

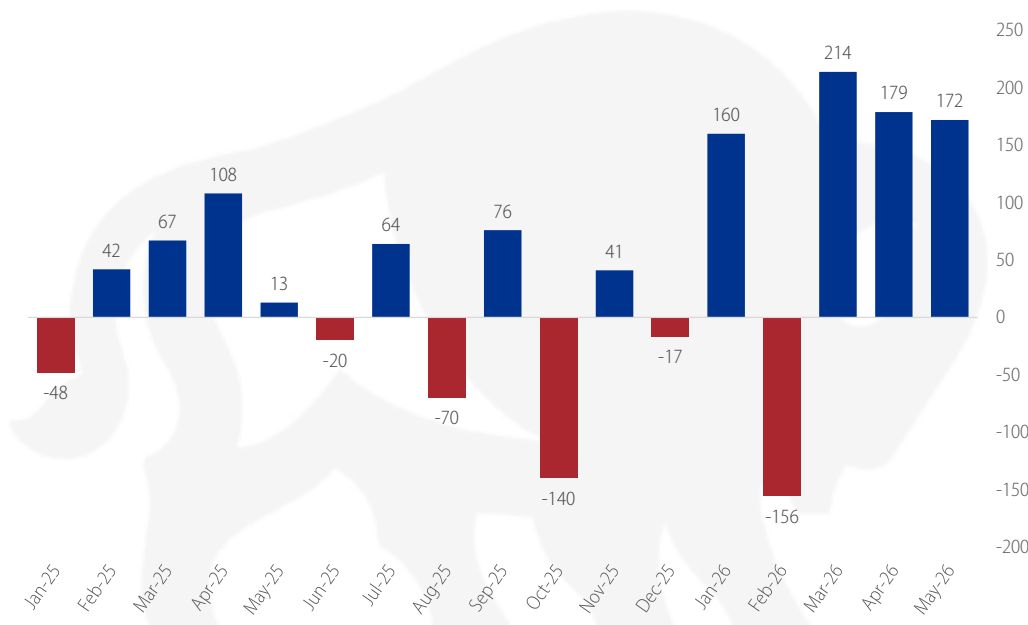
## Yields Higher as Labor Market Strength Reshapes Fed Outlook

The Bureau of Labor Statistics reported a much stronger than expected May jobs report today, pushing bond yields higher across the curve. Nonfarm payrolls rose by 172k, well above the consensus forecast of 88k and one of the largest upside surprises in recent years. Revisions added another 93k jobs to the prior two months, lifting the three-month average to 188k, a sharp rebound from just 6k in February.

Leisure and hospitality led job creation with a 70k increase, marking its strongest gain in over three years. Healthcare and social assistance, a consistent driver of employment growth, also contributed meaningfully with 37k new jobs. Manufacturing added jobs as well, alongside gains in construction, pointing to continued strength in goods-producing sectors tied to areas such as data centers, defense spending, and inventory rebuilding. Government hiring was a positive contributor for the month, with state and local employment rising by 52k. However, some sectors showed signs of weakness. Financials, information technology, trade, and transportation all posted declines.

Wage growth showed further signs of cooling. Average hourly earnings rose 0.3% in May, in line with expectations, while year-over-year growth slowed to 3.4% from 3.6% in April, matching the slowest pace since 2021. Economists have been closely watching whether tight labor market conditions would continue to drive wage gains, particularly as inflation has at times outpaced pay growth. For now, the moderation in wages suggests that while the labor market remains firm, compensation pressures are not accelerating in a way that would reinforce broader inflation, reducing the risk of a self-sustaining wage-price spiral.

### Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2.

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From the household survey, employment increased by 149k while the labor force grew by 83k, both marking solid gains on the month. The unemployment rate edged slightly lower but held at 4.3% on a rounded basis. The labor force participation rate was unchanged at 61.8%, stabilizing after recent declines, while the employment-to-population ratio also held steady at 59.2%.

Prime-age participation, which focuses on workers aged 25 to 54, edged higher, suggesting strength in the core labor force. The underemployment rate, a broader measure of unemployment that includes those working part-time for economic reasons and discouraged workers ticked lower, also pointing to improvement in labor market slack.

Earlier this week, other labor market data pointed in a similar direction. The ADP report showed a 122k increase in private sector jobs, with gains across firms of all sizes. Meanwhile, the Job Openings and Labor Turnover Survey (JOLTS) showed job openings rising by 731k in April to 6.62 million, the highest level since 2024.

The recent spate of positive jobs data shows a labor market regaining momentum across sectors after last year's period of near-zero job growth. Strong headline gains, coupled with upward revisions shift the focus back toward inflation rather than employment weakness. Markets reflected that shift, with Treasury yields moving higher and rate expectations firming as investors priced in a greater likelihood of Fed tightening by year-end. While some underlying indicators still point to caution, including softer sentiment and uneven hiring, the near-term takeaway is labor market strength is not the concern, and the Fed's attention remains firmly focused on inflation.

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## Market Indications as of 9:40 A.M. Central Time

DOW	Down -82 to 51,479 (HIGH: 51,562)
NASDAQ	Down -458 to 26,373 (HIGH: 27,094)
S&P 500	Down -78 to 7,507 (HIGH: 7,610)
1-Yr T-bill	current yield 3.86%; opening yield 3.78%
2-Yr T-note	current yield 4.15%; opening yield 4.05%
3-Yr T-note	current yield 4.21%; opening yield 4.10%
5-Yr T-note	current yield 4.28%; opening yield 4.18%
10-Yr T-note	current yield 4.54%; opening yield 4.48%
30-Yr T-bond	current yield 5.01%; opening yield 4.98%

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