

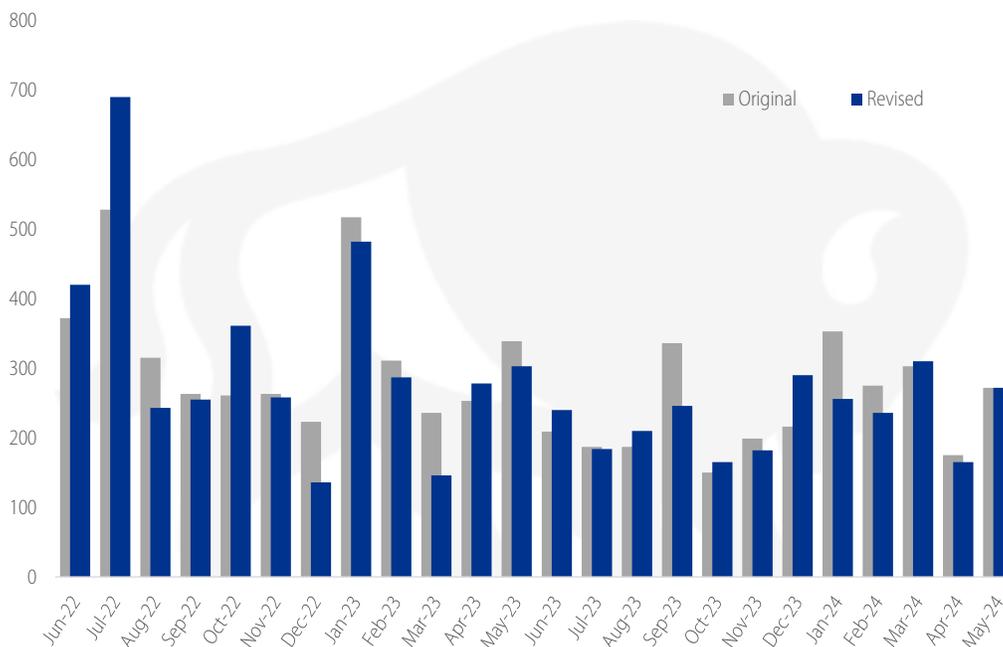
Yields Rise on Unexpected Payroll Surge

U.S. businesses added +272k workers to company payrolls in May following a revised +165k April increase, *effectively dashing any remaining hope for a July rate cut*. Last month's outsized gain in non-farm payrolls crushed the +175k median forecast and was higher than all 77 estimates collected in the Bloomberg survey. The "blowout" payroll number is what the markets have focused on in early trading, but this morning's release from the Bureau of Labor Statistics (BLS) had its share of underlying weakness.

The separate household survey showed the number of employed workers dropped by -408k in May while the overall labor force fell -250k, pushing the headline unemployment rate up to 4.0% for the first time since January 2022. There's been a lot of head-scratching in recent years as the two surveys have painted significantly different pictures of labor market health. Bloomberg noted total employment, as measured by the company survey, is up +1.8% year-over-year while the household survey indicates a lesser +0.2% increase. The most likely explanation for the survey variance seems to be the inability of the household survey to capture recent shifts in immigration.

Perhaps the most important component of the May report is a bigger-than-expected jump in wage inflation. Average hourly earnings rose +0.4%, following a +0.2% April increase. On a year-over-year basis, average earnings were up +4.1% last month, a huge disappointment to the markets after slipping to a +3.9% annual pace (pre-revision) in April for the first time in three years.

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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The majority of payroll adds last month were once again in the service sector. Notable job gains were concentrated in healthcare (+68k), government (+43k), and leisure and hospitality (+42k). Companies also added +32k professional, scientific, and technical jobs last month. These higher paying occupations likely exerted some degree of upward pressure on wages.

A continued decline in temp workers may be an early sign of future labor softening, along with a steady drop in the number of workers voluntarily leaving their jobs. However, May payroll strength reversed the apparent April weakness and has effectively pushed the first expected rate cut out beyond summer.

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Bonds have sold off dramatically this morning (yields higher). Roughly half of the price gains incurred over the past seven trading days have evaporated as investors recalibrate their rate outlook.

The Fed meets next week. Although monetary policy will hold steady for the seventh straight meeting, investors anticipate a fresh summary of economic projections, including an updated dot plot.

Market Indications as of 9:59 A.M. Central Time

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|--------------|--|
| DOW | Up 102 to 38,988 (HIGH: 40,004) |
| NASDAQ | Down -10 to 17,163 (HIGH: 17,188) |
| S&P 500 | Up 12 to 5,365 (NEW HIGH) |
| 1-Yr T-bill | current yield 5.17%; opening yield 5.06% |
| 2-Yr T-note | current yield 4.86%; opening yield 4.73% |
| 3-Yr T-note | current yield 4.65%; opening yield 4.51% |
| 5-Yr T-note | current yield 4.45%; opening yield 4.30% |
| 10-Yr T-note | current yield 4.42%; opening yield 4.29% |
| 30-Yr T-bond | current yield 4.55%; opening yield 4.44% |

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