Daiwa Capital Markets

U.S. Economic Comment

- May employment: firming job growth and low unemployment suggest Fed on hold for foreseeable future

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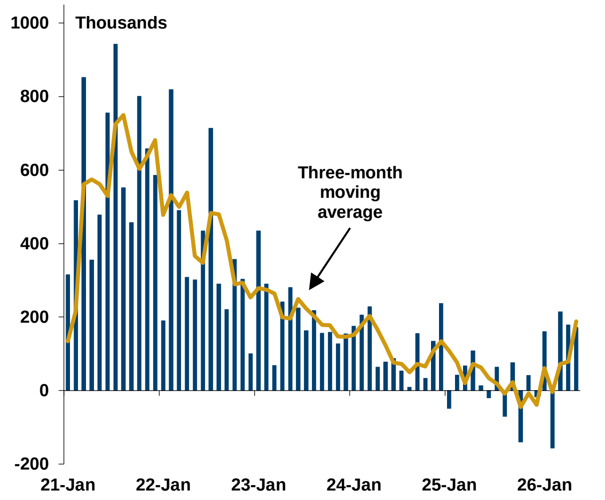
May Labor Market Update

For the third consecutive month payroll growth was favorable, with the May advance of 172,000 (which far exceeded the Bloomberg survey median of 88,000) only the third firmest among them (payrolls jumped 214,000 in March and 179,000 in the subsequent month). Indeed, the three-month average of 188,000 – which was augmented by net revisions of +93,000 in the March-April period – was the best performance since an average gain of 203,000 in the first quarter of 2024 (chart, right). Moreover, recall that the aforementioned three-month span directly followed the Federal Reserve's previous aggressive hiking cycle in response to brisk inflation and tight labor-market conditions – a 16-month span culminating in a final hike of 25 basis points in July 2023 that left the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. We of course in no way view current conditions in the labor market as analogous to those in early 2024 (although the year-over-year change in the core price index for personal consumption was similar: +3.1 percent in March of that year versus 3.3 percent in April 2026). Rather, recent developments allay our concerns about potential rapid near-term deterioration in the employment situation competing with still-salient concerns about current problematic inflation with respect to the FOMC's rate-setting calculus.

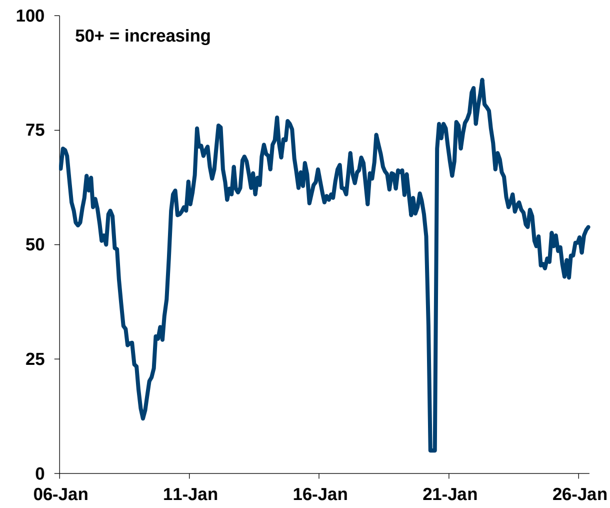
Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Despite receding fears of labor market conditions requiring near-term support from monetary policy, we remain at least mildly concerned about the ongoing relatively narrow breadth of job growth. Notably, local government hiring was a key driver of activity in the latest month, which may be the result of random volatility or a special factor. On the point, gains totaled 55,000 in May after averaging shy of 8,000 monthly in the trailing three months and 12,000 per month in 2025. Additionally, results for the private sector yield further evidence to this notion. The three-month diffusion index, which looks through month-to-month volatility and helps visualize the scope of industries hiring, remained in the low end of the range of the past few years despite a recent pickup (chart, right). Hiring was decent in May at 120,000 (and above the consensus of +89,000), although down a bit from the brisk average of 189,500 in the March-April period -- which followed marked volatility in the opening months of 2026. With that said, hiring in the healthcare and social

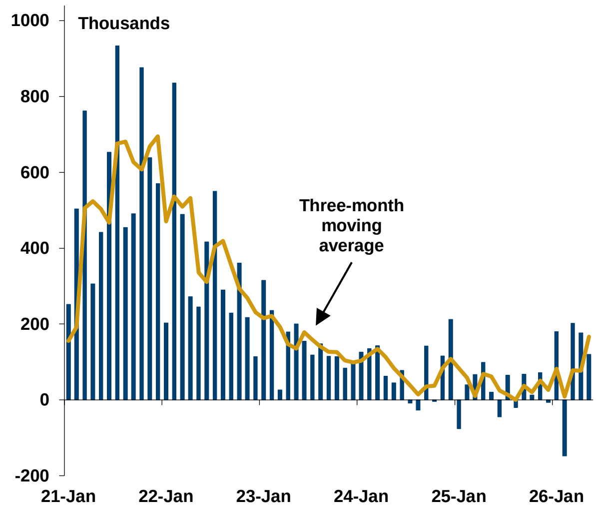
Private Sector Diffusion Index*



** Over a three-month span; Percent of industries with increasing employment plus one-half of the industries with unchanged employment, where a reading of 50 percent indicates an equal balance between industries with increasing and decreasing employment.*

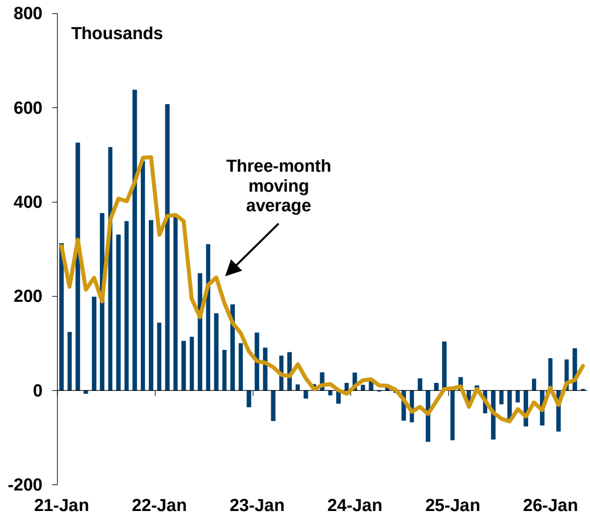
Source: Bureau of Labor Statistics via Haver Analytics assistance and leisure and hospitality sectors were again significant, rising by 47,200 and 70,000, respectively (up from trailing three-month averages of 40,100 and 14,300). Additionally, the above-trend reading in leisure and hospitality could in part reflect a surge in hiring tied to the upcoming World Cup (which then could reverse afterwards). Excluding those sectors (which already could include a transient boost) yielded a pickup of only 3,000 positions in May – well below the already restrained three-month average of approximately 23,000 but marginally better than numerous contractionary months since the summer of 2024 (chart, below right). Thus, we again note that topline data suggest stability – and possibly some improvement in hiring – but the scope of those gains is narrow.

Change in Private Sector Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

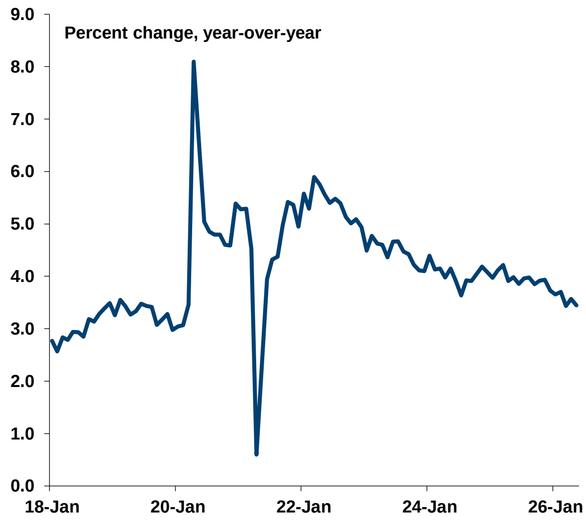
Change in Private Sector Payrolls*



** Excluding healthcare, social assistance, leisure and hospitality payrolls*
Source: Bureau of Labor Statistics via Haver Analytics

Developments on the compensation front also signal that demand for labor remains moderate. Average hourly earnings rose 0.3 percent in May (+0.32 percent versus a trailing six-month average of +0.25 percent), although the year-over-year growth rate eased to 3.4 percent from 3.6 percent previously and a recent peak of 5.9 percent in March 2022 (excluding the period of pandemic-related distortions; chart). This measure can be influenced by compositional shifts in the workforce because it is simply a measure of aggregate compensation divided by hours, but other fixed-weight measures (e.g., the quarterly Employment Cost Index, which is often referred to by Fed officials) tell a similar story: total compensation growth eased from a year-over-year peak of 5.1 percent in 2022-Q2 to 3.4 percent in 2026-Q1, and wage increases moderated from 5.3 percent year-over-year in that same quarter to 3.4 percent most recently. Therefore, the latest wage data also suggest that supply and demand for labor are in balance – and perhaps demand is less tenuous than it was several months ago, although still far from robust.

Average Hourly Earnings

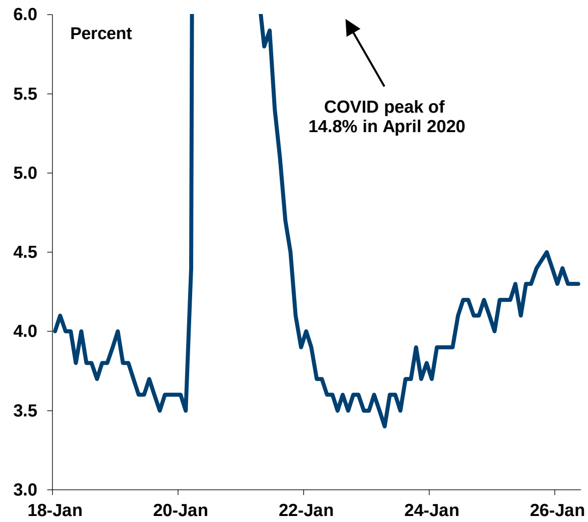


Source: Bureau of Labor Statistics via Haver Analytics

The Household Survey

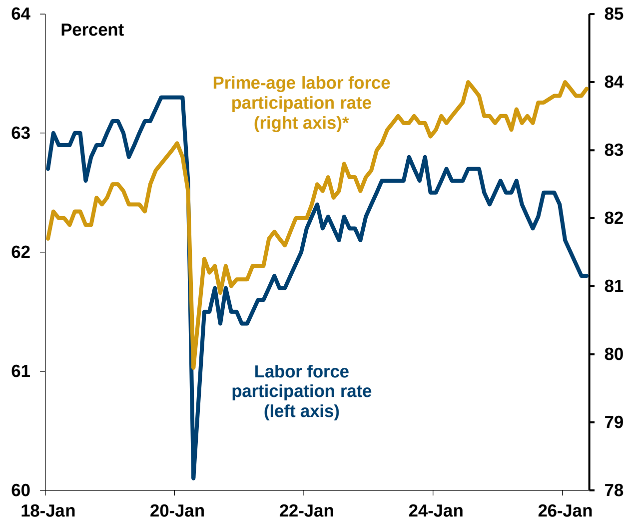
Turning to the data from the Household Survey, employment growth of 149,000 after contractions in the previous four months exceeded a pickup of 83,000 in the labor force, yielding a dip in the unemployment rate that left it rounding to 4.3 percent for the fourth time in the past five months (4.296 percent versus 4.337 percent in April; chart, next page, left). Meanwhile, the broad unemployment rate eased to 8.1 percent from 8.2 percent in the prior month, with both those working part time for economic reasons and marginally attached workers falling (off 137,000 and 69,000, respectively). Additionally, although the labor force participation rate remained well below pre-pandemic norms – and declined in recent months before holding at 61.8 percent in May (mostly on account of ongoing retirement of Baby Boomers, a structural rather than cyclical dynamic) – the prime-age participation rate increased 0.1 percentage point to 83.9 percent, only modestly below the current expansion high of 84.0 percent in July 2024 and January 2026 (chart, below right). In essence, the labor market is resilient enough to continue prompting participation by a key working-age demographic.

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Labor Force Participation Rate



** Labor force participants aged 25 to 54 as a share of the civilian non-institutional population aged 25 to 54.*
Source: Bureau of Labor Statistics via Haver Analytics

We could delve more deeply into the latest Employment Situation report and perhaps selectively extract various data to support arguments either in favor of a strengthening employment situation or a hiring landscape about to roll over and possibly give way to increased layoffs. In the near term, however, focusing on those statistics would do little to alter the current market narrative on the path of monetary policy. With economic growth respectable (our current tracking estimate for Q2 anticipates annualized GDP growth of 2.4 percent) and unemployment low (4.3 percent, a reading only 10 basis points above the median estimate of Fed officials in the March 2026 Summary of Economic Projections), focus must rest on the price stability side of the dual mandate. And, with yet another supply shock radiating through the economy, heightened risk for second-round inflation effects and risk of slippage in longer-term inflation expectations, Fed officials are most likely (at least in the next few months) to leave the target range for the federal funds rate unchanged at 3-1/2 to 3-3/4 percent while maintaining hawkish rhetoric expressing a willingness to hike rates (which could be materialized through updated language in the next post-meeting FOMC statement, a development previously desired by regional presidents Beth M. Hammack, Neel Kashkari, and Lorie K. Logan).

Note to readers:

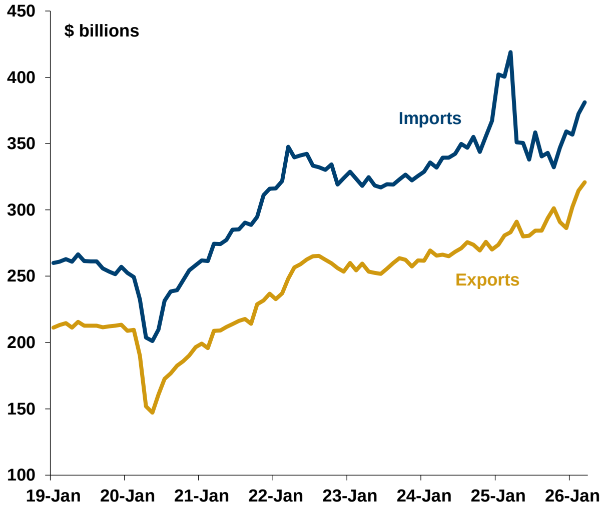
The next issue of the U.S. Economic Comment will be published on June 26, 2026.

The Week Ahead

Trade Balance (April) (Tuesday)
Forecast: -$57.5 billion ($2.8 billion narrower deficit)

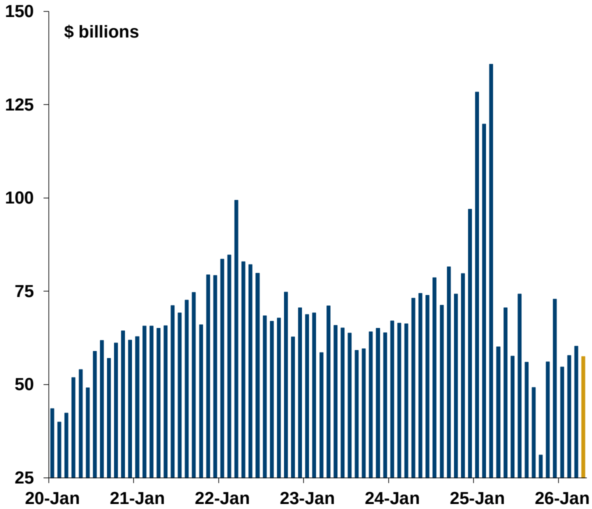
The goods trade deficit narrowed by $2.9 billion to $82.4 billion in April (Census basis; published May 29), reflecting a jump in the dollar volume of exports that exceeded an advance in imports. This shift implies likewise improvement for the total trade shortfall in April, with the expected change, if realized, only somewhat off the Q1 average of -$57.6 billion. Thus, the early data for Q2 indicate that net exports could exert an essentially neutral influence on GDP growth in Q2 after subtracting 1.25 percentage points previously.

Imports & Exports of Goods & Services



Source: Bureau of Economic Analysis via Haver Analytics

Nominal Trade Deficit in Goods & Services*



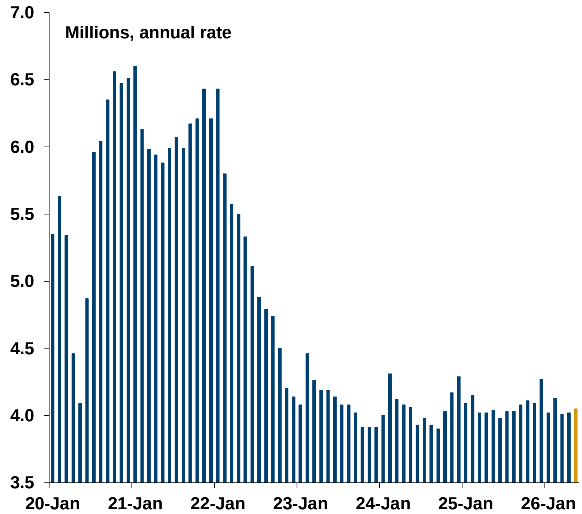
** The gold bar is a forecast for April 2026.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Existing Home Sales (May) (Tuesday)
Forecast: 4.05 million (+0.7%)

The recent performance in the index of pending home sales (a net increase of 3.0 percent in the February-April period) is suggestive of an advance in existing home sales in May (note that pending home sales, which measures contract signings, typically lead existing home sales, which measures closings, by about one to two months). The anticipated improvement, however, would still leave the pace of sales in the low end of longer-run range – reflective of ongoing affordability challenges and inventory constraints in this segment of the housing market.

Existing Home Sales*



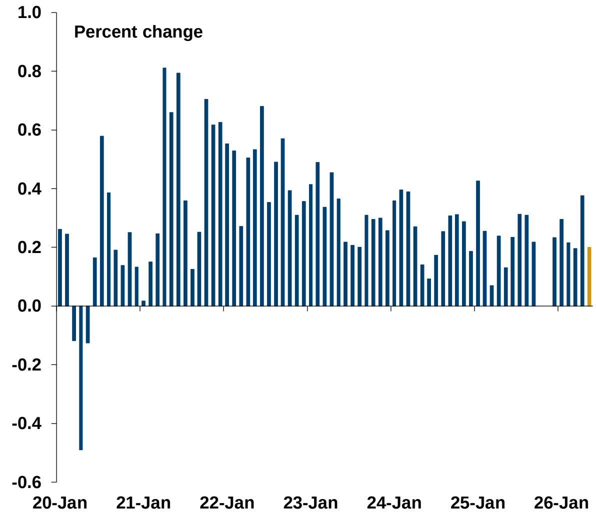
** The gold bar is a forecast for May 2026.*

Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

CPI (May) (Wednesday)
Forecast: +0.5% headline, +0.2% core

Available quotes (e.g., those for gasoline) suggest that higher prices boosted the energy component again in May (albeit to a lesser degree than the prior two months), contributing to another firm advance in the headline CPI after surges of 0.9 and 0.6 percent in March and April, respectively. Meanwhile, food prices appear poised to post an increase closer to the Q1 average of 0.2 percent after jumping 0.5 percent in the prior month. With respect to the core, goods prices have rose modestly in early 2026 (+0.1 percent average in the first four months of the year; +1.1 percent year-over-year in April) – indicative of a moderating -- but still measurable -- impact from tariffs. At the same time, core service inflation has registered steady gains in recent months (average of +0.3 percent in the four-month period ending April 2026; +3.3 percent year-over-year). Expected further cooling in rents could exert downward pressure on the broad component, although we remain vigilant for evidence of cost passthrough from energy prices to various services (e.g., transportation services).

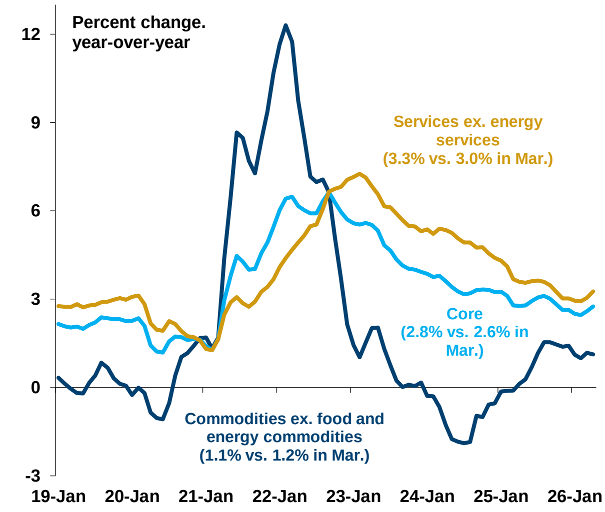
Core CPI*



** The gold bar is a forecast for May 2026.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Decomposition of Core CPI

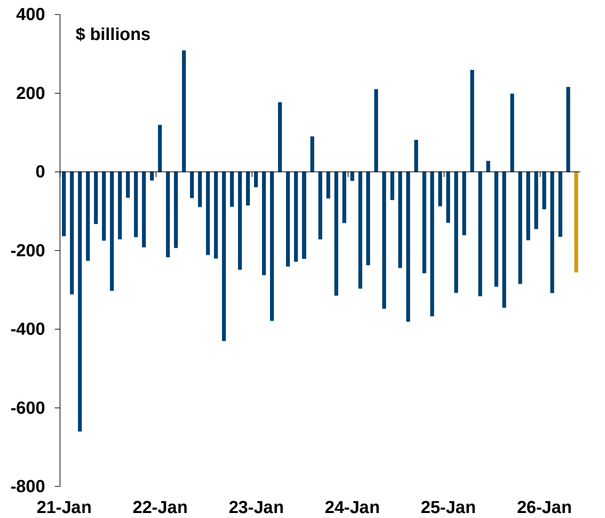


Source: Bureau of Labor Statistics via Haver Analytics

Federal Budget Balance (May) (Wednesday)
Forecast: -$255 billion

Available data from the Daily Treasury Statement indicate that federal revenue growth was tepid last month (up about 2 percent year-over-year by our estimate) while expenditures remained on a firm trajectory. If the projection is realized, the cumulative deficit in the first eight months of FY2026 will total $1.209 trillion (versus -$1.364 trillion in the same period of FY2025).

Federal Budget Surplus/Deficit*



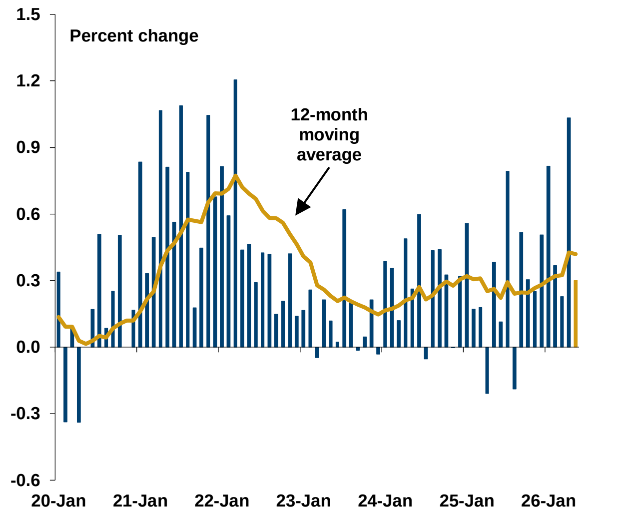
** The gold bar is a forecast for May 2026.*

Sources: U.S. Treasury via Haver Analytics; Daiwa Capital Markets America

PPI (May) (Thursday)
Forecast: +0.6% final demand, +0.3% ex. food & energy

Similar to the CPI, available quotes suggest that the energy component of the PPI could jump again after spikes of 10.1 and 7.8 percent in March and April, respectively. Food prices at the producer level, which can be a bit erratic on a month-to-month basis, seem likely to register an increase in line with the trailing 12-month average of 0.2 percent. Goods prices excluding food and energy, meanwhile, have advanced 0.4 percent on average in the 12-month period ending April 2026, a performance approximately equal to that for the broad services category. Concurrently, the construction area has recorded an average monthly gain of 0.3 percent over the same timeframe.

PPI Ex. Food & Energy*



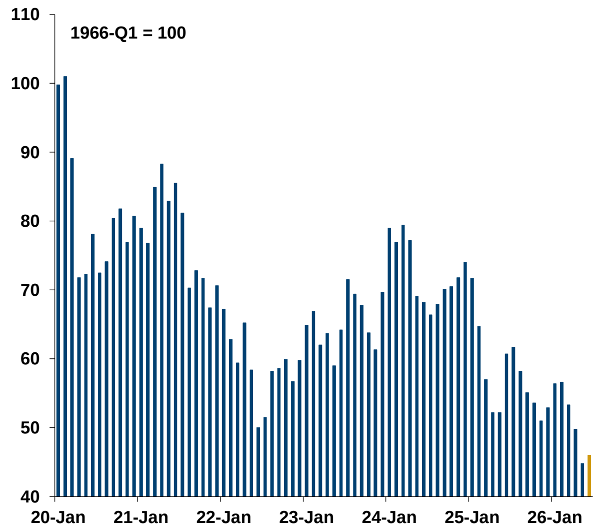
* The gold bar is a forecast for May 2026.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Consumer Sentiment (June) (Friday)
Forecast: 46.0 (+1.2 points or +2.7%)

Absent any major positive developments, we suspect that the ongoing Iran conflict, along with fragile labor market conditions and elevated costs of household essentials, will keep sentiment at a depressed level in June. In that regard, the expected shift, if realized, will leave the University of Michigan metric only 1.2 points above the record low of 44.8 recorded in the prior month. Circling back to Middle East tensions, with gasoline prices still hovering near multi-year highs, updated readings on inflation expectations will be of key interest. Recall, the year-ahead metric rose 0.1 percentage point to 4.8 percent in May while longer-term expectations jumped 0.4 percentage point to 3.9 percent. While both metrics are below their post-Liberation-Day highs, they have turned notably higher since February – a development that Fed officials will likely be monitoring.

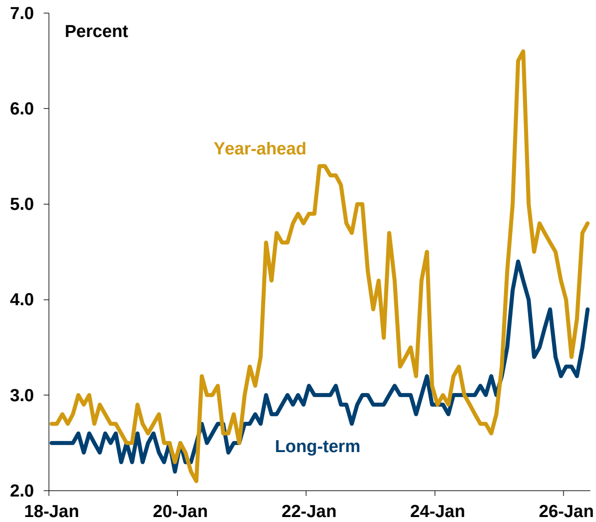
Consumer Sentiment*



* The gold bar is a forecast for June 2026.

Sources: University of Michigan via Haver Analytics; Daiwa Capital Markets America

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Economic Indicators

June 2026

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
ISM MFG. INDEX Index Prices Mar 52.7 78.3 Apr 52.7 84.6 May 54.0 82.1 **CONSTRUCTION** Feb -0.8% Mar 0.2% Apr 0.4%	**JOLTS DATA** Openings (000) Quit Rate Feb 6,922 1.9% Mar 6,887 2.0% Apr 7,618 1.9% **VEHICLE SALES** Mar 16.2 million Apr 16.0 million May 16.1 million	**ADP EMPLOYMENT** Private Payrolls Mar 61,000 Apr 105,000 May 122,000 **FACTORY ORDERS** Feb 0.3% Mar 1.8% Apr 4.8% **ISM SERVICES INDEX** Index Prices Mar 54.0 70.7 Apr 53.6 70.7 May 54.5 71.3 **BEIGE BOOK** **May 2026:** “Economic activity increased at a slight to moderate pace for ten of the twelve Federal Reserve Districts, while one District reported a slight decline and one reported no change.”	**UNEMPLOYMENT CLAIMS** Initial Continuing (millions) May 9 0.212 1.771 May 16 0.210 1.785 May 23 0.212 1.777 May 30 0.225 N/A **PRODUCTIVITY & COSTS** Productivity Unit Labor Costs 25-Q4 1.6% 2.1% 26-Q1(p) 0.8% 2.3% 26-Q1(r) 0.3% 1.8%	**EMPLOYMENT REPORT** Payrolls Un. Rate Mar 214,000 4.3% Apr 179,000 4.3% May 172,000 4.3% **CONSUMER CREDIT** Feb $6.8 billion Mar $22.2 billion Apr $20.7 billion
8	9	10	11	12
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Mar 95.8 Apr 95.9 May -- **TRADE BALANCE (8:30)** Feb -$57.8 billion Mar -$60.3 billion **Apr -$57.5 billion** **EXISTING HOME SALES (10:00)** Mar 4.010 million Apr 4.020 million **May 4.050 million** **WHOLESALE TRADE (10:00)** Inventories Sales Feb 0.9% 2.6% Mar 1.5% 2.8% **Apr 0.5% 2.2%**	**CPI (8:30)** Total Core Mar 0.9% 0.2% Apr 0.6% 0.4% **May 0.5% 0.2%** **FEDERAL BUDGET (2:00)** 2026 2025 Mar -$164.1B -$160.5B Apr $215.0B $258.4B **May -$255.0B** -$315.7B	**UNEMP. CLAIMS (8:30)** **PPI (8:30)** Final Demand Ex. Food & Energy Mar 0.7% 0.2% Apr 1.4% 1.0% **May 0.6% 0.3%**	**CONSUMER SENTIMENT (10:00)** Apr 49.8 May 44.8 **June 46.0**
15	16	17	18	19
EMPIRE MFG **IP & CAP-U** **NAHB HOUSING INDEX**	**HOUSING STARTS** **IMPORT/EXPORT PRICES** **FOMC MEETING (FIRST DAY)**	**RETAIL SALES** **PENDING HOME SALES** **BUSINESS INVENTORIES** **FOMC RATE DECISION**	**UNEMP. CLAIMS** **PHILLY FED INDEX** **LEADING INDICATORS** **TIC FLOWS**	***JUNETEENTH NATIONAL INDEPENDENCE DAY***
22	23	24	25	26
		CURRENT ACCOUNT **NEW HOME SALES**	**UNEMP. CLAIMS** **REVISED Q1 GDP** **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **DURABLE GOODS ORDERS** **CHICAGO FED NATIONAL ACTIVITY INDEX**	**INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **REVISED CONSUMER SENTIMENT**

(p) = preliminary, (r) = revised

Forecasts in bold.

Daiwa Capital Markets

Treasury Financing

June 2026

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
AUCTION RESULTS: Rate / Cover 13-week bills 3.630% 2.69 26-week bills 3.665% 2.84 **SETTLE:** $16 billion 20-year bonds $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	**AUCTION RESULTS:** Rate / Cover 6-week bills 3.625% 3.28 **ANNOUNCE:** $69 billion 17-week bills for auction on June 3 $75 billion 4-week bills for auction on June 4 $75 billion 8-week bills for auction on June 4 **SETTLE:** $69 billion 17-week bills $85 billion 4-week bills $80 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 3.635% 3.15	**AUCTION RESULTS:** Rate / Cover 4-week bills 3.615% 3.07 8-week bills 3.610% 3.20 **ANNOUNCE:** $166 billion 13-,26-week bills for auction on June 8 $65 billion 6-week bills for auction on June 9 $50 billion 52-week bills for auction on June 9 $58 billion 3-year notes for auction on June 9 $39 billion 10-year notes for auction on June 10 $22 billion 30-year bonds for auction on June 11	**SETTLE:** $166 billion 13-,26-week bills $75 billion 6-week bills
8	9	10	11	12
AUCTION: $166 billion 13-,26-week bills	**AUCTION:** $65 billion 6-week bills $50 billion 52-week bills $58 billion 3-year notes **ANNOUNCE:** $69 billion* 17-week bills for auction on June 10 $75 billion* 4-week bills for auction on June 11 $75 billion* 8-week bills for auction on June 11 **SETTLE:** $69 billion 17-week bills $75 billion 4-week bills $75 billion 8-week bills	**AUCTION:** $69 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $75 billion* 4-week bills $75 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on June 15 $65 billion* 6-week bills for auction on June 16 $13 billion* 20-year bonds for auction on June 16 $24 billion* 5-year TIPS for auction on June 18 **SETTLE:** $166 billion 13-,26-week bills $65 billion 6-week bills $50 billion 52-week bills	
15	16	17	18	19
AUCTION: $166 billion* 13-,26-week bills **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $65 billion* 6-week bills $13 billion* 20-year bonds **ANNOUNCE:** $69 billion* 17-week bills for auction on June 17 $75 billion* 4-week bills for auction on June 18 $75 billion* 8-week bills for auction on June 18 **SETTLE:** $69 billion* 17-week bills $75 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills	**AUCTION:** $75 billion* 4-week bills $75 billion* 8-week bills $24 billion* 5-year TIPS **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on June 22 $65 billion* 6-week bills for auction on June 23 $69 billion* 2-year notes for auction on June 23 $70 billion* 5-year notes for auction on June 24 $44 billion* 7-year notes for auction on June 25 $28 billion* 2-year FRNs for auction on June 24	***JUNETEENTH NATIONAL INDEPENDENCE DAY*** **SETTLE:** $166 billion* 13-,26-week bills $65 billion* 6-week bills
22	23	24	25	26
AUCTION: $166 billion* 13-,26-week bills **SETTLE:** $13 billion* 20-year bonds	**AUCTION:** $65 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $69 billion* 17-week bills for auction on June 24 $75 billion* 4-week bills for auction on June 25 $75 billion* 8-week bills for auction on June 25 **SETTLE:** $69 billion* 17-week bills $75 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $75 billion* 4-week bills $75 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on June 29 $65 billion* 6-week bills for auction on June 30 **SETTLE:** $166 billion* 13-,26-week bills $65 billion* 6-week bills	**SETTLE:** $28 billion* 2-year FRNs

*Estimate