WEEK OF JUNE 2, 2025

Market Update

U.S. stocks rose as investors looked past trade tensions and found support in strong semiconductor earnings and cooling inflation data. AI momentum helped lift mega-cap technology firms. Long-term Treasury yields fell below 4.5 percent amid stabilizing inflation and cautious Federal Reserve (Fed) commentary. Despite ongoing tariff risks, markets leaned risk-on into month-end.

Quick Hits

1. **Beyond the headlines:** Are we there yet with rate cuts?
2. **Report releases:** Consumer sentiment showed signs of rebounding on trade hopes.
3. **Financial market data**: U.S. equities rose as tech outperformed on strong semiconductor and retail earnings.
4. **Looking ahead:** The focus will be on business confidence, trade balance, and employment.

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Beyond the Headlines: Are We There Yet With Rate Cuts?

Markets have been anxiously awaiting confirmation that the Fed is ready to pivot toward rate cuts. Recent data—particularly April's soft core personal consumption expenditures (PCE) reading and a rise in jobless claims—has reignited the conversation. Although these reports offer early signs of cooling inflation and labor market moderation, the road to rate cuts still appears data-dependent and uncertain.

Core PCE: Encouraging, but Not Definitive

The Fed's preferred inflation gauge, core PCE (which strips out volatile food and energy prices), rose just 0.1 percent month-over-month in April, the smallest increase this year. Year-over-year, core PCE slowed to 2.5 percent—the lowest since March 2021 and a step closer to the Fed's 2 percent target. The deceleration may reflect easing supply pressures, slower wage growth, and more cautious consumer spending.

It remains to be seen, however, whether this lower inflation reading can be sustained. April's softer report may have been partially driven by weaker consumer confidence tied to renewed trade tensions and tariff uncertainty—rather than broader, durable disinflation. The Fed is likely to wait for confirmation that this moderation reflects lasting economic rebalancing.

Jobless Claims Tick Higher

Adding to the dovish tone, weekly jobless claims rose more than expected, pointing to softening in the labor market. Although claims remain historically low, a continued upward drift could relieve wage pressures and strengthen the case for rate relief in the second half of the year.

From the Fed's perspective, labor market cooling is welcome—provided it doesn't overcorrect. The recent rise in claims looks more like normalization than deterioration, but it adds to the case for caution. Some economists expect further slack ahead as federal workforce reductions—including layoffs, buyouts, and early retirements—begin filtering into employment data between May and September.

How Close Are We?

Despite recent optimism, the Fed has shown little urgency to cut rates. Minutes from last month's Federal Open Market Committee (FOMC) meeting reflected a cautious, data-dependent posture, with officials expressing disappointment that inflation had not cooled more decisively earlier in the year. Several policymakers have since reiterated that, though rate hikes are off the table, cuts are not yet warranted.

> We may be getting closer—but we're not there yet.

Notably, the U.S. lags several global peers—including Canada, Sweden, and Switzerland—which have already begun easing. With inflation trending lower and labor market pressures starting to ease, pressure may build for the Fed to follow suit.

Bottom Line

Recent softness in core PCE and jobless claims suggests monetary policy is taking effect—gradually slowing the economy without triggering a sharp downturn. As labor market slack builds, including delayed federal job losses, the case for cuts may strengthen. We may be getting closer—but we're not there yet.

Report Releases: May 27–30, 2025

Durable Goods Orders
April (Tuesday)

Durable goods orders fell notably after surging in March ahead of expected tariffs. These shifts were largely driven by transportation, with core durable goods orders (removing transportation) up modestly.

- Expected/prior durable goods orders monthly change: –7.8%/+9.2%
- Actual durable goods orders change: –6.3%
- Expected/prior core durable goods orders monthly change: +0.0%/+0.0%
- Actual core durable goods orders change: +0.2%

Conference Board Consumer Confidence Index
May (Tuesday)

Consumer confidence rebounded notably in May after multiple periods of cratering confidence. This bounce was fueled by trade hopes connected to ongoing tariff negotiations with China.

- Expected/prior month consumer confidence: 87.1/86.0
- Actual consumer confidence: 98.0

FOMC Meeting Minutes
May (Wednesday)

The Fed held rates steady at 4.25 percent–4.5 percent amid elevated inflation and growing uncertainty from trade-related tariffs. Although economic activity and labor markets remain solid, downside risks to growth and upside risks to inflation have increased. The FOMC reaffirmed its 2 percent inflation goal and maintained a cautious, data-dependent stance.

Personal Income and Personal Spending Report
April (Friday)

Personal income beat expectations and accelerated from the prior month, whereas personal spending met expectations and decelerated from the prior month.

- Expected/prior month personal income monthly change: +0.3%/+0.5%
- Actual personal income monthly change: +0.8%
- Expected/prior month personal spending monthly change: +0.2%/+0.7%
- Actual personal spending monthly change: +0.2%

>> The Takeaway

- Durable goods orders fell in April after surging ahead of tariffs in March. Personal spending slowed, matching expectations.
- The Conference Board Consumer Confidence Index revealed a much-sharper-than-expected recovery in May after a pause on tariffs.

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.90%	6.29%	1.06%	13.50%
Nasdaq Composite	2.02%	9.65%	−0.73%	15.04%
DJIA	1.67%	4.16%	0.08%	11.16%
MSCI EAFE	0.90%	4.70%	17.33%	14.00%
MSCI Emerging Markets	−1.11%	4.30%	8.86%	13.59%
Russell 2000	1.32%	5.34%	−6.85%	1.17%

Source: Bloomberg, as of May 30, 2025

U.S. equities advanced, regaining ground after the previous week's pullback, with the S&P 500 rising 1.9 percent and outperforming its equal-weighted counterpart by roughly 70 basis points (bps). Mega-cap technology firms led gains on strong semiconductor results. REITs, airlines, banks, and managed care also outperformed. Weakness in large oil companies, metals, home builders, and China tech weighed on select pockets. Retail and beauty posted strong earnings, as did sporting goods and casual apparel. Enterprise software and PC hardware lagged on growth and margin concerns. Although trade headlines stirred volatility, investors looked past tariff uncertainty as economic data and AI momentum supported risk appetite.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	−0.72%	2.45%	5.46%
U.S. Treasury	−1.03%	2.51%	5.04%
U.S. Mortgages	−0.91%	2.41%	5.88%
Municipal Bond	0.06%	−0.96%	2.03%

Source: Bloomberg, as of May 30, 2025

Treasuries rallied across the curve as investors responded to mixed economic signals and lingering trade uncertainty. Yields fell modestly, with the 10-year dipping below 4.5 percent, supported by in-line core PCE inflation and softer jobless claims. FOMC minutes maintained a cautious tone, reinforcing the view that the Fed remains patient but data dependent. The bond market benefited from signs of stabilizing inflation and a supportive macro backdrop, even as tariff-related volatility persisted. Demand was steady across maturities, reflecting continued investor interest amid uncertainty over the path of monetary policy and global trade tensions.

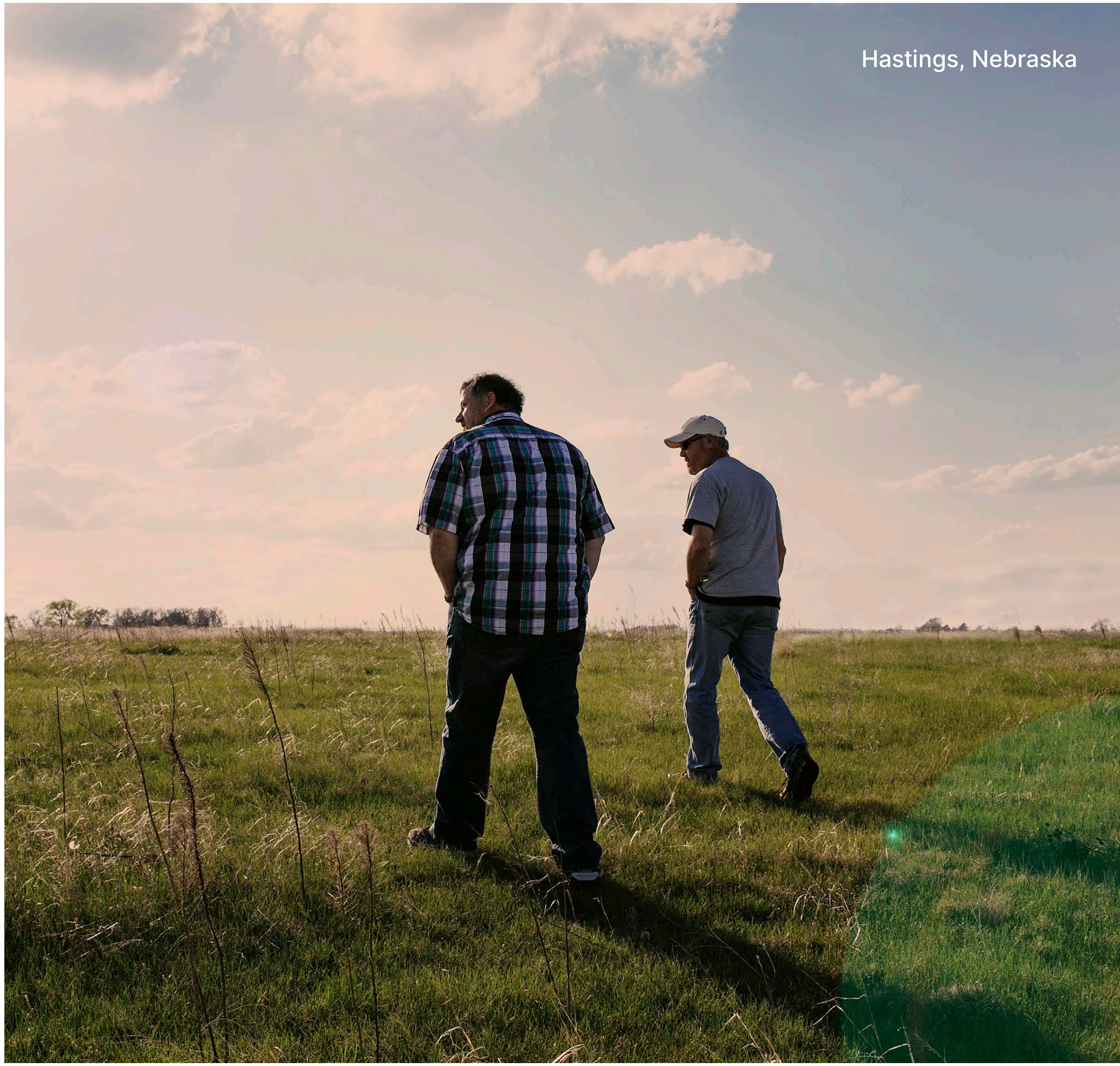
>> The Takeaway

- U.S. equities rose as tech outperformed on strong semiconductors; retail earnings and AI optimism offset trade-driven volatility.
- Treasuries rallied on cooling inflation, soft jobless claims, and Fed caution.

Looking Ahead

This week, the focus will be on business confidence, trade balance, and employment.

- The week kicks off Monday with the release of the **Institute for Supply Management (ISM) Manufacturing index** for May. Manufacturer sentiment is expected to increase modestly and remain in expansion.
- On Wednesday, the May **ISM Services index** will be released. Service sector confidence is expected to increase modestly and remain in expansion.
- On Thursday, the April **trade balance report** will provide an indication of the impact of tariffs and the magnitude of a reversal of potential headwinds from first-quarter GDP reports.
- Finally, on Friday, the May **employment report** will be released. New job creation is expected to fall but remain in healthy territory. The unemployment rate is expected to remain unchanged at 4.2 percent.



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Authored by the Investment Research team at Commonwealth Financial Network®.

Michael Graziano, CMT®, CRPC®, CFP®, Chief Investment Officer

Graziano Budny Wealth Management Group, LLC
6143 S Willow Drive,Suite 310 | Greenwood Village, CO 80111
720.583.6363 | 720.458.0773 fax | www.grazianobudny.com | mgraziano@grazianobudny.com