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First to Market

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JOB MARKET STRENGTH’S PRETTY MUCH THE SOLE DETERMINANT OF RATES NOW

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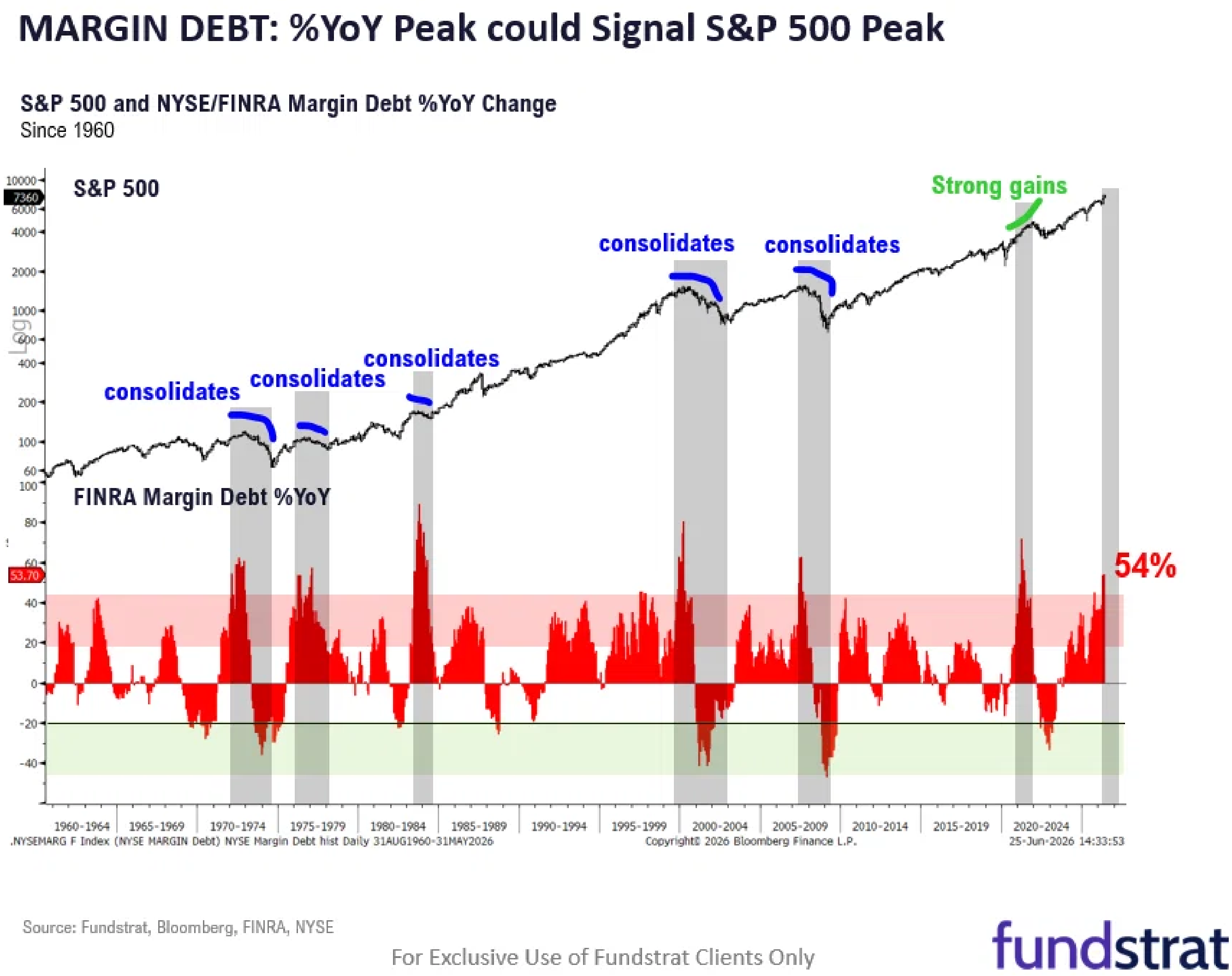
“Liberty is the breath of life to nations.” – George Bernard Shaw

Chart of the Day



Good morning!

The new Federal Reserve Chair Kevin Warsh wants to get rid of forward guidance and wants investors and economists to watch the underlying data instead to gauge the path of future interest rates. To do so, look to jobs growth instead of inflation.

This morning's nonfarm payrolls report could offer some insight there. The U.S. economy is expected to add 115,000 jobs in the month of June, after adding 172,000 jobs in May. It's projected to be the fourth straight month of labor market growth above 100,000. The unemployment rate is expected to hold steady at 4.3%.

If the report comes in at or above expectations, it would reiterate that the job market's nascent recovery is here to stay. And that's all that matters for monetary policy.

In usual circumstances, that would not be the case, especially not under the reign of former Fed Chair Jerome Powell, who would have most likely reiterated that they are watching the energy-driven surge in inflation closely to see how it impacts prices for goods and services. But Warsh is different. He said yesterday at a forum in Portugal that he doesn’t want to provide forward guidance, which for decades has been used to influence the market’s views and expectations for interest-rate changes. Of course, he, too, wants to tackle inflation but with a different approach.

“I am not going to make a judgment now,” Warsh said. “We [the Fed] meet again in four weeks.”

He has said he’ll rely on real-time economic data to make decisions. Of course, the BLS jobs report is backward looking and recently became famous for its huge revisions, but it still feeds into other labor market measures, so it remains crucial to watch.

Extended strength in the labor market there would make it easier for the Fed to hike interest rates, but if hiring has weakened, then it would justify holding rates steady and perhaps even cutting. What happens to inflation holds less weight because there are signs that it has peaked out.

Of course, there’s the obvious reason that oil prices are almost back to pre-war levels. But then there’s also what’s going on within the recent economic data. For example, looking at personal-consumption expenditures, which was the Fed’s preferred inflation gauge in the pre-Warsh era, showed that the monthly increase in the core number was mostly because of financial services. Essentially, one third of inflation in May was due to the stock market going up, which isn’t really inflationary.

Another reason to not be worried about inflation is because wage growth is still lagging behind inflation, meaning that workers are losing purchasing power. For June, economists expect that hourly wage growth rose 3.5% from a year ago. While that would be up from the previous month’s 3.4%, it’s still below consumer inflation of 4.2%.

Economic data summary: ISM manufacturing PMI grew for a sixth-straight month in June, coming in at 53.3%, which is down 0.7 percentage points from May. New

Orders were at 56% and Production was at 52.2%. Both remain in expansion territory but decelerated from the prior month. Meanwhile, employment increased to 49.7% from 48.6%, but it's still in contraction, as it's below 50%. But there are early signs that the labor market is recovering. 64% of panelists said they're hiring versus the 36% who are not looking to add or subtract from their employees' headcount.

Additionally, prices are down 9.1 percentage points to 73%, and while there are some high input costs from the conflict in the Middle East, those should continue to drop sharply, reducing the input costs. Still, 14 of 18 industries have reported growth in June. Manufacturing is still growing, but the real tell will be if the hiring shift and cooling prices can continue in July. “Conditions are optimistic but not yet booming for our company, even though many others, it seems, are experiencing growth,” a machinery respondent said. — *Micah Kim*

Share your thoughts

Do you think the Fed should provide forward guidance? Click here to send us your response.

✍Here's what a reader commented ✍

Q: How did your portfolio do this past quarter?

A: I just started investing in October 2025. My son was worried because it looked like I jumped in the deep end. In January, I told him that I would divide my portfolio into different market strategies and treat it like a science experiment. Yesterday, I was surprised. The account I opened that would be based on my own picks is up 24.57% YTD.

Catch up with Fundstrat

As we look into 2H2026, we discuss the multiple factors that will be important to investors in the second half. The overall picture is one of a stronger economy. And we believe there is downside to inflation and thus, the Fed could be more dovish than the bond market is pricing.

Technical

Mag 7 has snapped back to life after holding intermediate-term support, and with one day left in this holiday-shortened week, MAGS very well could register its highest weekly close in four weeks while also breaking out vs. $RSP.

Crypto

Crypto gave back most of yesterday’s gains today, with the selloff beginning overnight and continuing into the U.S. session. The inability for the market to stage a rebound on a day when QQQ and SPX were both higher, suggests the Strategy-related supply overhang remains a meaningful drag on both sentiment and flows.

News We're Following

Breaking News

- OpenAI proposes handing Trump administration 5% stake FT
- Brutal Heat Wave Broils Eastern U.S. NYT

Markets and economy

- Global Tech Stocks Struggle Ahead of Jobs Report WSJ
- Warsh’s throwaway comment injects life into the debasement trade, for one day at least MW
- The three factors that have finally brought the small-cap trade to life MW

Business

- Meta's push into cloud computing means Wall Street has to prepare for lower margins CNBC
- Apple plans five new iPhones through 2027, eyes Chinese-made chips amid foldable push, reports say CNBC
- Sony is first console giant to stop making physical games FT

Politics/U.S.

- Trump Made $1 Billion on Crypto Deals While His Fans Lost a Fortune WSJ
- Trump Pledged No Forever Wars. Now He Risks Forever Talks With Iran. WSJ
- The Many Ways Trump Is Trying to Tip the Scales for the Midterms NYT

Overseas

- Massive Russian Strikes Pound Ukraine's Capital, Killing at Least 17 WSJ
- Iran Finally Prepares to Bury Supreme Leader NYT

Of Interest

- Instant Replay Just Cost Team USA Its Top Goalscorer at the World Cup WSJ

Overnight

S&P Futures	-3 ▼ point(s) (-0.04% ▼)
overnight range:	-23 ▼ to +14 ▲ point(s)

APAC

Nikkei	-2.47% ▼
Topix	+0.09% ▲
China SHCOMP	-2.03% ▼
Hang Seng	+0.76% ▲
Korea	-7.89% ▼
Singapore	+1.08% ▲
Australia	+0.02% ▲
India	+0.73% ▲

Taiwan	-0.58% ▼

Europe	
Stoxx	50 +0.31% ▲
Stoxx	600 +0.51% ▲
FTSE	100 +0.48% ▲
DAX	+0.55% ▲
CAC	40 +0.66% ▲
Italy	+0.88% ▲
IBEX	+0.82% ▲

FX	
Dollar Index (DXY)	-0.38% ▼ to 101.00
EUR/USD	+0.33% ▲ to 1.1415
GBP/USD	+0.52% ▲ to 1.3344
USD/JPY	+0.88% ▲ to 161.16
USD/CNY	+0.03% ▲ to 6.7886
USD/CNH	+0.05% ▲ to 6.7912
USD/CHF	+0.60% ▲ to 0.8048
USD/CAD	+0.14% ▲ to 1.4196
AUD/USD	+0.19% ▲ to 0.6906

UST Term Structure	
2Y-3M Spread narrowed	-2.6bps ▼ to 37.5bps
10Y-2Y Spread widened	1.8bps to 31.7bps
30Y-10Y Spread narrowed	-0.1bps ▼ to 48.8bps

USD HY OaS

All Sectors	-3.5bps ▼ to 291bps
All Sectors ex-Energy	-1.0bps ▼ 291bps
Cons Disc	-0.3bps ▼ to 439bps
Indu	-1.3bps ▼ to 226bps
Tech	-0.9bps ▼ to 228bps
Comm Srvcs	-2.4bps ▼ to 291bps
Materials	-0.1bps ▼ to 263bps
Energy	-1.0bps ▼ to 273bps
Fin Snr	-0.1bps ▼ to 195bps
Fin Sub	-2.6bps ▼ to 300bps
Cons Staples	+1.4bps ▲ to 460bps
Healthcare	-1.4bps ▼ to 305bps
Utes	-0.1bps ▼ to 207bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
7/2	8:30 AM	Jun AHE m/m	0.3	0.3
7/2	8:30 AM	Jun Unemployment Rate	4.3	4.3
7/2	8:30 AM	Jun Non-farm Payrolls	113	172
7/2	10:00 AM	May F Durable Gds Orders	-4.5	-4.5
7/6	9:45 AM	Jun F S&P Srvcs PMI	n/a	51.3
7/6	10:00 AM	Jun ISM Srvcs PMI	54.2	54.5
7/7	8:30 AM	May Trade Balance	-78.75	-55.881
7/8	2:00 PM	Jun 17 FOMC Minutes	n/a	0

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