A P O L L O N

Market Commentary – Health Check Up on the Labor Markets

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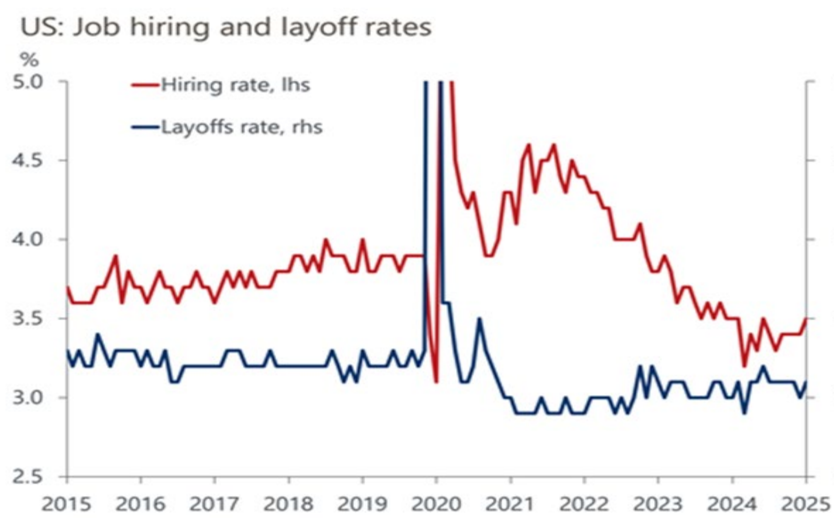
Consumer spending remains the fuel to the US economy, contributing nearly two-thirds of GDP historically. As economists debate recession or no recession due to budget deficit and tariff concerns, keeping an eye on the health of consumer spending and labor markets is essential. If consumers have jobs, that helps support consumer spending and keeps the US economy growing. Last week we got a health check up on the labor markets with several economic reports, which contained both good and bad news. Let's review what we learned.

JOLTS Report

The US Job Openings and Labor Turnover Survey ("JOLTS") reported that job openings rose 2.7% to 7.39 million in April, above the consensus forecast of 7.1 million. Job openings in March were revised higher by 8,000 to 7.2 million. The hiring rate edged higher to 3.5%, the highest since September. The current hiring rate remains relatively low and would normally be associated by a higher unemployment rate, but a low pace of layoffs has limited the rise in unemployment. The layoff rate slightly rose to 1.1% in April, which is below the 2015 – 2019 average of 1.2%. The data is consistent with a labor market that is roughly in balance, but vulnerable should the pace of layoffs accelerate.

ADP Private Payroll

While the JOLTS report provided positive news on the labor markets, the ADP Private Payroll report painted a different picture. Private payrolls increased just 37,000 in May, below the Dow Jones forecast of 110,000. May hit the lowest



Source: Oxford Economics/Haver Analytics level of private sector job creation in more than two years. Good-producing sectors lost 2,000 jobs while service-providing sectors created 36,000 jobs. Clearly tariff concerns had an effect on this report as the good-producing sectors are most impacted. Annual pay growth for employees staying in their positions was 4.5%, and 7% for job changers.

Weekly Jobless Claims Report

Initial jobless claims rose 8,000 to 247,000 in the week ended May 31, above the consensus forecast of 235,000. The increase in claims pushed the four-week moving average up 4,500 to 235,000, the highest since October 2024. Seasonal quirks may have contributed to rise in claims. The latest data were for the week that included Memorial Day, and seasonal factors don't always do the best job of adjusting claims around holidays. We may also be starting to see the impact of the end of the school year on claims in Minnesota, where school workers are eligible for benefits over the summer. In 2024, claims in Minnesota rose more than 7,000 over the first two weeks of June. Last week, claims rose 2,377 in Minnesota.

The four-week moving average for continued claims rose 8,000 to 1.895 million the highest since November 2021. The elevated level of continued claims is consistent with other data like a low hiring rate and increasing duration of unemployment indicating that it is difficult for those who are unemployed to find new jobs.

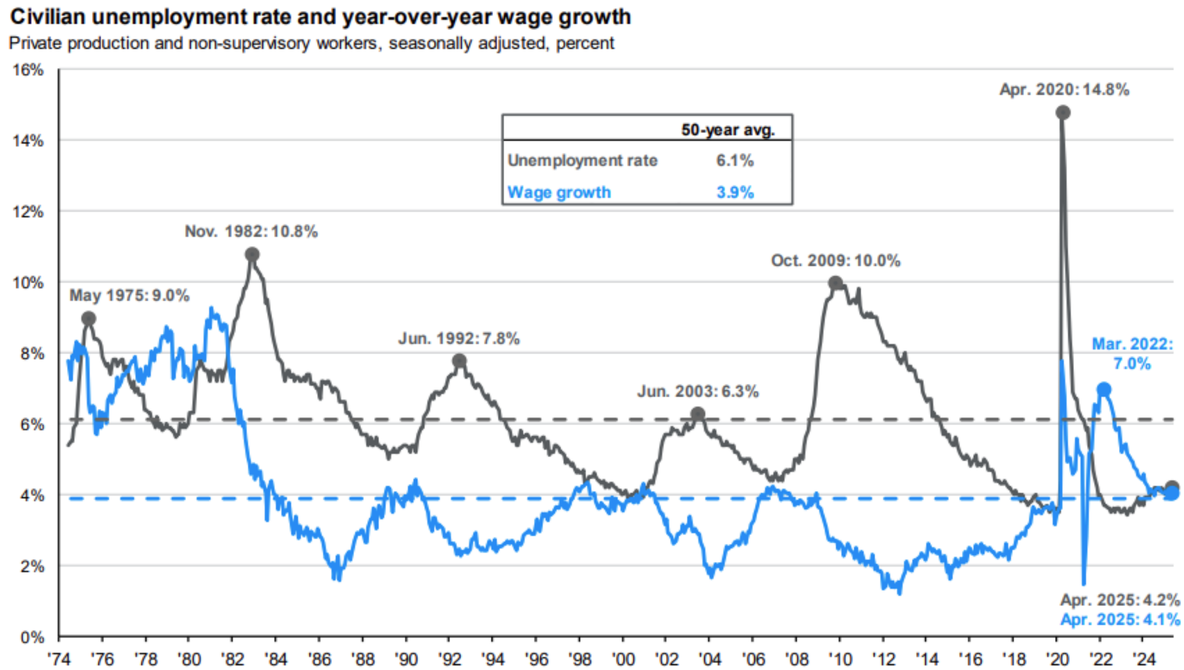
Nonfarm Payroll Report

The nonfarm payroll report beat expectations with 139,000 jobs added in May, above the Dow Jones estimate of 125,000. Job growth for April was revised down by 30,000 to 147,000 and job gains for March were revised down by 65,000 to 120,000. The unemployment rate held at 4.2%, and wages grew more than expected with average hourly earnings up 0.4% during the month and 3.9% from a year ago. Health care accounted for almost half the growth adding 62,000 jobs. On the other side, government employment declined 1,000, which reflects a combination of a federal hiring freeze and workers leaving their jobs voluntarily, most likely through retirement.

Similar to the ADP Private Payroll, this report showed job losses (-1,000) in good-producing sectors, and job gains (145,000) in service-producing sectors.

Health Check Up Summary

Overall, the labor market remains healthy. While it is slowly moderating, the current unemployment rate is near historic lows. S&P 500 profit margins also remain healthy and are currently above the 5-year average. If profit margins remain strong, it should minimize any widespread layoffs. Many companies may also be hesitant to initiate large layoffs with recent memories of hiring struggles after the COVID pandemic. Additionally, wage growth continues to exceed inflation, which will help support consumer spending levels.



Source: BLS, FactSet, J.P. Morgan Asset Management. Private production and non-supervisory jobs represent just over 80% of total private nonfarm jobs.

On the other side, the uncertainty regarding the White House's final trade policies is holding back some companies from moving forward with hiring plans, so it remains a challenging environment for employees looking for a job. We have been in this low hire / low fire environment for quite some time. Once more trade agreements are finalized, we may see hiring pick up across many sectors.

We are seeing a rebuilding of consumer sentiment from the recent survey lows shortly after "Liberation Day" rocked the markets. Through all the volatility in the markets from high-stake tariff negotiations to federal budget concerns, the labor market continues to prove its resiliency. We remain optimistic for the remainder of the year, while at the same time keeping any eye of potential emerging risks between geopolitical confrontations and final trade policies. Stay diversified!