Markets Eye Jobs Report After Positive ISM Readings

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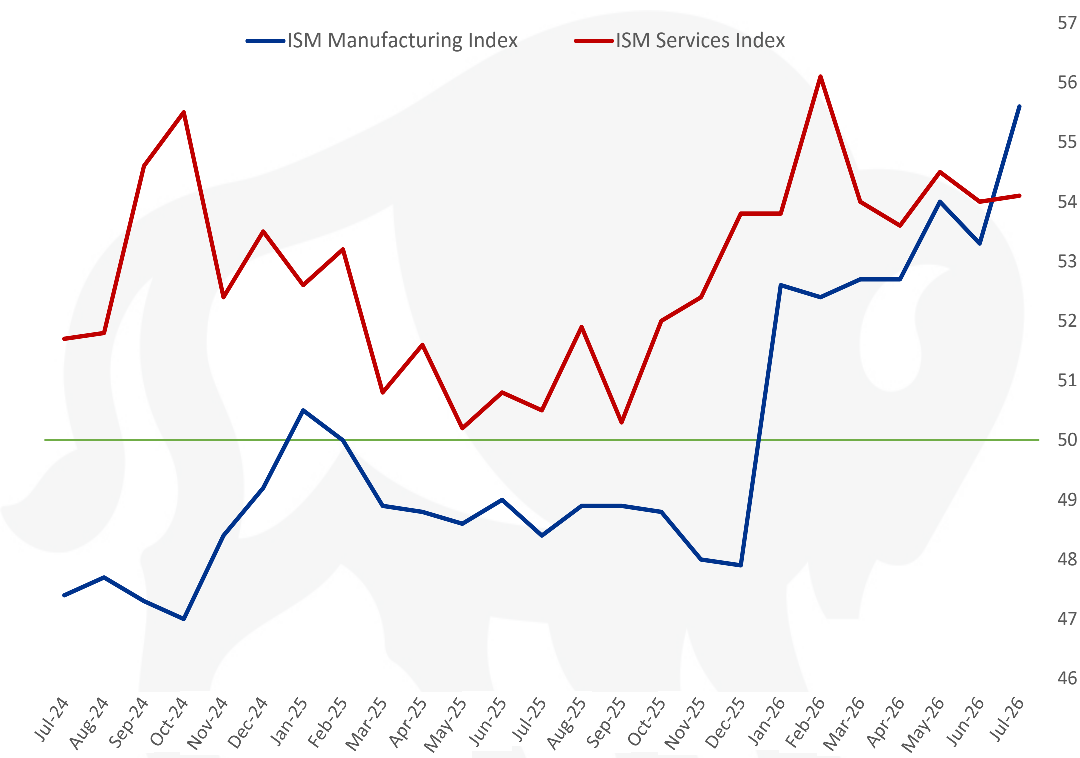
Stocks are trading near record highs this morning while the bond market is mixed, with short-term rates moving slightly higher and longer-term yields drifting lower. Oil has moved sharply lower over the past week, with West Texas Intermediate trading near $75 per barrel, $10 below last week's highs, as reports of progress toward a 60-day agreement to restore shipping through the Strait of Hormuz have eased pressure on energy markets. The move in oil has helped sentiment, but the arrangement remains temporary and geopolitical risk could quickly put upward pressure back into energy prices. Strong corporate earnings and consumer spending, along with this week's ISM data, have supported the market as attention shifts to Friday's employment report and next week's CPI release.

ISM Surveys Point to Firm Activity

The month begins with the ISM Manufacturing and Services surveys, which offer one of the earliest looks at economic activity during the prior month. These diffusion indexes are based on responses from purchasing and supply managers, with readings above 50 indicating expansion and readings below 50 indicating contraction. While considered "soft" data, the surveys are closely watched because they provide an early read on business activity, demand, employment, and inflation trends before many of the month's major hard-data releases.

ISM Purchasing Managers Index



Source: Institute for Supply Management

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Monday's ISM Manufacturing report was strong. The headline PMI jumped from 53.3 to 55.6, the highest reading since May 2022 and well above expectations. Production surged to 58.5, its strongest level since November 2021, while new orders increased to 56.7 and backlogs rose to 55.0. The manufacturing employment index improved to 52.8, returning to expansion territory for the first time in 33 months. Fifteen of the eighteen manufacturing industries tracked by ISM reported growth in July, pointing to broad-based improvement across the factory sector.

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Supplier deliveries slowed further, rising to 58.9 from 57.4, and slower deliveries mechanically add to the composite index even though they can reflect supply-chain friction as much as stronger demand. The Manufacturing Prices Index also eased for a third straight month, falling to 71.1 from 73.0, but that level still signals broad input-cost pressure.

Today's ISM Services report delivered a similar but more mixed message. The headline index edged up only slightly from 54.0 to 54.1, missing expectations for 54.5, but business activity and new orders were much stronger than the headline suggested. Given that the services sector accounts for roughly three-quarters of U.S. economic activity, the report carries significantly more weight than the manufacturing survey. The Business Activity Index rose to 59.1, while New Orders increased to 57.2, indicating healthy demand across much of the service sector. Thirteen service industries reported growth, including retail trade, transportation and warehousing, construction, public administration, utilities, and finance and insurance.

The Employment Index fell from 51.2 to 47.4, its weakest reading since March and back into contraction territory. Backlogs also slowed, falling from 54.9 to 50.9, suggesting the pipeline behind current activity is not building as quickly. The Services Prices Paid Index rose from 67.7 to 70.3, marking the fourth reading above 70 in the last five months. The index has now exceeded 60 for twenty straight months, and its twelve-month average rose to 68.1, the highest since April 2023.

Market Shifts to Jobs Friday and CPI Next Week

With the ISM data out of the way, the market's attention shifts to the labor market and inflation.

Inflation will quickly return to center stage next week with the release of July CPI. Lower oil prices could eventually provide some relief, but the elevated prices-paid components in both ISM surveys suggest businesses are still dealing with higher fuel, transportation, labor, steel, aluminum, and petroleum-related costs.

This morning's ADP employment report showed private payrolls increased by just 44k jobs in July, below expectations and the weakest print of 2026. Economists currently expect Friday's employment report to show roughly 80k nonfarm payrolls, while the unemployment rate is projected to hold steady at 4.2%. While ADP is not always a reliable predictor of the official payroll report, today's softer reading carries more weight because it aligns with the weakness seen in the ISM Services Employment Index, which fell back into contraction territory at 47.4.

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Market Indications as of 11:04 A.M. Central Time

DOW	Up 426 to 54,512 (NEW HIGH)
NASDAQ	Down -121 to 26,464 (HIGH: 27,094)
S&P 500	Up 2 to 7,738 (NEW HIGH)
1-Yr T-bill	current yield 4.05%; opening yield 4.03%
2-Yr T-note	current yield 4.22%; opening yield 4.20%
3-Yr T-note	current yield 4.27%; opening yield 4.24%
5-Yr T-note	current yield 4.36%; opening yield 4.33%
10-Yr T-note	current yield 4.64%; opening yield 4.62%
30-Yr T-bond	current yield 5.18%; opening yield 5.18%