

Markets Remain Upbeat Despite Softer Data

Bond yields edged slightly higher on Friday, ending an eight-day rally. Meanwhile, both the S&P 500 and Nasdaq reached new *intraday* record highs, defying a series of economic reports released earlier in the day that pointed to slowing growth and a longer pause in Fed policy.

Personal income declined by -0.4% in May, a surprising drop largely attributed to reduced government benefits and potential distortions from seasonal adjustments. However, underlying wage and salary growth remained solid, rising +0.4%. In contrast, personal spending fell by -0.1%, driven primarily by a decline in auto sales, though the weakness was broad-based. After adjusting for inflation, real consumer spending dropped -0.3%. Given that consumer spending is the primary driver of U.S. GDP growth, this apparent weakness raises concerns about economic momentum in the coming months.

The Fed's preferred inflation gauge, the Personal Consumption Expenditures (PCE) index, showed modest increases in May. Headline PCE rose +0.1%, while core PCE (excluding food and energy) increased +0.2%. On a year-over-year basis, headline PCE ticked up from +2.2% to +2.3%, and core PCE rose from +2.6% to +2.7%. While slightly higher in May, prices remain surprisingly well contained given the ongoing tariff threat.

Fed Chairman Jay Powell testified before Congress this week, reiterating that the Central Bank lacks sufficient clarity to begin easing monetary policy. Speaking to the House Financial Services Committee, Powell warned that recently imposed tariffs could dampen economic activity while pushing prices higher. He emphasized the Fed's responsibility to prevent temporary price shocks from evolving into persistent inflation, cautioning that premature rate cuts could exacerbate inflationary pressures.

Despite Powell's unwavering position, political pressure continues to mount. President Trump renewed his harsh criticism of the Fed Chairman on Tuesday, calling for rate cuts of 200 to 300 basis points. While Powell has yet to waver on monetary policy, two Federal Reserve Governors—Michelle Bowman and Christopher Waller, both Trump appointees—have recently signaled support for a rate cut at the July meeting. With Powell's term ending next May, speculation is growing that Waller could be nominated as his successor. *Apparently, he's already auditioning for the job.*

A potential development that could move other committee members to consider earlier rate cuts is labor market weakness. While monthly payroll numbers have been relatively solid, underlying employment indicators suggest emerging weakness. Initial jobless claims fell slightly last week from 246,000 to 236,000, but *the four-week moving average remains near a 96-week high*. More notably, continuing claims rose to 1.974 million—the *highest level since November 2021*—indicating that unemployed workers are struggling to find new jobs. Employers appear reluctant to lay off experienced staff, but hiring activity is clearly slowing.

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Recent trade news has been mixed. Positive developments emerged from negotiations with China earlier in the week, but all discussions with Canada were abruptly suspended today. A frustrated President Trump announced that new tariffs on Canadian imports would be announced within the next week. Despite the looming July 9 deadline for reinstating “Liberation Day” tariffs, the equity markets are now fully recovered from the early April plunge. Investors seem to expect an extended pause in tariff implementation, providing additional time for negotiations.

Market Indications as of 2:46 P.M. Central Time

DOW	Up 316 to 43,702 (HIGH: 45,014)
NASDAQ	Up 37 to 20,205 (NEW HIGH)
S&P 500	Up 9 to 6,150 (NEW HIGH)
1-Yr T-bill	current yield 3.97%; opening yield 3.95%
2-Yr T-note	current yield 3.74%; opening yield 3.73%
3-Yr T-note	current yield 3.72%; opening yield 3.69%
5-Yr T-note	current yield 3.83%; opening yield 3.80%
10-Yr T-note	current yield 4.28%; opening yield 4.24%
30-Yr T-bond	current yield 4.84%; opening yield 4.80%

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