Financial Markets This Week

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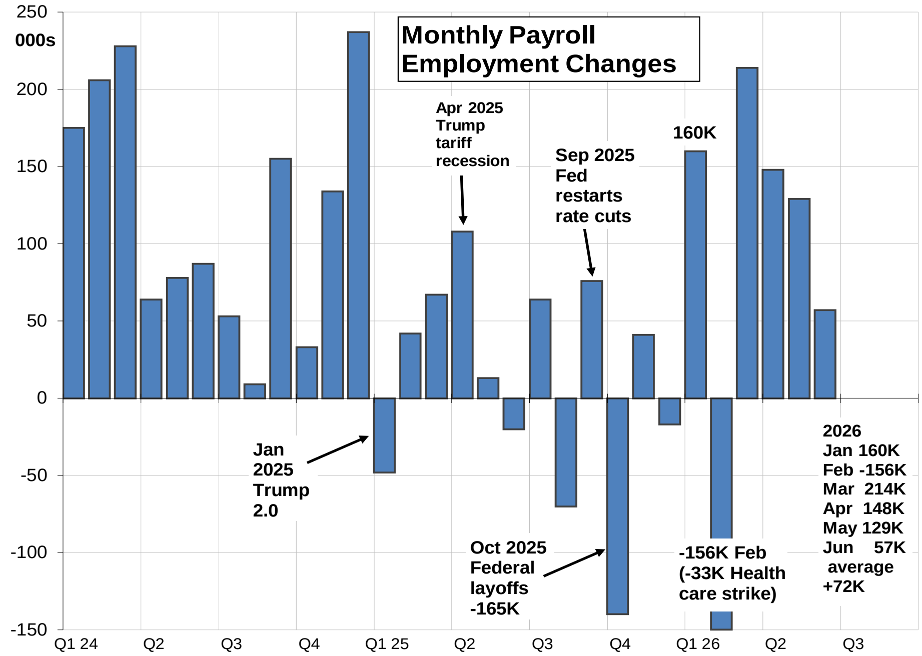
JOBS REPORT QUESTIONS

Just when we thought the labor market survived the chaos of the Administration's first year in office, the jobs picture was less bright in this month's report, For payroll jobs, the April 179K and 172K in May figures were revised down by a total of 74K. And a slow 57K jobs increase in June is nothing to write home about. It was never completely understood why jobs had picked up earlier this year given the outward migration trend, which makes the Household Survey of employment especially hard to analyze.



The unemployment rate fell a tenth to 4.2%, but there were significantly more labor force dropouts for June which makes it look like Americans are discouraged and have given up looking for work. If they were still counted in the labor force, looking for work and not finding it, the unemployment rate would have risen. Fits the story of payroll jobs slowing in June. However there are huge seasonal labor market flows during the year, and for June the not seasonally adjusted not in the labor force count plummets as youth get out of school and become employed or look for work, until school starts back in August/September. This month the 16-19 year olds and 20-24 year olds fit this pattern, but there were unusually large increases in those not in the labor force for 25-29 year olds and 30-34 year olds; the not seasonally adjusted increases could reflect discouragement or perceived lack of employment opportunities, entry-level

jobs eliminated by AI the newspapers say. Anyway, after this long aside, we can probably count some of the June large 832K seasonally adjusted increase in the total number not in the labor force as being economic weakness as shown in the graph, keeping in mind the overall trajectory is up as it follows the increase in population over time.

Still focusing on economic weakness in today's jobs report, upon further reflection, the 57K slow payroll jobs report is understated due to the 33K collapse in jobs at restaurants and bars. This category often sees sweeping revisions. Last month's report said food services and drinking places rose 35K in April and 48K in May; and today's report revised this to 5K in April and 19.5K in May. Dining out employment is difficult to seasonally adjust given the big changes in hiring/firing where September and December see the biggest layoffs each year.

2026 Payroll jobs slow

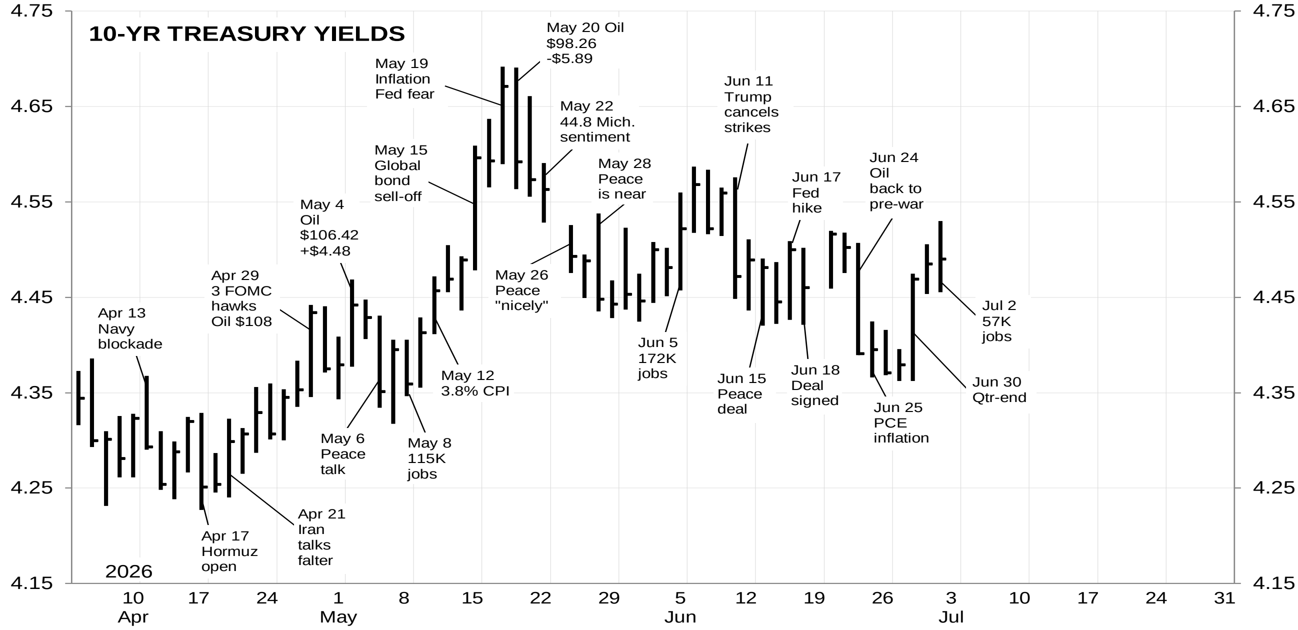
Dec. 2025 Totals millions		Jun 26	May 26	Apr 26	6 months Dec 25 to Jun 26	12 months Dec 24 to Dec 25
158.432	Nonfarm Payroll Employment	57	129	148	552	116
135.083	Total Private (ex-Govt)	49	97	150	530	296
21.456	Goods-producing	10	7	6	80	-135
0.566	Mining	-4	4	2	3	-15
12.580	Manufacturing	3	-2	-1	18	-113
0.951	Motor Vehicles & parts	-4	0	-5	-1	-37
0.990	Computer/electronics	2	1	3	6	-22
1.780	Food manufacturing	-3	-6	-1	-10	1
8.272	Construction	11	6	3	59	-4
5.222	Specialty trade contractors	8	8	1	39	-17
113.627	Private Service-providing	39	90	144	450	431
28.616	**Trade, transportation, utilities**	-4	17	65	112	-195
15.414	Retail stores	-8	8	24	46	-47
3.217	General Merchandise	-5	-9	14	22	-16
3.247	Food & Beverage stores	0	-2	-3	7	3
6.555	Transportation/warehousing	2	4	39	48	-108
1.467	Truck transport	-1	-2	5	-1	-28
0.571	Air transportation	0	-6	-2	-3	8
1.051	Couriers/messengers	2	-1	37	46	-43
1.836	Warehousing and storage	5	8	5	14	-45
2.842	**Information**	-9	-4	-6	-68	-53
0.473	Computing, data, web hosting	-3	3	-2	-11	-8
9.186	**Financial**	0	-22	-6	-82	7
2.993	Insurance	-2	-12	-8	-49	-23
2.452	Real Estate	-1	-3	-2	-15	-4
1.371	Commercial Banking	-2	-3	0	-19	-7
1.158	Securities/investments	2	-5	4	9	34
22.372	**Professional/business**	36	11	20	135	-160
2.451	Temp help services	9	-1	11	48	-91
2.622	Management of companies	-1	2	-3	-8	3
1.746	Architectural/engineering	1	2	3	17	33
2.381	Computer systems/services	4	1	0	-6	-51
1.231	Legal services	5	1	3	12	24
1.130	Accounting/bookkeeping	3	-3	4	-5	5
27.627	**Education and health**	69	45	67	346	682
4.039	Educational services	22	-1	9	27	-5
18.295	Health care	22	34	35	207	387
9.121	Ambulatory health care	8	23	18	113	167
5.719	Hospitals	9	7	3	55	137
3.456	Nursing/residential care	4	4	15	39	83
5.292	Social assistance	25	12	22	112	299
16.961	**Leisure and hospitality**	-61	40	-7	-10	99
1.939	Hotel/motels	-22	11	-12	-25	-6
12.343	Eating & drinking places	-33	20	5	3	78
23.349	Government	8	32	-2	22	-180
2.128	Federal ex-Post Office	1	0	0	-44	-283
5.476	State government	4	-4	0	-7	-39
2.603	State Govt Education	4	-5	-1	-4	-42
15.151	Local government	2	33	-1	65	146
8.232	Local Govt Education	-1	5	-11	2	58

Stay tuned. It is hard to know what is good anymore in the labor market stats, where Powell said in the March press conference that zero net jobs creation is the new norm given the White House's immigration policies; even if there is slow jobs growth or virtually none, the unemployment rate will not rise. Certainly, the Household Survey measure of employment collapsed this year.

Monthly changes (000s)	Jun	May	Apr	Mar	Feb
Payroll employment	57	129	148	214	-156
Private jobs	49	97	150	202	-148
Federal govt ex-post office	1	0	0	-7	-1
Bars/Restaurants	-33	20	5	28	-39
HH Employment Survey*	-507	149	-226	-64	-185
Unemployment rate %	4.19	4.30	4.34	4.26	4.44
Participation rate %	61.5	61.8	61.8	61.9	62.0
Not in labor force (mln)	105.808	104.976	104.959	104.771	104.283
... and Want A Job (mln)	6.045	6.187	6.111	6.040	5.974
Average hourly earnings	$37.64	$37.51	$37.41	$37.35	$37.27
MTM % Chg	0.3	0.3	0.2	0.2	0.3
YOY % Chg	3.5	3.4	3.6	3.4	3.7

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES



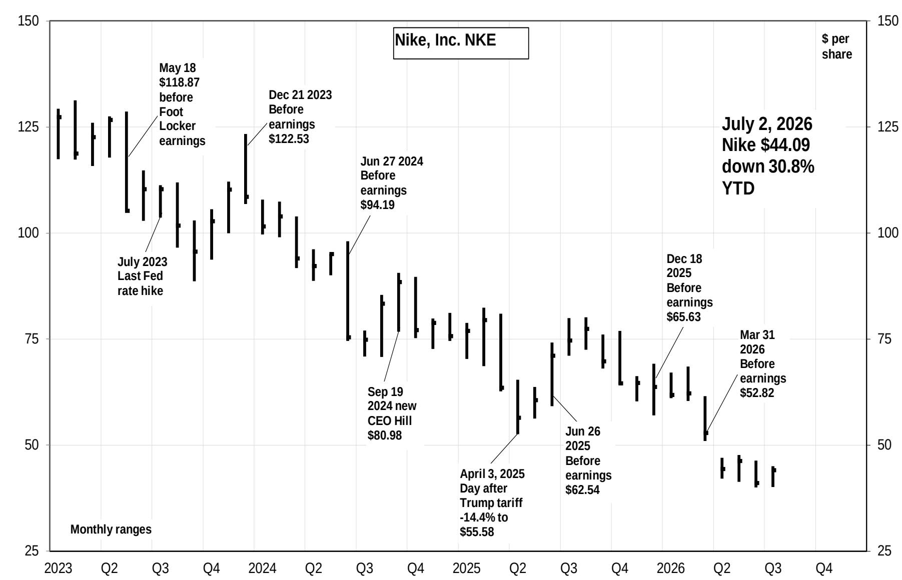
The soft 57K jobs report started a rethink on Fed interest rate hikes this year. The yield curve steepened with the 2-yr note dropping 7 bps to 4.11% as it does when it thinks the data more likely favor a Fed rate cut. Scratch that. By the close, 2-yr was unchanged at 4.18%. Stocks were up 0.8% to a new recent high, thinking Fed rate cuts are coming to support the economy, then stocks fell back, closing exactly 0.00% unchanged on the day at 7,483.24, somebody's idea of a joke when everyone was gone for the long holiday weekend. Maybe an ex-Libor trader. The S&P 500 Friday is up 9.3% YTD. 10-yr bond yields closed at 4.49%. Warsh said inflation expectations had fallen since the Fed meeting. AAA gas prices are $3.82 versus $3.47 on March 9. Someone encouraged a technical change to core PCE inflation that could cut the 3.4% May level a few tenths to 3.1%. It's coming.

Nike, Inc. (NKE) down 30.8% YTD

The company reported earnings after the bell on Tuesday, June 30, having closed at $41.05. It seems to be holding the $40 line for now, closing up 4.9% on Wednesday after some struggles. Footwear sales to Greater China are down 17% from a year ago to $938 million but then total Nike Brand revenues in the May 31, 2026 quarter are $10.7 billion. Earnings were boosted by a $986 million tariff refund which the company says is probable.

Nike Footwear Sales ($millions)

Fiscal Quarter	Quarter	North America	Europe (EMEA)	Greater China	Asia Pac LatAm
Q4 2026	5.31.2026	3230	1821	938	1114
Q3 2026	2.28.2026	3326	1789	1187	1051
Q2 2026	11.30.2025	3542	2012	954	1151
Q1 2026	8.31.2025	3219	2021	1109	1061
Q4 2025	5.31.2025	3104	1893	1074	1114
Q3 2025	2.28.2025	3132	1742	1282	1052
Q2 2025	11.30.2024	3236	1982	1203	1234
Q1 2025	8.31.2024	3212	1952	1246	1052
Q4 2024	5.31.2024	3587	2067	1357	1226

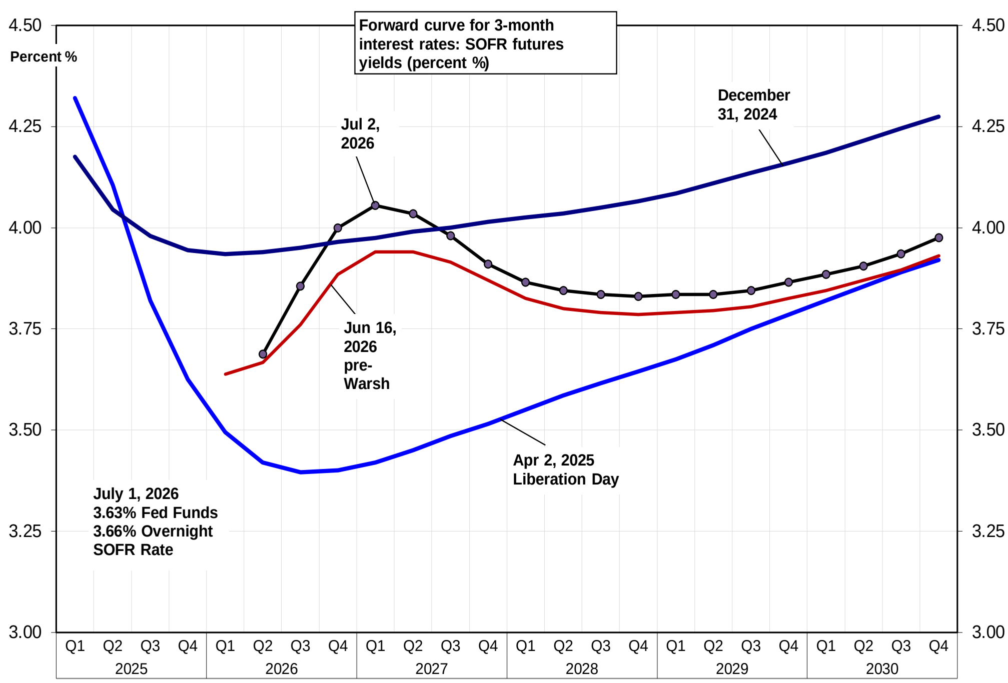


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	1-Jul	24-Jun	17-Jun	10-Jun	3/11/20*	3/11/20
Factors adding reserves						to Jul 1
U.S. Treasury securities	4492.235	4488.106	4487.319	4479.919	2523.031	1969.204
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1948.398	1961.590	1964.798	1964.786	1371.846	576.552
Repurchase agreements	0.001	0.004	0.002	0.005	242.375	-242.374
Primary credit (Discount Window)	7.778	7.894	7.572	6.606	0.011	7.767
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	0.019	0.019	0.019	0.025		
Main Street Lending Program	0.628	0.626	0.599	0.602		
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	0.250	0.035	0.049	0.028	0.058	0.192
Federal Reserve Total Assets	6775.6	6787.1	6787.5	6776.8	4360.0	2415.596
~~3-month Libor %~~ SOFR %	3.66	3.62	3.63	3.59	1.15	2.510
Factors draining reserves						
Currency in circulation	2474.926	2473.044	2470.831	2467.346	1818.957	655.969
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	807.359	901.845	956.502	801.084	372.337	435.022
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	1.001	4.534	6.828	0.387	1.325	-0.324
Federal Reserve Liabilities	3698.603	3832.655	3851.099	3665.361	2580.036	1118.567
Reserve Balances (Net Liquidity)	3077.019	2954.465	2936.355	3111.454	1779.990	1297.029
Treasuries within 15 days	81.609	105.602	112.513	80.855	21.427	60.182
Treasuries 16 to 90 days	343.382	349.873	338.723	371.295	221.961	121.421
Treasuries 91 days to 1 year	531.768	508.915	513.068	503.555	378.403	153.365
Treasuries over 1-yr to 5 years	1431.865	1425.477	1425.130	1426.683	915.101	516.764
Treasuries over 5-yrs to 10 years	490.590	485.491	485.420	485.348	327.906	162.684
Treasuries over 10-years	1613.020	1612.748	1612.465	1612.183	658.232	954.788
Note: QT starts June 1, 2022	Change	7/1/2026	6/1/2022			
U.S. Treasury securities	-1278.544	4492.235	5770.779			
Mortgage-backed securities (MBS)	-759.048	1948.398	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets July 28-29, 2026 to consider its monetary policy. On Wednesday, Warsh was over in Sintra, Portugal on stage with the heads of the ECB, BOE, and BOC. More news than we will ever get from a FOMC meeting. But he's dug in deep; it's a time of consequence; we need to go back to first principles… he won't be changing his mind. He mentioned price stability/2.0% inflation many times; the question to ask is, does this mean you won't cut interest rates from 3.75% until inflation hits the 2.0% target? Or will the AI boom reduce the cost of store bought goods sitting on the shelves, so you can look forward to the time you fully expect inflation to hit 2.0% and cut interest rates early. Maybe something for the Fed task forces to study. ECB Lagarde said they did some reform task force studies, and it took two years. Friday's jobs report was weaker than expected with 57K jobs and unemployment would have been 4.7% instead of 4.2% if a million people had not dropped out of the labor force, i.e. stopped looking for work. Can't really do that what-if though.

Fed Policy-key variables	2026	2027	2028	Long Term
Fed funds	3.8	3.6	3.4	3.1
PCE inflation	3.6	2.3	2.0	2.0
Core inflation	3.3	2.5	2.1	
Unemployed	4.3	4.3	4.2	4.2
GDP	2.2	2.3	2.2	2.0
June 2026 median Fed forecasts				



16 bps of a 25 bps rate hike to 4.0% is discounted by the September 2026 meeting.

Fed funds futures call Fed policy		
Current target: July 2 -- 3.75%		
Rate+0.12	Contract	Fed decision dates
3.910	Oct 2026	July 29, Sep 16*
4.060	Jan 2027	Adds Oct 28, Dec 9*
4.090	Feb 2027	Adds Jan 27
*Oct 2026 could be 3 days at a new rate		
*Jan 2027 could be 4 days at a new rate		

Next up: June CPI inflation Tuesday, July 14 830am ET

Monthly	2026					2025									
% Changes	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
Core CPI inflation	0.2	0.4	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1
Core PCE inflation	0.3	0.3	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1
Core PCE YOY	3.4	3.3	3.3	3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8	2.8	2.6	2.7
Core CPI YOY	2.9	2.8	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9	2.8	2.8	2.8

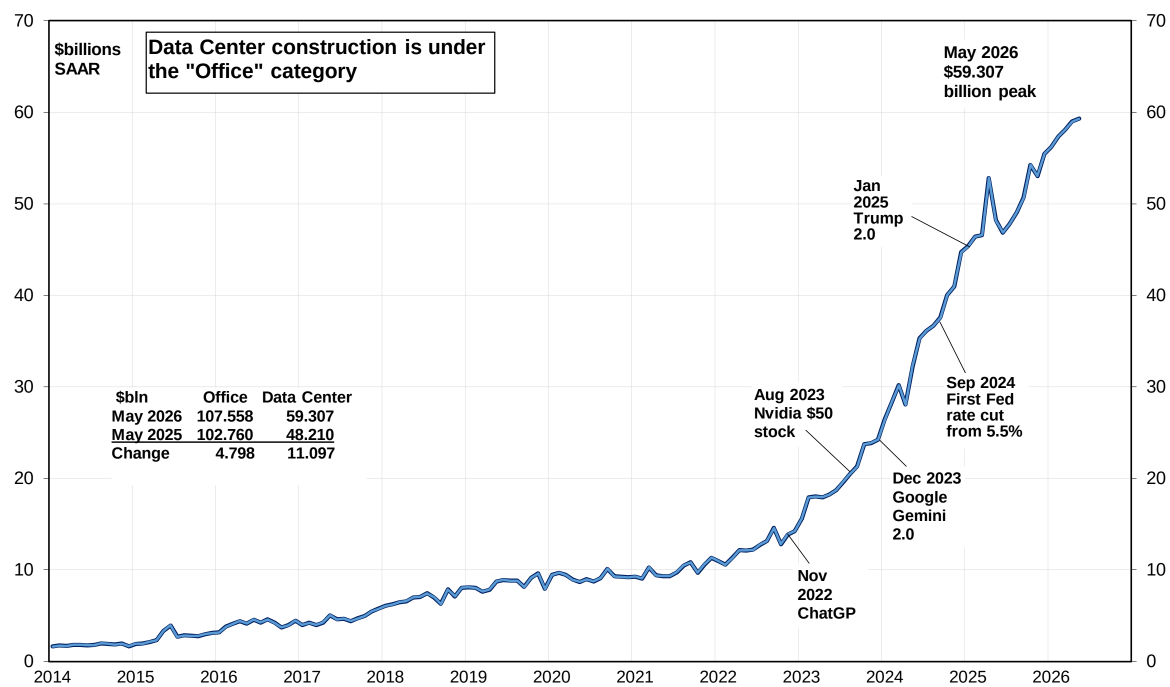
OTHER ECONOMIC NEWS

Construction spending (AI data centers) (Wednesday)

Breaking economy news. If the AI boom is going to power the economy forward, it had better be more than the $11.1 billion increase in data center construction over the last year, currently running at a $59.307 billion annual rate in May 2026. The monthly construction report did find 8 or 9 billion more dollars of nominal spending on data centers than we saw just a month ago in the April construction report. Construction has not added to real GDP since Q4 2023, largely as the manufacturing factory construction boom set off by the CHIPS Act is over.

The value of private nonresidential construction put in place is down $12.0 billion or 1.6% so far this year to $738.734 billion in May. Other manufacturing has picked up 6.0% this year to $116.6 billion in May, after declining in the first year of Trump 2.0. Stay tuned. Some manufacturing factories are being built as the administration's policies like trade are trying to engineer. Import tariffs collected $21.9 billion in May although there were $22.0 billion in refunds issued after the Supreme Court ruling. The refunds will grow much larger in June when the Treasury's budget results are released at 2pm ET on Monday, July 13.

Value of Private Nonresidential Construction Put in Place ($mln SAAR)					
	May 26	Dec 25	Dec 24	Dec 23	Dec 22
Total	738,734	750,768	804,706	791,368	663,906
$ chg	-12,034	-53,938	13,338	127,462	145,280
Office	107,558	107,066	99,316	87,235	87,411
Data center	59,307	55,461	44,703	24,238	14,244
$ chg	3,846	10,758	20,465	9,994	2,920
Other office	48,251	51,605	54,613	62,997	73,167
Manufacturing	173,616	180,751	240,906	229,932	158,606
Computer***	57,021	70,760	115,912	120,840	69,758
$ chg	-13,739	-45,152	-4,928	51,082	47,767
Other mfg	116,595	109,991	124,994	109,092	88,848
*** Computer/electronic/electrical					



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