

A Flurry of Unexpected Weakness Drags Bond Yields Lower

It's a data-packed, holiday-shortened week capped by Friday's critical release of the June labor market report, but the majority of releases so far have signaled surprising softness during the first month of summer.

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This morning, the ISM services survey showed unexpected *contraction* in the most dominant sector of the U.S. economy. The ISM Services Index slipped from 53.8 into contraction territory (sub-50) at 48.8 in June. This was well below the 52.7 median forecast and *the lowest composite service reading since May 2020*. The employment index (already signaling contraction) fell further from 47.1 to 46.1, while the forward-looking new orders index dropped from 54.1 to 47.3. The prices paid index continued to indicate more service managers were experiencing higher prices in June, but the percentage has fallen in the last two surveys.

The morning began with a rally as early data releases were also soft, but the surprise ISM weakness extended and amplified the rally, dragging yields lower.

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