Week in review and ahead (Vol.27)

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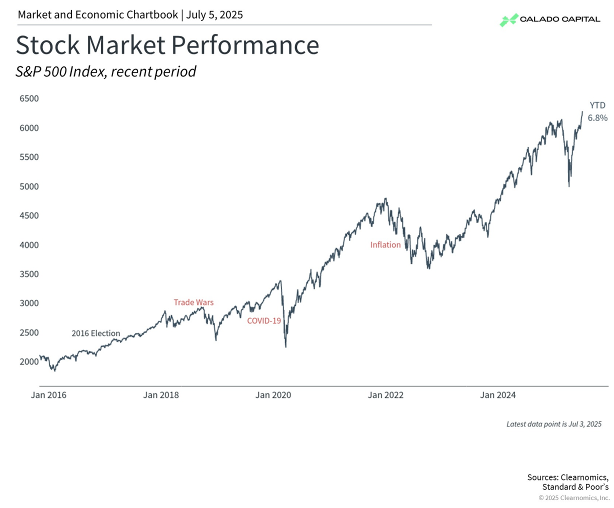
The shortened holiday week ended with major indices setting yet another record high, on better-than-expected labor market data with non-farm payrolls in June surprising to the upside compared to expectations and sequentially. With markets in the US closed from Thursday, 1pm EST to observe Independence Day on July 4th, the S&P500 and Nasdaq composite did manage to set intraday and closing highs, respectively, while the Dow Jones increase closed the week out within 0.5% of its all-time high. The positive sentiment appeared to be supported by Congress passing POTUS' tax cut and funding bill just in time and as targeted by POTUS to sign it into law on July 4th.

The S&P500 closed the week up 1.7%, closing at a new record high of 6,279 (just below the intraday high set on Thursday). Similarly, the Nasdaq Composite advanced 1.6% for the week, closing at a new record high of 20,601 (just below the intraday high set on Thursday, as well). The Dow Jones increased 2.3% for the week. Like last week, all (S&P) sectors were higher for the week, except for Telecom, which saw a decline of -0.2% for the week.

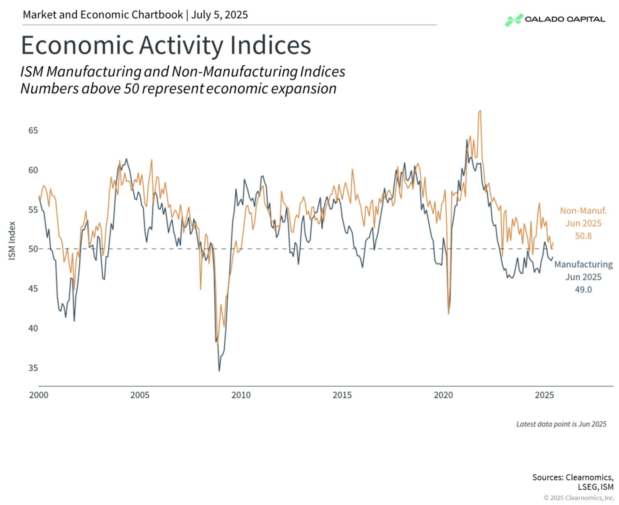
Internationally, key markets ended the week mixed. The German DAX ended the week lower by 1% as US tariff concerns weighted on equities with the July 9th deadline looming. London and Paris saw slight advances of 0.3% and 0.1% for the week, while China's SSE composite advanced 1.4% as the Caixin general composite PMI rose into expansionary territory at better readings than expected. Equity markets in Japan, Hong Kong and India saw declines of -0.9%, -1.5% and -0.7%, respectively.



With markets focusing squarely on the labor market, overall readings on the US economy continued to show resilience with and pointing directional to economic growth.

The S&P final PMI readings for June's manufacturing and service sectors continued in expansionary territories, respectively. The S&P readings for the manufacturing sector for June of 52.9 exceeded expectations and was higher sequentially, with expectations and last month's readings both at 52.0, while the service reading of 52.9 was somewhat lower than expected (of 53.2) and sequentially (of 53.7). The ISM PMI readings for June did report better readings compared to expectations and did increase sequentially for both sectors. The ISM PMI reading for the manufacturing sector advanced to 49% from 48.5% in the previous month and expectations of 48.6%, while the service sector advanced to 50.8% in June from 49.9% in May and compared to expectations of 50.5%. Hence, the ISM PMI for the service sector, elevated directionally to expansionary after readings of contraction just last month in May. Within the PMI reports, prices paid in both sectors continued to be elevated and directionally increasing that should see inflationary pressures maintained. Other key metrics for the manufacturing sector, other than production that saw readings of directional growth, displayed trends of contraction or slowing, including new orders and employment, contrasting with the service sector that directionally saw readings of growth for key areas, including those aforementioned.

Besides data on the US manufacturing and service sectors, data for the construction sector saw a continuation of recent declines in spending. Construction spending in May declined sequentially with spending declining by -0.3% on a seasonally adjusted rate, or by -0.2%-points from April.

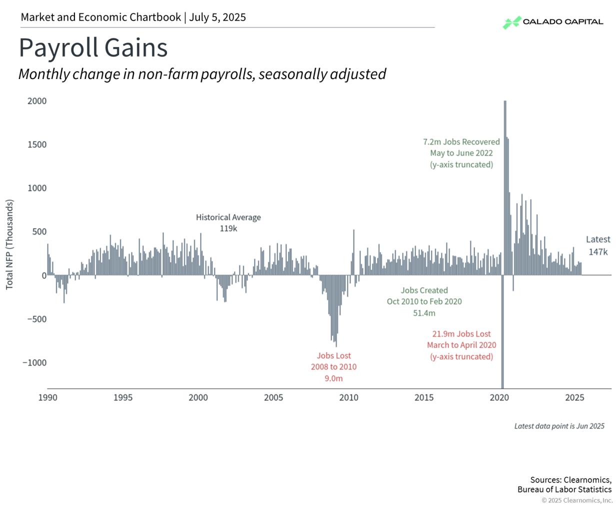


The labor market in the US continues to be resilient and surprised markets with strong job growth and lower initial weekly claims fending off fears that the labor market may be "rolling over" or worsening.

Non-farm payrolls for June surprised markets with a total of 147K jobs added and positive revisions to the previous months of 5K for May (to 144K) and 11K (to 158K) for April. Expectations for June were 144K, however, given weak ADP data reported (of 33K job loss in private payrolls) on Wednesday a day ahead of the official BLS number, markets were bracing for a much lower number. With labor participation continuing to decline (to now

62.3%, or -0.1% sequentially), likely due to stricter immigration policies, headline unemployment rate ticked lower by 0.1% to 4.1%, a level last reported in February of 2025.

Hourly wages increased less than expected and sequentially lower with the month-over-month ('MoM') increase of 0.2% falling short of expectations (of 0.3%) and the 0.4% in May, and the lowest increase since August 2023. On a year-over-year ('YoY') basis, hourly wages increased 3.7% at a lower rate than expected (3.9%) and sequentially (of 3.8% in May). The better-than-expected non-farm payrolls data for June that created positive sentiment in the markets was further supported by better-than-expected initial jobless claims. Initial jobless claims of 233K declined sequentially (from 237K the week before) and were lower than the expected 240K. The continuing claims, however, continued to be elevated at 1.97M, the same as the week before and just above expectations.

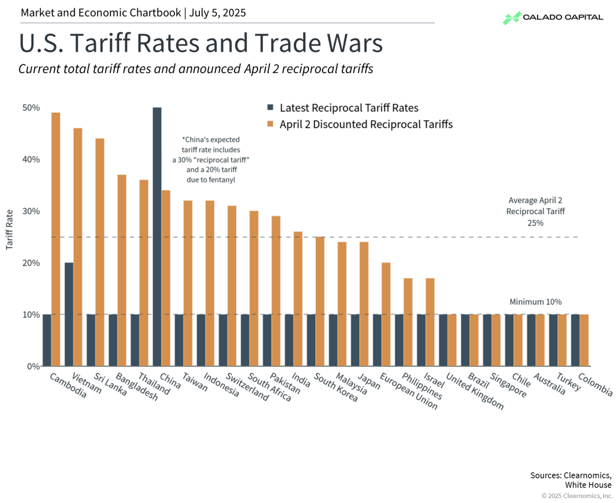


With the tax and spending bill signed into law, geopolitical tensions easing somewhat, markets will focus heavily on the upcoming July 9th deadline.

Thus far, since POTUS announced a pause on its reciprocal tariffs on April 9th, the only announced trade deal is with the UK, the US closest of allies. Besides the UK-US deal, an agreement with China to deescalate trade tensions, including lifting export restrictions mutually on critical items (for semiconductors and rare earth minerals) has been entered into, and an announcement of a framework for a trade deal with Vietnam. Trade negotiations are undoubtedly taken place, however, what announcements are expected between now and Wednesday is not entirely clear with some (trade deal) negotiations presumed to be close to an agreement, while others (with Japan for example) may not materialize at all. Hence, anticipate an increased level of volatility as markets wait for headlines (again) at a time when valuations have risen to pre-April 2nd levels if not beyond. POTUS has announced that it would not extend the deadline any further and may "set" (tariff) rates as early as next Friday, which appears to have all the makings of the unilateral tariff announcement (by POTUS) back on April 2nd. On the other hand, there is a possibility that extension will be granted for key economic trading partners as POTUS may not want to "upset" markets (although he reiterates not to care much about them), particularly after the victory of passing the tax and spending bill not only by containing most all of the provisions he sought, but to do so at the planned timeline.

On the macroeconomic front, data releases will be relatively light with the release of the FOMC meeting minutes scheduled for Wednesday besides the (usual) weekly jobless claims on Thursday. Since Fed chair Powell's testimony to Congress and last week's attendance and speech at the Central Bankers Symposium in Sintra, Portugal, besides many FOMC' members speeches since the last (FOMC) meeting, the minutes are not expected to surprise markets. Given last week's strong jobs data further supports the Fed's stance to be patient and to focus solely on reducing inflation towards its goal of 2%. Even disclosure of dissent among FOMC (voting) members to keep rates steady should not surprise markets.

Besides a light macroeconomic calendar, corporate earnings are not slated to begin until the week after next, with major US banks kicking off the reporting season on Tuesday, July 15th. Accordingly, markets will squarely follow and focus headlines on the imminent tariff pause deadline and looking for any announcements of possible trade deals. In general, markets would not be surprised to see tariff rates of 10% remaining in place as part of any trade deals. Last week's announcement of a trade framework with Vietnam that is set to impose separate and likely elevated rates on transshipments (or transient shipments) should quickly place the focus on US-China trade once more and may likely add to strains and tensions quickly. After the framework was announced by POTUS, China quickly announced that it opposes such a deal, pledging to take "countermeasures".



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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