# Week in review and ahead (vol.23)

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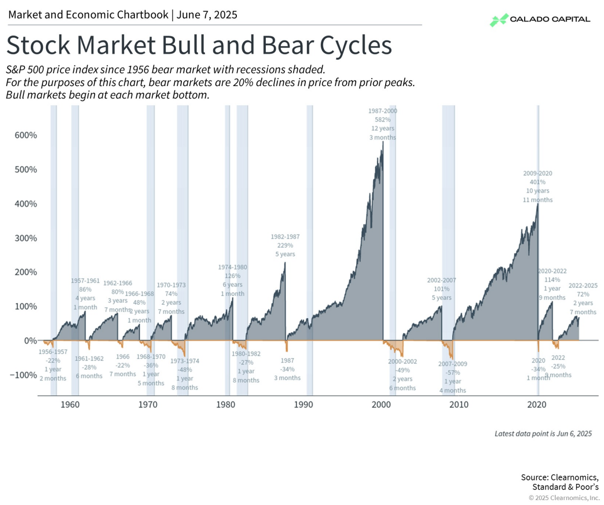
The equity markets in the US are inching closer to new highs, with the bulls in control of the market (for now) and funds that presumably were on the sidelines by institutional investors now flowing into the equity markets. The newly fueled optimism comes amid hopes or prospects on a US-China trade deal, following a call between POTUS and President Xi of China that set up high level meetings on Monday in London. Yet, macro signs of a slowing US economy are appearing, and tariff risks remain that should otherwise be an overhang on markets and are somewhat being disregarded (for now). The temporary pause on reciprocal tariffs is nearing expiration, prompting the administration to request countries to provide their best (and final?) offer, and just this past Tuesday POTUS signed an executive order to double tariffs on Steel and Aluminum effective Wednesday, June 4th.

The S&P500 advanced 1.5%, closing just above 6,000 points and is now within 2.5%-points of an all-time high. Similarly, the tech-heavy Nasdaq, advanced 2.2% for the week and is within 3.5% of its all-time high, while the Dow Jones increased by 1.2% in the week and closing within 5.5% of its all-time high, respectively. The rally in US equities has been broad with small-cap stocks, reflected by the Russell 2000 advancing 3.1% in the week and well over 7% for the month, albeit remaining more than 15% off its all-time high and being down nearly 5% on a year-to-date basis. The recent rally has been fueled mainly by tech and communications, with S&P companies in the sectors advancing 3% and 3.2% for the week, respectively. Since the lows of April 8th, or just about two months, the S&P tech sector has increased by approx. 33.4% while telecommunications increased just above 25%.

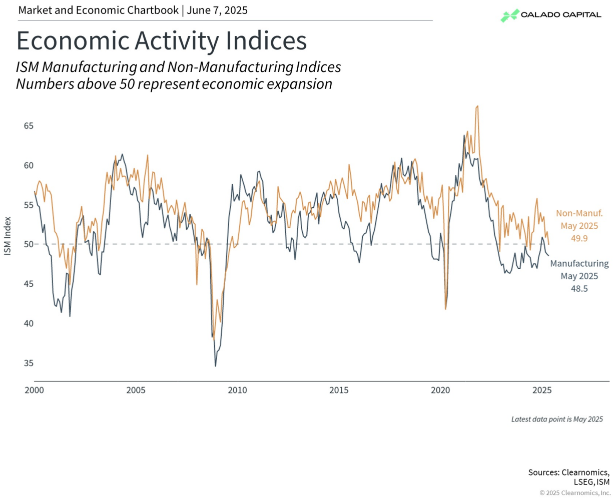
Internationally, all major indices advanced with the exception of Japan's Nikkei index that declined by 0.6% for the week amidst concerns of a stronger yen and future Bank of Japan rate hikes.




The macroeconomic data for the US continues to be somewhat mixed. While the S&P survey of purchasing managers for May reports both, the manufacturing and the service sectors, in expansionary territory with (index) readings of 52.0 and 53.7, the ISM survey ('Institute  for Supply Management') reported both sectors contracting with readings of 48.5% for the manufacturing sector (about the same level as reported in April) and surprising (albeit by a minimal margin) reading of 49.9% for the services sector, down from 51.6% for April and below expectations of 52.1%.

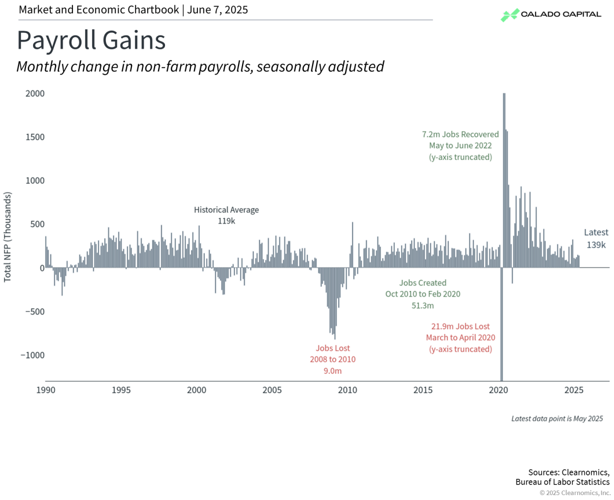
The ISM survey for May highlighted, besides the lowest reading generally for the manufacturing sector since December of last year, that prices paid continued to increase coming in at a reading of nearly 70, or the fourth consecutive month of readings of 60 or greater while employment continues to contract with the fourth reading below 50. Similar trends can be observed for the service sector with respect to prices paid, however, employment did grow to 50.7 or expansionary territory. Besides the ISM and S&P surveys or reports on business, the census bureau reported that overall factory orders declined more than expected at -3.7% month-over-month ('MoM') compared to estimates of -3.3% reversing the strong order growth recorded in March, likely pulling demand ahead of tariffs. Equally, construction spending for April declined by -0.4% MoM compared to an expected increase of 0.2% and continuing the prior period decline of -0.8%, which cause is difficult to assert given the elevated spending fueled by government spending since 2019 (including during the pandemic) but may be due to elevated economic uncertainties.

A closely watched metric by this administration, the US trade deficit, confirmed previous estimates of a significant decline in April, coming in at -61.6 billion, or a decline of nearly 56% from the trade deficit record set in March (of -140.5 billion). While somewhat expected, the significant MoM drop has economists concerned that GDP for Q2'25 may be distorted, as was Q1'25 in which high net imports contributed to the negative GDP of -0.2%, not allowing an adequate assessment of economic growth. Accordingly, preliminary figures show that GDP may grow by nearly 5% or more for Q2'25 certainly will not adequately capture the state of the economy, as did the contraction reported for Q1'25.




The markets on Friday reacted favorably to a better-than-expected job growth number for May with 139K non-farm payrolls added in the month compared to 125K expected, however below the 147K created in April (revised downward from initially reported 177K). Following the low ADP private sector job gains for May reported on Thursday of only 37K, the lowest since March 2023, markets were somewhat relieved with the official job growth figure for the month as reported by the Bureau of Labor Statistics (subject to revisions).

Hourly wages grew 0.4% MoM better than expected 0.3% and at a greater rate than the 0.2% in April and unemployment rate remained unchanged at 4.2%. While positive for the economy, particularly the wage growth, significant revisions to prior periods, reducing job growth down sharply by nearly 95K for March and April, together with reporting nearly 700K exiting the labor force and which arguably facilitated the unemployment rate to remain steady in May, has some pointing to a slowing pace of job growth. The initial jobless claims reported a day prior continued to increase with 247K claims for the week, compared to 236K expected, and up from the $239K reported the week prior. Continuing claims continued above the 1.9M threshold for now the third consecutive week signaling that the labor market may indeed show signs of slowing. However, thus far fears expressed by some of unemployment spiking has not materialized and as such the labor market continues to display a certain level of resilience.




Next week markets will focus on the high-level trade talks between the two largest economies scheduled to begin on Monday in London. China did announce on Saturday that Vice Premier He Lifeng will travel to the UK for the week and attend the first trade meeting, signaling the importance of this second meeting after both, the US and China, accused each other of violating the agreement reached in Switzerland (albeit it is not quite clear what the stipulations of an agreement were in fact not kept).

Besides the trade negotiations that have fueled the positive sentiment in equity markets domestically but also globally, inflation reports for May on retail and wholesale are scheduled. The core MoM for retail inflation, or CPI is expected to tick up slightly to 0.3% from 0.2% in April, or 2.5% YoY up from 2.3% previously, while core wholesale inflation, or PPI is expected at 0.2% MoM, up from -0.5% in April, or 3.0% YoY down from 3.1% previously. The closely watched PCE inflation gauge will not be reported until June 27th, or after the FOMC meeting next week. While market expectations of the Fed is to maintain rates at current levels, given the wider macroeconomic data set showing a resilient labor market and inflation while cooling somewhat, not closing in on the Fed's target and concerns of inflation re-accelerating due to tariffs, POTUS has been publicly insisting on the Fed cutting rates. Expect calls by POTUS and its administration to heightened should next week's inflation report show inflation decelerate.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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