Financial Markets This Week

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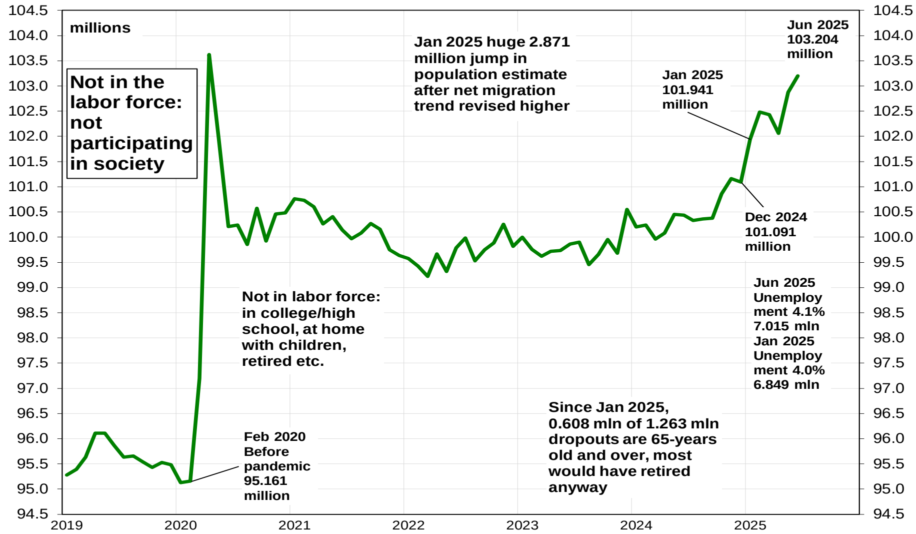
OVER 1 MILLION DROPOUTS



There was a lot to crow about for some in the June employment situation report on Thursday ahead of the July 4 holiday. Bond yields rose 7 bps to 4.35% thinking no immediate Fed rate cuts after payroll employment rose 147K, above 110K consensus, and the unemployment rate dropped a tenth to 4.1% instead of moving higher to 4.3% as the weekly jobless claims data suggested. There have been many dropouts from the labor force the last two months as well, 329K in June and 813K in May, maybe some have given up looking for work which keeps unemployment artificially low. Only time will tell as they say whether there is a trade war slowdown. The economy is not setting any landspeed records for growth with real consumer spending of 0.5% in Q1 2025 and Q2 running 1.3%, where 2-3 percent is normal. There was some bad winter weather in Q1 2025 of course.

Dec 2024 to Jan 2025 Population Changes (thousands)					
3047	Total	3047	Total	3047	Total
1490	White	937	Asian	1660	Non-Hispanic
427	Black	463	Asian Indian	1386	Hispanic/Latino
937	Asian	417	Chinese	218	Mexican
241	American Indian	-103	Filipino	348	Puerto Rican
-62	Hawaiian	63	Japanese	54	Cuban
13	Two+ races	73	Korean	385	Central America
		-9	Vietnamese	260	Salvador
		35	Other Asian	125	x-Salvador
				-104	South America
Civilian noninstitutional population				487	Other
16 years and older				266	Dominican
				222	x-Dominican

Labor force dropouts are more complicated than normal after the pandemic surge and the larger than normal new population estimates released with the BLS January employment situation report on February 7. Dropouts are supposed to trend higher over time as the total population grows, but rising too quickly could indicate a problem. The BLS said the population jump was in part due to the net migration trend, which may make one wonder about a reversal given the new Administration's immigration policies. The breakdown of the 3.047 million increase in population from December to January is probably not what you were thinking. The picture is complex. There was a 937 thousand increase in the Asian population with 463K Asian Indian and 417K Chinese. There are the normal BLS categories based on race, and Hispanic ethnicity is presented/broken-out separately. Hispanic or Latino was 1.66 million (54.5%) of the total 3.047 million December to January change. Puerto Rican was the largest with 348K followed by Dominican 266K, Salvador 260K and Mexican 218K.

The 147K June payroll jobs number was thought to be solid, but private jobs increased 74K the weakest this year. Government jobs rose 73K somehow, education jobs at the state and local level occurred even as schools were closing for the summer. Federal government jobs ex-post office have fallen 59.8K this year as the incoming administration seeks to make the government "small." Nothing stands out in the slowdown in private jobs: less new jobs from education/health; and bars and restaurant hiring is in a soft patch, a sector that often has leading indicator properties. If more factories are coming to the USA, manufacturing hiring is still down.

The Household Survey of employment is weak, although it may be trying to digest the surge in the population estimates at the start of the year as well, where the December to January employment change was plus 2.234 million. It was not a strong jobs report in June, but it is not a recession either. Payroll employment has to fall for a few months before recession is confirmed. Stay tuned. Watch here where the world goes next.

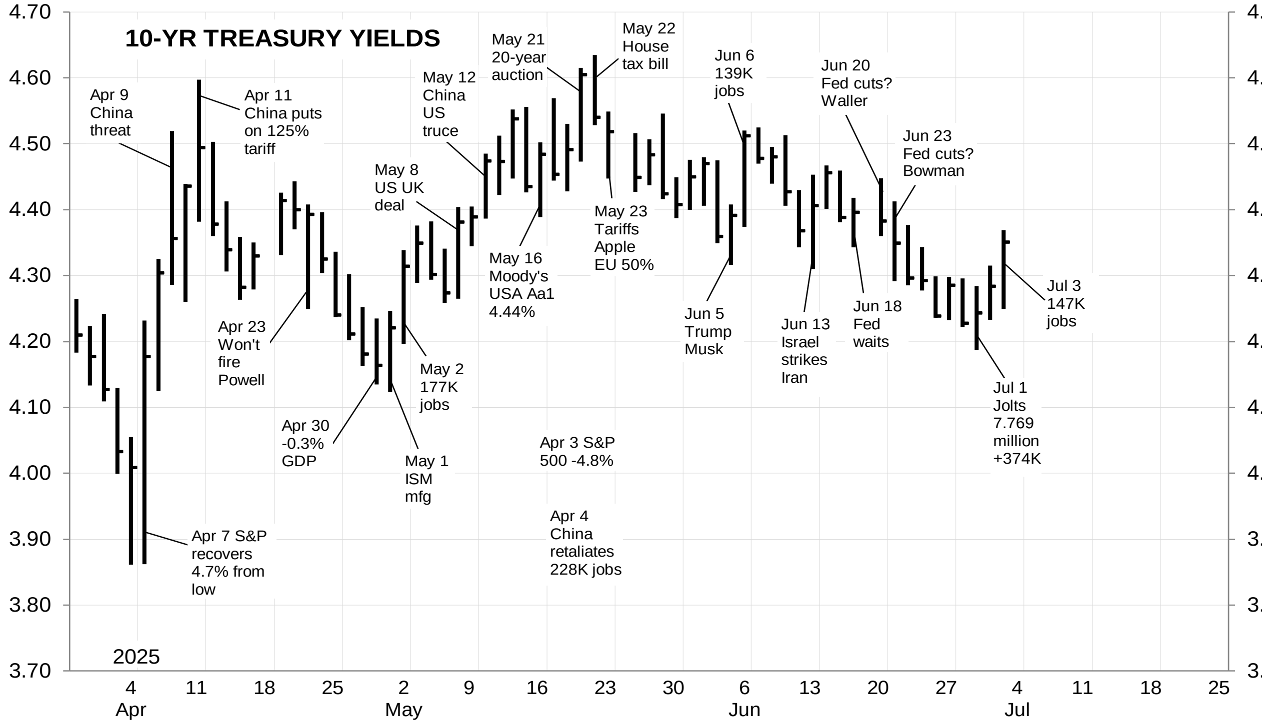
Private payroll jobs growth modest in June

Dec. 2024 Totals millions		Jun 25	May 25	Apr 25	6 months Dec 24 to June 25	12 months Dec 23 to Dec 24
158.942	Nonfarm Payroll Employment	147	144	158	782	2012
135.382	Total Private (ex-Govt)	74	137	133	644	1559
21.673	Goods-producing	6	-4	2	22	72
0.585	Mining	-2	-2	1	-3	-9
12.760	Manufacturing	-7	-7	0	-10	-105
1.008	Motor Vehicles & parts	-1	1	-3	-8	-20
1.015	Computer/electronics	-5	0	-3	-13	-28
1.770	Food manufacturing	-3	3	0	3	17
8.289	Construction	15	6	0	35	190
5.248	Specialty trade contractors	18	-2	5	21	112
113.709	Private Service-providing	68	141	131	622	1487
29.033	**Trade, transportation, utilities**	3	4	-2	73	179
15.538	Retail stores	2	-7	5	48	-6
3.273	General Merchandise	0	2	0	32	48
3.235	Food & Beverage stores	1	-2	7	11	19
6.723	Transportation/warehousing	8	5	-8	23	136
1.521	Truck transport	-3	-2	1	5	-18
0.569	Air transportation	-4	2	3	7	7
1.153	Couriers/messengers	5	7	-25	-5	79
1.844	Warehousing and storage	2	-3	5	-7	15
2.944	**Information**	3	5	1	3	-18
0.484	Computing, data, web hosting	0	2	-2	4	0
9.206	**Financial**	3	10	5	50	30
3.019	Insurance	-2	2	-4	7	37
2.481	Real Estate	2	3	7	25	11
1.369	Commercial Banking	2	0	0	-5	-17
1.128	Securities/investments	3	3	2	17	16
22.614	**Professional/business**	-7	0	27	-11	-50
2.552	Temp help services	-3	-6	17	-16	-159
2.622	Management of companies	-1	4	2	9	7
1.729	Architectural/engineering	3	0	4	18	54
2.446	Computer systems/services	-3	1	3	-15	-6
1.192	Legal services	3	2	1	8	-10
1.141	Accounting/bookkeeping	0	3	-1	8	-9
26.931	**Education and health**	51	83	85	411	999
5.641	Hospitals	16	24	14	106	209
8.934	Ambulatory health care	9	33	-52	37	330
3.992	Educational services	-8	3	7	7	80
16.979	**Leisure and hospitality**	20	29	18	64	251
1.949	Hotel/motels	-1	1	2	0	29
12.365	Eating & drinking places	7	13	15	6	130
23.560	Government	73	7	25	138	453
2.413	Federal ex-Post Office	-8	-18	-14	-60	48
5.512	State government	47	7	11	68	134
2.630	State Govt Education	40	4	10	47	37
15.036	Local government	33	25	27	136	273
8.186	Local Govt Education	23	8	23	79	109

Monthly changes (000s)	Jun	May	Apr	Mar	Feb
Payroll employment	147	144	158	120	102
Private jobs	74	137	133	114	107
Federal govt ex-post office	-8.1	-17.6	-14.2	-9.0	-8.6
Bar/Restaurants	7	13	15	38	-39
HH Employment Survey*	93	-696	461	201	-588
Unemployment rate %	4.1	4.2	4.2	4.2	4.1
Participation rate %	62.3	62.4	62.6	62.5	62.4
Not in labor force (mln)	103.204	102.875	102.062	102.431	102.487
... and Want A Job (mln)	6.030	5.991	5.672	5.915	5.893
Average hourly earnings	$36.30	$36.22	$36.08	$36.02	$35.90
MTM % Chg	0.2	0.4	0.2	0.3	0.2
YOY % Chg	3.7	3.8	3.8	3.9	3.9

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES

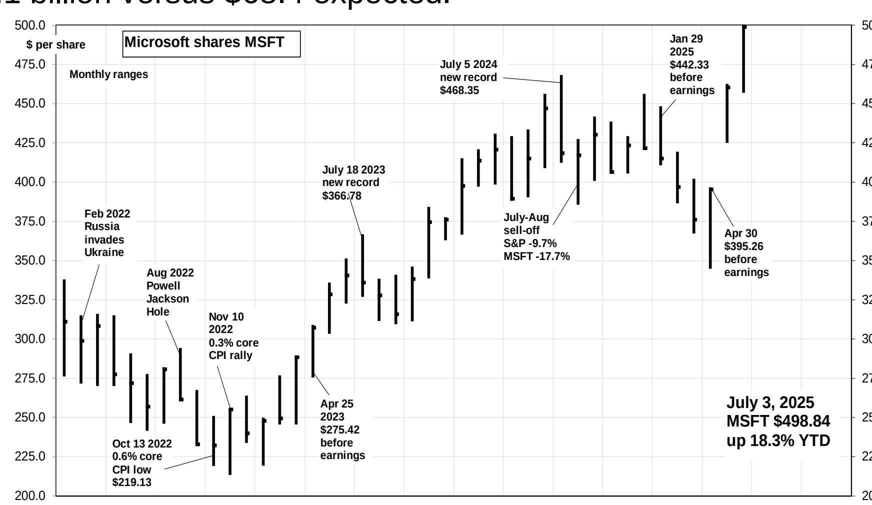


Bond yields made it down to 4.19% on Tuesday before the stronger Jolts data at 10am ET which extended the rally from the yield peak of 4.63% on May 22. The jobs data on Thursday were stronger than expected as well, sending yields to 4.35%. The stock market made an all-time high on Thursday with the jobs report, but before you count your winnings, S&P futures fell on Friday with the cash markets closed, down 0.6% as Trump readies more tariffs, sending out pay-us letters to those countries he could not make a deal with. The S&P 500 closed up 0.8% on Thursday, a 6.8% year-to-date gain, at 6,279.35. Jobless claims are the only major economic news ahead in the July 11 week as the markets look forward to additional Trump tariff news.

Microsoft (MSFT) up 18.3% YTD

The company reported better earnings after the bell on Tuesday, April 30 and helped lift the entire market with its 7.6% gain on Wednesday. Intelligent Cloud revenue was up 21% from a year ago and expectations for calendar Q2 is for Cloud revenue of $28.75 to $29.05. EPS was $3.46 versus $3.22 expected. Revenue overall was $70.1 billion versus $68.4 expected.

Calendar Year Mln $	Revenue	Productivity Business Processes	Intelligent Cloud	More Personal Computing
Q1 2025	70,066	29,944	26,751	13,371
Q4 2024	69,632	29,437	25,544	14,651
Q3 2024	65,585	28,317	24,092	13,176
Q2 2024	64,727	28,627	23,785	12,315
Q1 2024	61,858	27,113	22,141	12,604
Q4 2023	62,020	25,854	21,525	14,641
	Income	Processes	Cloud	Computing
Q1 2025	32,000	17,379	11,095	3,526
Q4 2024	31,653	16,885	10,851	3,917
Q3 2024	30,552	16,516	10,503	3,533
Q2 2024	27,925	15,706	9,835	2,384
Q1 2024	27,581	15,143	9,515	2,923
Q4 2023	27,032	14,515	9,555	2,962



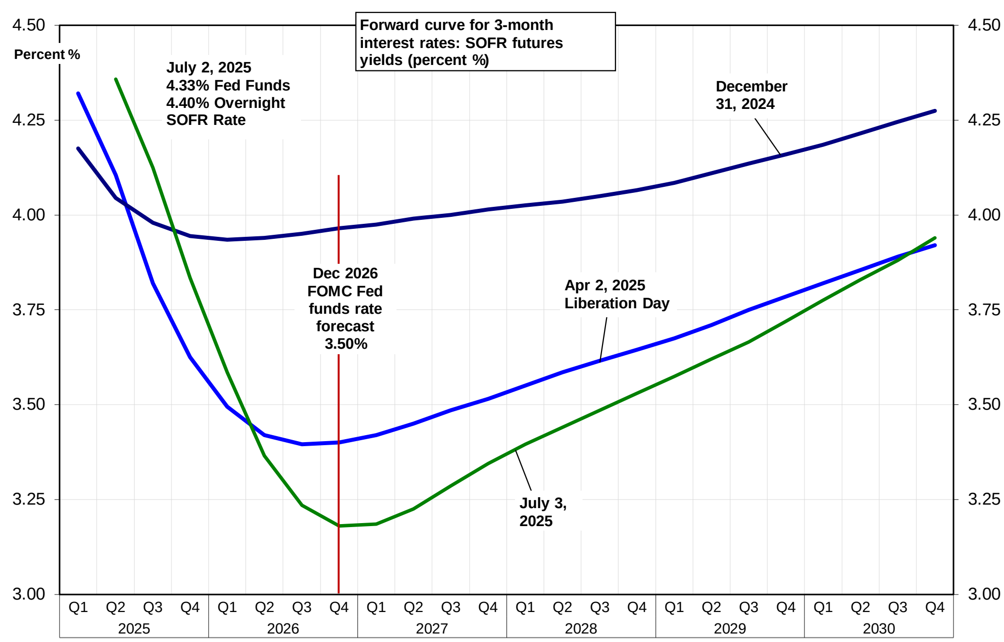
FEDERAL RESERVE POLICY

The Fed meets July 29-30, 2025 to consider its monetary policy. The market is more convinced that the Fed funds rate will be closer to 3% next year even though the latest FOMC forecasts were adjusted higher and policymakers now expect 3.75% at the end of 2026. The President wants substantially lower interest rates, keeps working to replace Powell early, and the SOFR futures seem to reflect that. Powell says interest rates would be lower if not for the import tariff effect which has not yet hit the monthly data. The FOMC looks for Q4 2025 core PCE inflation of 3.1% year-on-year, up from 2.8% in their March forecasts and actual core PCE inflation was 2.7% in May, although market-based core PCE inflation of 2.4% is closer to the Fed's 2.0 target.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	2-Jul	25-Jun	18-Jun	11-Jun	3/11/20*	3/11/20
Factors adding reserves						to Jul 2
U.S. Treasury securities	4208.325	4212.617	4212.303	4212.398	2523.031	1685.294
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2138.496	2138.496	2156.168	2156.161	1371.846	766.650
Repurchase agreements	0.000	0.016	0.000	0.000	242.375	-242.375
Primary credit (Discount Window)	6.354	6.308	5.383	3.989	0.011	6.343
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.449	1.673	1.722	1.746		
Main Street Lending Program	5.184	5.179	5.174	5.319		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.037	0.019	0.021	0.045	0.058	-0.021
Federal Reserve Total Assets	6710.4	6713.5	6732.3	6728.4	4360.0	2350.338
~~3-month Libor %~~ SOFR %	4.40	4.36	4.28	4.28	1.15	3.250
Factors draining reserves						
Currency in circulation	2401.421	2395.195	2393.987	2389.822	1818.957	582.464
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	372.232	334.579	383.851	277.025	372.337	-0.105
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	237.307	210.879	205.050	204.625	1.325	235.982
Federal Reserve Liabilities	3453.862	3366.184	3409.310	3298.712	2580.036	873.826
Reserve Balances (Net Liquidity)	3256.502	3347.274	3322.991	3429.675	1779.990	1476.512
Treasuries within 15 days	55.110	64.395	54.451	25.244	21.427	33.683
Treasuries 16 to 90 days	192.079	194.397	205.803	240.733	221.961	-29.882
Treasuries 91 days to 1 year	438.945	422.659	421.157	417.965	378.403	60.542
Treasuries over 1-yr to 5 years	1434.865	1449.600	1449.494	1448.310	915.101	519.764
Treasuries over 5-yrs to 10 years	515.988	511.577	511.546	510.804	327.906	188.082
Treasuries over 10-years	1571.338	1569.989	1569.852	1569.342	658.232	913.106
Note: QT starts June 1, 2022	Change	7/2/2025	6/1/2022			
U.S. Treasury securities	-1562.454	4208.325	5770.779			
Mortgage-backed securities (MBS)	-568.950	2138.496	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables				Long
	2025	2026	2027	Term
Fed funds	3.9	3.6	3.4	3.0
PCE inflation	3.0	2.4	2.1	2.0
Core inflation	3.1	2.4	2.1	
Unemployed	4.5	4.5	4.4	4.2
GDP	1.4	1.6	1.8	1.8
June 2025 median Fed forecasts				

Fed Policy-key variables				Long
	2025	2026	2027	Term
Fed funds	3.9	3.4	3.1	3.0
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.8	2.2	2.0	
Unemployed	4.4	4.3	4.3	4.2
GDP	1.7	1.8	1.8	1.8
March 2025 median Fed forecasts				



All but 6 bps of a 25 bps rate cut is expected by the September meeting.

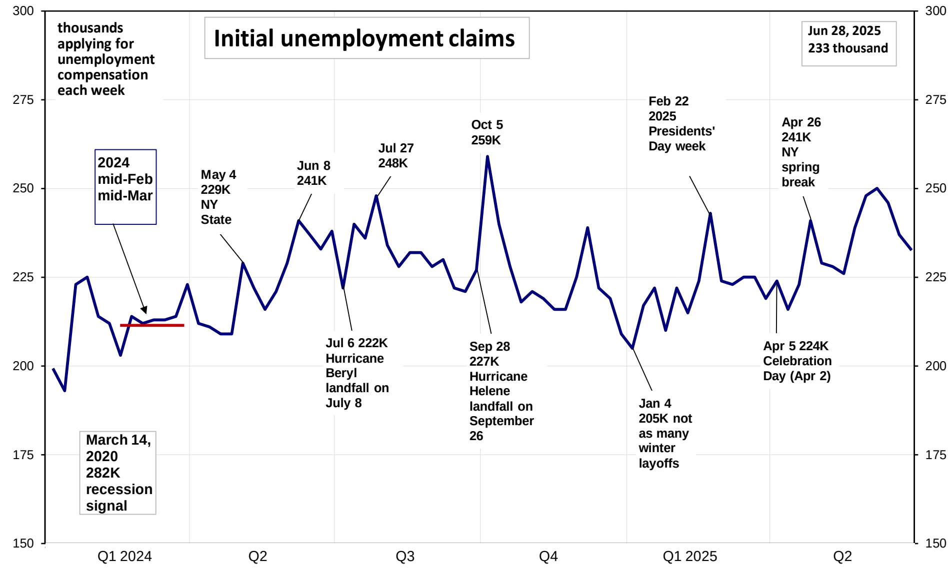
Fed funds futures call Fed policy		
Current target: July 3 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.485	Aug 2025	Jul 30
4.310	Oct 2025	Adds Sep 17*
4.155	Nov 2025	Adds Oct 29
Last trade, not settlement price		
*Not strictly true, Oct 2025 could be 2 days at a new rate		

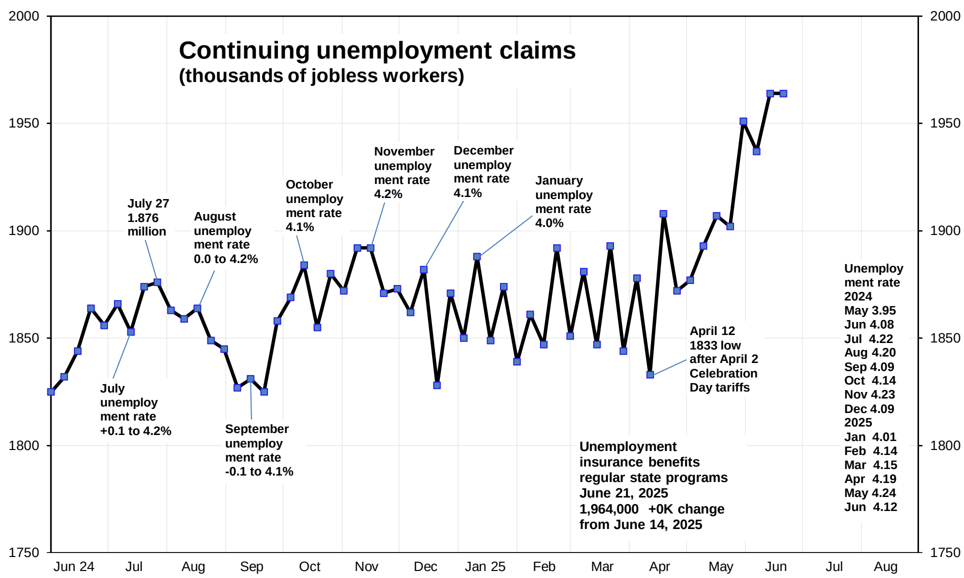
Next up: June CPI inflation report Tuesday, July 15 at 830am ET														
Monthly	2025					2025	2024							2024
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Core CPI inflation		0.1	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3
Core PCE inflation		0.2	0.1	0.1	0.5	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3
Core PCE YOY		2.7	2.6	2.7	2.9	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9
Core CPI YOY		2.8	2.8	2.8	3.1	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6

OTHER ECONOMIC NEWS

Total number on the nation's jobless rolls stick at 2025 high (Thursday)

Breaking economy news. First-time jobless claims have come back down to 233K in the June 28 week from the recent peak of 250K in the June 7 week. The increase in initial claims filings after the middle of May pushed continuing unemployment claims, the total number of Americans receiving benefits, to the 2025 peak of 1.964 million for the last two weeks. [Thursday's employment report saw the unemployment rate drop one-tenth to 4.1% in June; or 7.237 million in May to 7.015 million in June, going the wrong way from the direction continuing unemployment claims were pointing. Another economic puzzle.]

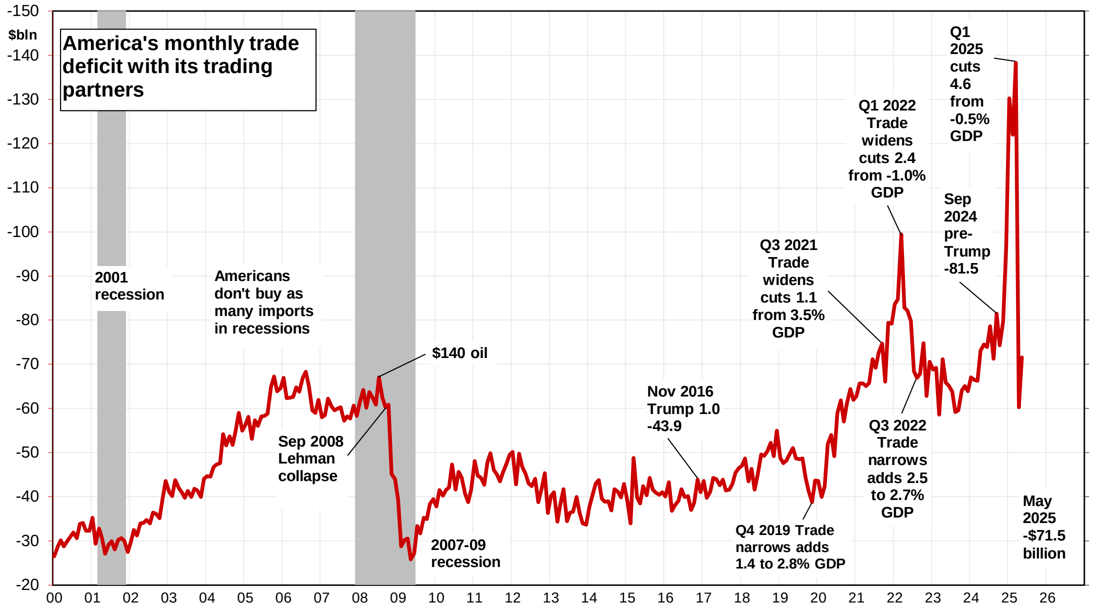


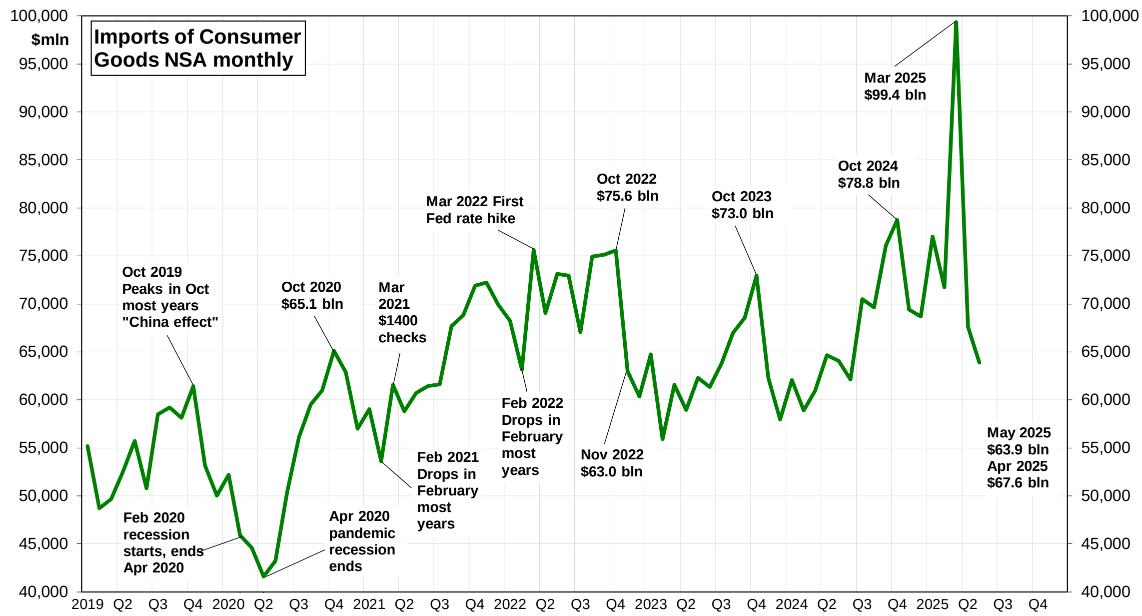


Trade deficit (Thursday 830am ET)

$mln	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Apr 2025	-60,257	-86,304	26,048	290,572	191,597	98,976	350,829	277,901	72,928
May 2025	-71,517	-97,511	25,994	279,000	180,207	98,793	350,517	277,718	72,799
Change	-11,260	-11,207	-54	-11,572	-11,390	-183	-312	-183	-129

Breaking economy news. The trade data have been volatile as US importers pushed orders forward to attempt to beat the Trump tariff increases, uncertain as they may be. Net exports were a 4.6 percentage point drag on the real GDP -0.5% results for Q1 2025. The surge in imports was somewhat offset by higher inventories which added 2.6 percentage points to real GDP in the first quarter. Now the extremes of the first quarter are reversing. Imports of goods NSA are back down to $63.9 billion in May 2025 from the March 2025 surge to $99.4 billion. Trump's reciprocal tariffs from April 2 were paused just days later, but time is up on July 9. Stay tuned.





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