end of their cutting cycle, having lowered rates by -2.00% over the past year, and the environment being in a "good place." Emerging markets were boosted by gains in South Korea, Turkey, and South Africa, while positive returns in China were helped by weaker economic data leading hopes for additional stimulus. A somewhat buried portion of the recent Congressional tax bill, Section 899, has some observers concerned about near-term foreign investment in the U.S. That provision would impose a new tax on countries that impose “discriminatory” taxes on U.S. entities, the definition for which is vague, but is also seen as a bargaining chip to force European governments to lower punitive taxes on U.S. firms with significant European operations. It is also unclear whether this would affect tax withholding for other U.S. assets, like Treasuries. There will most certainly be more to come on that issue as the Senate hashes out the tax bill in the next month or two.

Bonds fell back last week as interest rates again rose across the U.S. Treasury yield curve. Investment-grade corporates outperformed governments, but leading segments included high yield and floating rate bank loans. Foreign bonds were mixed, with little change to the value of the U.S. dollar for the week.

Commodities saw gains across the board for the week, led by energy, although metals and agriculture also gained. Crude oil rose 6% for the week to $65/barrel, due to a combination of hoped-for progress in U.S.-China trade talks on the demand side and Canadian wildfires near oil installations threatening the supply side. Generally, wildfires, or any natural disaster really, tends to pressure commodity availability in the near-term, which can spook markets.

Have a good week.
Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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, Univ. of Michigan, 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.

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