

## Canada Rate Cut Fuels Market Rally Despite Expanding ISM Services

The main service index from the Institute of Supply Management (ISM) unexpectedly moved from contraction to expansion in May, rising from 49.4 to a nine-month high of 53.8. The sub-50 April reading had represented the first service sector contraction since December 2022, but apparently the welcomed weakness was short-lived.

The business activity index jumped 10.3 points to 61.2, the highest level since November 2022 and the largest single month increase in more than three years, while the new orders index continued a 17-month expansion streak, climbing from 52.2 to 54.1. An increased number of purchasing managers reporting a rise in new orders suggests sustained service sector health in the coming months.

The supplier deliveries index moved from 48.5 to 52.7, indicating expansion for the first time since January. An increase in this sub-index means slower delivery times, which is actually a positive as it's consistent with higher customer demand.

The employment index rose from 45.9 to 47.1, the fifth sub-50 (contractionary) reading in six months, although expectations of hiring fewer workers probably reflects ongoing labor market challenges and not lessening demand.

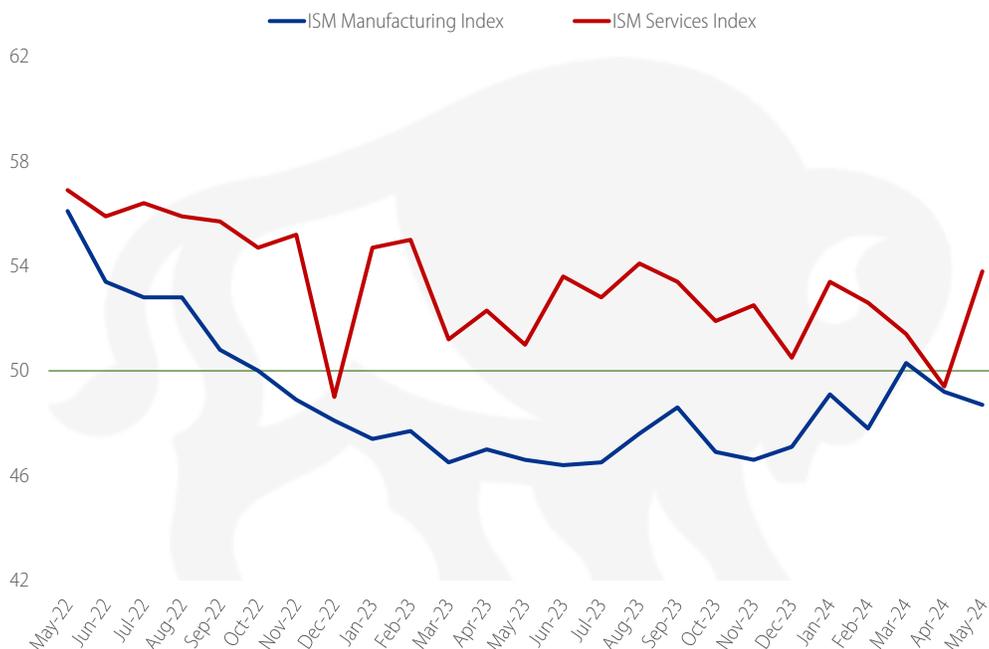
The prices paid index was a bit of a bright spot, slipping from 59.2 to 58.1, although a majority of purchasing managers were still reporting higher prices.

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### ISM Purchasing Managers Index



Source: Institute for Supply Management

Of the 18 industry groups surveyed, 13 reported growth. Among the five contracting industries were retail trade, entertainment and recreation, and food services, *industries that typically flourish in the spring and summer months.*

The official release from the Institute of Supply Management summarized the May report with: "The increase in the composite index in May is a result of notably higher business activity, faster new orders growth, slower supplier deliveries, despite the continued contraction in employment."

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Although the predominant sector of the U.S. economy seems to have regained its footing after an April stumble, the six-day bond market rally continues. However, the more likely reason market yields are falling is a shift in global central bank policy.

This morning, the Bank of Canada became the first G-7 country to lower its overnight lending rate. The 25 basis point move brought Canada's target rate down from 5.0% to 4.75%. The European Central Bank (ECB) meets tomorrow and is almost certain follow Canada's lead. The Fed meets next week but is widely expected to maintain its current restrictive policy stance.

## Market Indications as of 11:02 A.M. Central Time

DOW	Up 65 to 38,776 (HIGH: 40,004)
NASDAQ	Up 217 to 17,074 (NEW HIGH)
S&P 500	Up 40 to 5,331 (NEW HIGH)
1-Yr T-bill	current yield 5.11%; opening yield 5.10%
2-Yr T-note	current yield 4.74%; opening yield 4.77%
3-Yr T-note	current yield 4.52%; opening yield 4.55%
5-Yr T-note	current yield 4.31%; opening yield 4.35%
10-Yr T-note	current yield 4.29%; opening yield 4.33%
30-Yr T-bond	current yield 4.44%; opening yield 4.47%

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