

Week in review and ahead (vol.23-26)



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Week in review

S&P's weekly win streak ended as stronger than expected job report sent yields higher and stocks lower, as expectations for a rate hike yet this year are increasing. The continuation of better than expected corporate earnings this past week that fueled the recent rally were not enough to overcome broader macroeconomic concerns of inflation accelerating and geo-political concerns that are not abating and are likely to spill over. Overall reports on US economic activity for May continue to underpin growth environment, however, with inflation well off the Fed's target and raising markets now expect the Fed to hike rates yet this year, triggering a stark selloff in risk assets on Friday. Bitcoin, a proxy for risk assets has seen selling pressures accelerate since the end of May, likely in response to a greater probability of monetary tightening and falling briefly below the \$60,000 level for the first time since September'24.

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Bitcoin and the Stock Market

The price of Bitcoin and the S&P 500 price index



For the week, all major indices declined bring the recent rally to a halt. The tech-heavy Nasdaq declined by nearly -5% for the week, with the S&P and Russel-2000 seeing losses of -2.6% and -2.9%, respectively. The Dow Jones merely broke even for the week, down -0.3%, likely due to rotation out of the tech and AI trade. If this is the beginning of a larger pullback remains to be seen, however, price appreciation over a two-month span recently reached historical levels. Besides, some are pointing to the upcoming SpaceX IPO that will be largest in history, raising nearly \$75 billion, as a trigger for the selloff as investors may seek liquidity to participate in the IPO.

Internationally, major markets in Asia and Europe saw declines too, with the exception of the Nikkei in Japan (+0.4% for the week) and France's CAC-40 (+0.4%). Key drivers for the moderate declines were weaker China manufacturing PMIs, with the equity indices in China and Hong

Kong dropping -1% and -0.9%, respectively for the week. The Kospi in South Korea led the way losing nearly -3% for the week. In Europe, preliminary estimates for the EU inflation rate in May show a continued acceleration (to 3.2% from 3%). Despite meeting expectations, concerns that the ECB may be initiating tightening soon likely saw a selloff in risk assets with the German DAX declining -1.4% for the week. With Asian and European markets closed at the time the selloff in equities accelerated at Wall Street late Friday, expect equity markets in those regions to begin the week under pressure.

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Stock Market Performance

S&P 500 Index, recent period



Sources: Cleareconomics,
Standard & Poor's
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Week in review – US macroeconomics

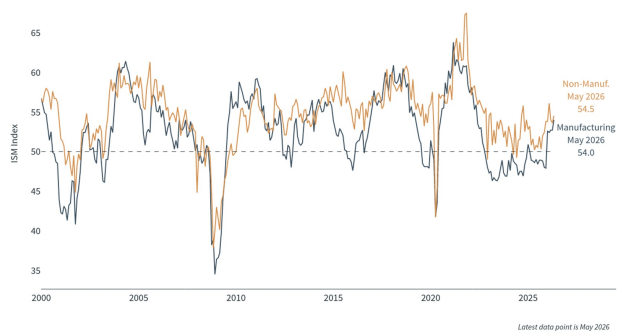
This past week's US macroeconomic calendar was headlined by US economic activity and the labor market for the month of May, key data points ahead of the Federal Reserve's Jun 16-17th meeting. The Institute for Supply Management ("ISM") released its manufacturing and services surveys for May, the Bureau of Labor Statistics delivered the May non-farm payroll ("NFP") report alongside the job openings and labor turnover survey ("JOLTS") for April, and the week was rounded out by construction spending for April, the latest weekly initial jobless claims, and the Fed's Beige Book.

US economic activity surprised firmly to the upside. The ISM manufacturing index for May printed 54.0,

ahead of the 53.0 consensus and accelerated from 52.7 previously, the strongest reading since May 2022 and a fifth consecutive month of expansion for the sector. The composition was encouraging with new orders advancing a robust 2.7% and employment improving by 2.2%, the latter notably though still residing below the 50 mark that delineates expansion from contraction. The remaining subcomponents posted moderate growth at or above expansionary territory. Less favorable and an increasingly familiar one, was priced at 82.1, which despite easing 2.5% remained markedly elevated and directionally higher, likely due to higher energy prices now passing through to input costs. The ISM services index supported the strong economic activity in the US, rising to 54.4 from 53.6 and besting the 53.8 expected, with business activity (+1.8%), new orders (+3.8%), and inventories (+9.4%) all posting strong gains. The exception within services was employment, which continues to show signs of contraction, slipping a further 0.1% in May, while prices paid climbed another 0.6% to 71.3, extending a streak of monthly increases now in place for 108 consecutive months. Separately from ISM, Construction spending in April showed growth of 0.3%, just shy of the expected 0.4% decelerating from the 0.6%, previously.

Economic Activity Indices

ISM Manufacturing and Non-Manufacturing Indices
Numbers above 50 represent economic expansion



Sources: Clearnomics, IHS, ISM
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The labor data this past week reinforced the notion recently of a resilient market. JOLTS job openings surprised to the upside at 7.6 million, well above the 6.9 million expected. It was the highest in two years and a reversal of the recent trend of declining openings, a sign of firm underlying labor demand, however, not yet seen in hiring, which declined 3.2% in April. Initial jobless claims for the week ended May 30 came in at 225K, up 10K from the prior week but still consistent with a resilient labor market and below historical averages. The headline release, the May NFP report, was unexpectedly strong. The US economy added 172K jobs, blowing past every estimate including the 80K consensus, all the while job gains for the prior two months were revised higher, a rare but constructive combination. That

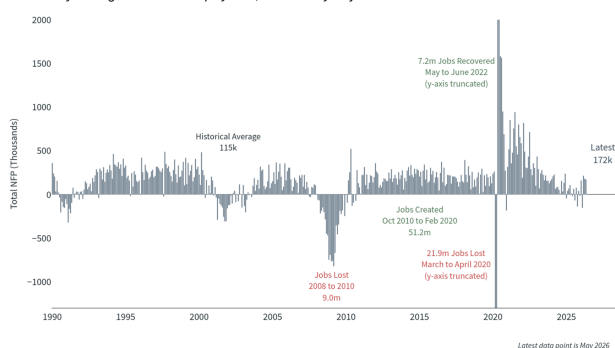
brings net job creation for 2026 to 780K, reflecting a pace of steady, moderate growth and curbing concerns that an increasing AI led economy may not support job growth, at least for now. The unemployment rate held at 4.3% as expected, while average hourly earnings rose 0.3% month-over-month (“MoM”), a touch firmer than April’s 0.2% but in line with expectations. On an annual basis, wage growth eased 0.2 percentage-points (“pp”) to 3.4%.

Besides the economic data, the Fed’s Beige Book, published June 3, appeared to support the current environment. It noted that activity expanded at a slight-to-moderate pace across most (fed) Districts and employment was little changed in eleven of twelve. Further, it highlighted that prices rose at a moderate-to-strong pace, firmer than in the prior survey, on energy costs now spilling over into shipping, groceries, and packaging. The consumer looked increasingly K-shaped, with lower-income households showing visible strain through greater credit-card usage and a tilt toward necessities.

Given the stronger than expected NFP report for May, the downside risks to the Fed’s full-employment mandate have meaningfully diminished. That, in turn, should see the Fed refocus on the other side of its mandate, inflation that increasingly appears to be re-accelerating, propelled by an oil-supply shock that, as the Beige Book makes plain, is no longer confined to the prices at the pump. It is increasingly permeating shipping, food, packaging, and ultimately a broader price level, even as growth steadies and manufacturing appears to be accelerating. Markets, having spent recent weeks repricing for sustained inflation, are now positioning for the improbable that the Fed’s next move may not be a cut but a hike, and that one may well arrive before year-end. Heading into the June 16-17th Fed meeting markets will focus on incoming Fed Chair Kevin Warsh, which likely did not anticipate risks to the Fed’s mandates shifting decisively that may test his resolve and leadership (sooner rather than later).

Payroll Gains

Monthly change in non-farm payrolls, seasonally adjusted



Latest data point is May 2026

Sources: Cleareconomics,
Bureau of Labor Statistics,
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Corporate earnings

Last week's earnings reports continued to show incredible strength from companies in the tech sector and related to AI, as were reports from retailers, however, guidance did diverge particularly from retailers indicating that pricing may begin to pressure consumption.

Earnings season continues next week with enterprise cloud infrastructure, software spending, and residential construction companies in focus.

Week ahead

With earnings season beginning to be in the rear view mirror, geopolitical concerns that are risking supply shortages globally, soon to include the US, will likely resurface, as the conflict draws out and is

entering its 15th week. Additionally, Apple will host its world-wide developer conference, and the highly anticipated SpaceX IPO may make its debut on Friday. Given the stark selloff on Friday both events will be viewed as critical to likely determine where markets may go from here. Next week we will see key macroeconomic reports to offer additional insights into the inflation risks for the US economy with both, the CPI and PPI reports due for May and an updated, preliminary read of the US consumer sentiment, with UMich survey out on Friday.

Number of the week: 84.75 billion

Alphabet's announced equity capital raise this past week, the largest in corporate history, totaling roughly \$84.75 billion, upsized from the \$80 billion announced just a day earlier. For a company that generates strong free cash flow and has long operated with a net-cash balance sheet, tapping equity markets at all is notable, particularly at this scale, and accepting the dilution that comes with it is unprecedented. The proceeds are earmarked for AI infrastructure and global compute, with management guiding 2026 capital expenditures to a staggering \$180-190 billion and signaling a further significant increase in 2027.

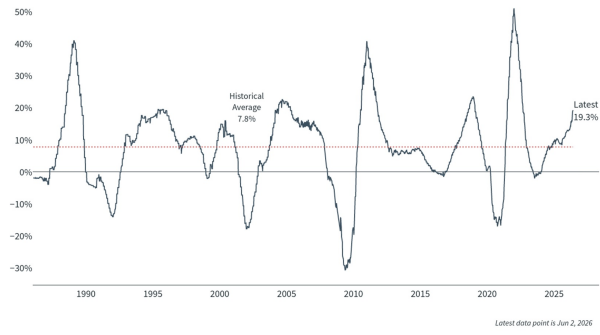
The structure is nearly as telling as the size. Alphabet is expected to offer \$15 billion in mandatory convertible preferred stock, \$15 billion in common stock, a \$40 billion at-the-market program slated for the third quarter, and a \$10 billion private placement to Berkshire Hathaway, signaling that the AI buildout is now drawing even the most patient, value-oriented capital.

More than any single earnings beat, the capital raise crystallizes the defining dynamic of this market. The AI race that has fueled the recent rally has become so capital-intensive that even the most cash-generative companies on earth are turning to external capital, both equity and debt, to fund it. It is a development worth watching, as the scale of investment now being committed will demand a commensurate return to justify it.

Finally, while markets appeared to signal conformity with the expected, unprecedented dilution (of Alphabet's equity) earlier in the week, sentiment towards it appeared differently when rumors of Meta following suit emerged on Friday, seeing shares selling off nearly immediately. Meta did refute those claims, however, on Friday.

S&P 500 Earnings Growth Rate

Trailing 12 month earnings per share



Sources: Cleernomics, ICF
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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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