Bond Yields Steady Despite Soft ISM Data and Stagflation Concerns

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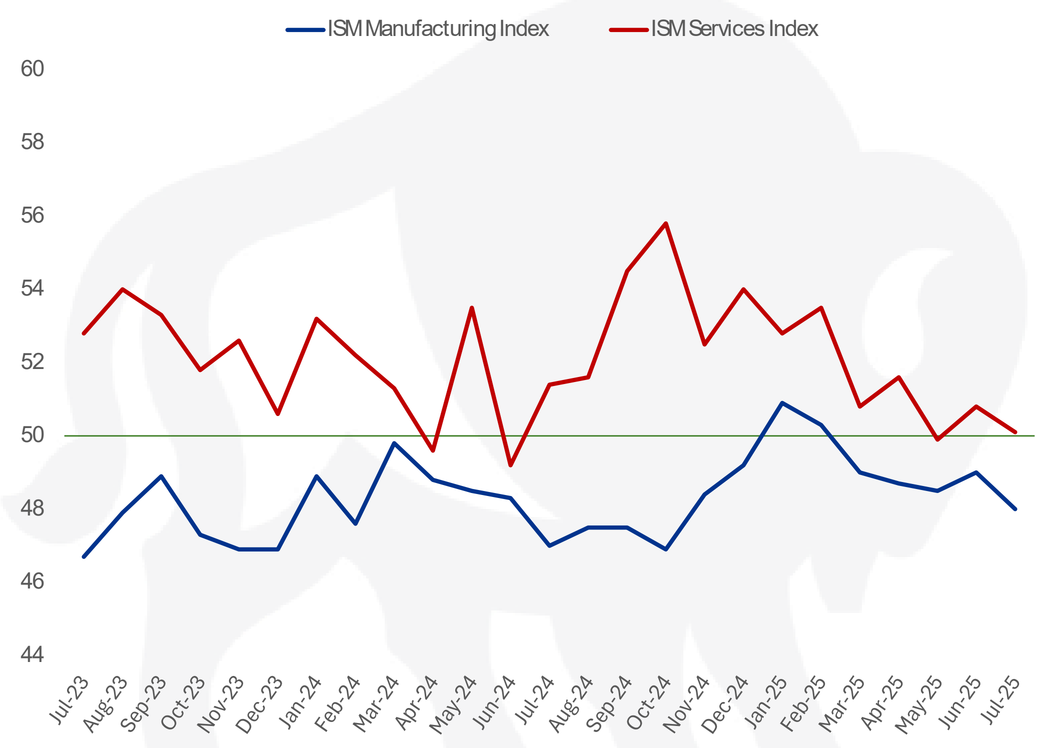
The July ISM Services PMI came in at 50.1, avoiding contraction (< 50) but falling short of expectations for 51.5. The report revealed a mix of weak demand and rising costs. The employment index dropped to 46.4, one of the lowest levels since the pandemic, and contracted for the fourth time in five months. The prices paid measure for materials and services climbed to the highest level since October of 2022. Bloomberg noted that *hiring is slowing even as firms face rising input costs, painting a picture of stagflation*, slowing growth alongside elevated inflation. The services sector is important because it accounts for roughly 70% of U.S. GDP and employs most American workers.

The ISM surveys are forward-looking indicators, offering early insight into business sentiment and economic momentum. Unlike hard data such as GDP or payrolls, ISM readings reflect real-time conditions reported by purchasing managers, making them valuable for gauging turning points in the economy.

Last Friday, overshadowed by the employment report, market volatility and other headlines, the ISM Manufacturing PMI fell to 48.0. The overall index has been below 50 for the last five consecutive months and sat below that for all of 2023 and 2024. None of the six largest manufacturing industries reported growth, and the employment index dropped to its lowest level since 2009, excluding pandemic-related disruptions.

ISM Purchasing Managers Index

Both services and manufacturing PMIs have declined since the beginning of this year.



Source: Institute for Supply Management

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The industrial slowdown continues despite the Trump administration's push to reshore American manufacturing. Tariffs, among the steepest in a century, aim to protect domestic producers but are contributing to inflation. Meanwhile, job growth has slowed significantly in 2025, driven by federal workforce reductions, AI automation, immigration policy, and fallout from tariffs.

If business activity continues to soften, the Federal Reserve may need to pivot more aggressively, potentially cutting rates to support growth amid rising costs and weakening demand.

Despite the soft data, bond yields remained steady, with little movement following the services release. Additional data on Tuesday showed the U.S. trade deficit narrowed to $60.2 billion in June, the tightest since September 2023, as companies scaled back imports. Equities remain near all-time highs, though price action has been choppy, reflecting investor uncertainty. If business activity continues to soften, the Federal Reserve may need to pivot more aggressively, potentially cutting rates to support growth amid rising costs and weakening demand.

Market Indications as of 10:41 A.M. Central Time

DOW	Down -164 to 44,010 (HIGH: 45,014)
NASDAQ	Down -56 to 20,998 (HIGH: 21,179)
S&P 500	Down -11 to 6,319 (HIGH: 6,390)
1-Yr T-bill	current yield 3.90%; opening yield 3.81%
2-Yr T-note	current yield 3.71%; opening yield 3.67%
3-Yr T-note	current yield 3.67%; opening yield 3.64%
5-Yr T-note	current yield 3.76%; opening yield 3.73%
10-Yr T-note	current yield 4.20%; opening yield 4.19%
30-Yr T-bond	current yield 4.78%; opening yield 4.78%