Weekly Relative Value

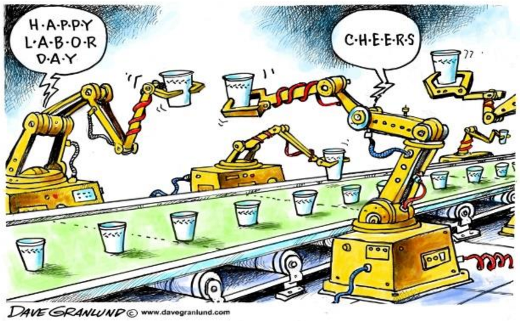
Tom Slefinger
Market Strategist

WEEK OF JUNE 9, 2025

Jobs Market Is Weaker than Advertised

"What happens when you put 10 economists in a room? You'll get 11 opinions."

A healthy labor market supports consumer spending and drives economic growth. It's the "glue" that keeps the economy together. And the first week of every month is chock full of labor market data. Below, I take a deep dive into the employment data released last week.

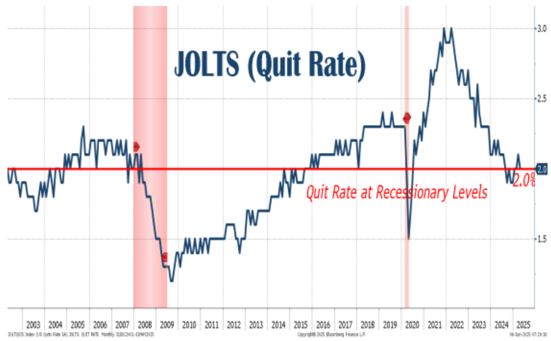


First up, the Bureau of Labor Statistics' Job Openings and Layoff Turnover (JOLTS) data offered a mixed bag. Openings surprised to the upside (7.39 million versus 7.1 million expected) and new hires jumped by +169,000 to 5.573 million. Despite this uptick, labor demand has declined to such a low level that it is now tied for the weakest figure since April 2020 — when the economy was mired in the pandemic-lockdown recession. The hiring rate on its own, at 3.7%, is now tied for fourth lowest level since October 2013!

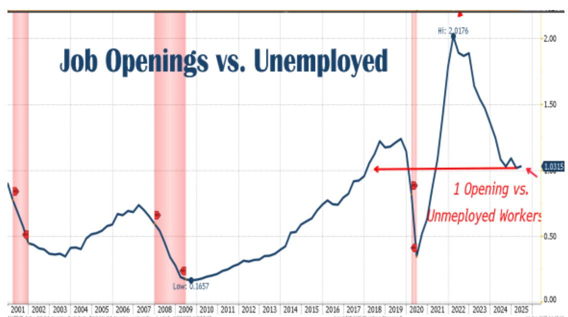
THIS WEEK

- PRIVATE PAYROLLS LOOK RECESSIONARY
- MOST JOB CUTS SINCE PANDEMIC
- CLAIMS RISE AGAIN
- DOWN 696,000 OR UP 135,000
- BEIGE TURNS RED
- NO OPTOM "ISM"
- UNCERTAINTY IS THE WORD!
- AUTO SALES IN REVERSE
- THE FRUGAL CONSUMER IS BACK
- THE TRAVEL BUG
- WHAT'S WRONG WITH THE BOND MARKET?
- WHY SUBSCRIBE TO THE WRV?
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

At the same time, the layoff cycle is beginning to take shape with the number of pink slips jumping by +196,000, which was the sharpest run-up since last July. At 1.78 million, the number of layoffs and firings are now at their highest level in six months. Moreover, the quits rate fell by -150,000 (the steepest decline since last November) and likely speaks to a loss of worker confidence.



The closely watched ratio of "job openings per unemployed'" individuals was slightly below what preceded the pandemic in April 2020 (at 1.0).



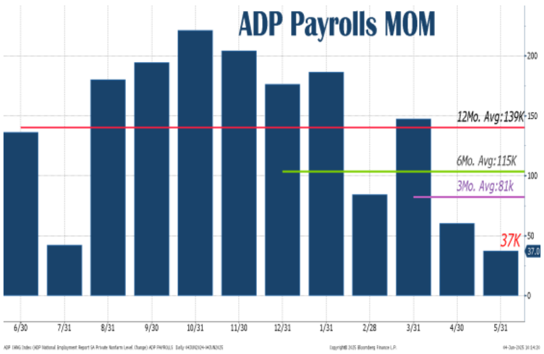
In addition, job postings on Indeed (more timely data) signal further deterioration.

Bottom line: The JOLTS report was mixed and resolved extraordinarily little when it comes to identifying just how much the labor market has cooled off. Grade this report as a C-.

PRIVATE PAYROLLS LOOK RECESSIONARY

In the wake of the JOLTS survey, the ADP "private sector" payrolls came in uber-light in May. The +37,000 uptick was the lightest since March 2023 (before that, July 2020) and sharply undercut the consensus estimate of +114,000. The

+37,000 reading in May compares to a three-month average of +81,000, a six-month average of +115,000, and a twelve-month average of +139,000. That is indeed a fundamental weakening. According to the St. Louis Fed, the so-called break-even rate for job growth at about 153,000, so a few more readings below that figure will trigger a rise in the unemployment rate currently at 4.2%.



Now we come to the juicy part.

The ADP employment figures were revised down in most months since Jan 2023 (17 out of 28 months) by an avg -44,000 per month. The best part? In the March through July 2023 period, private payrolls were revised down by an average of -225,000 per month, and we only learned about it a few months ago.

There are some similarities between now and 2023. Back then, the figures were distorted by the regional banking crisis, while today they might be distorted by the tariffs and related uncertainty.

Here's the key takeaway. If the latest month gets revised down by anything near the 2023 revisions, the May number would end up way negative (-188,000). This might as well be the case with April (currently at +60,000, and such large downward revisions would put it at -165,000).

Bottom line: This pretty much negates the current narrative that the jobs market is robust, and recession odds are not down or anywhere close to sub-50%.

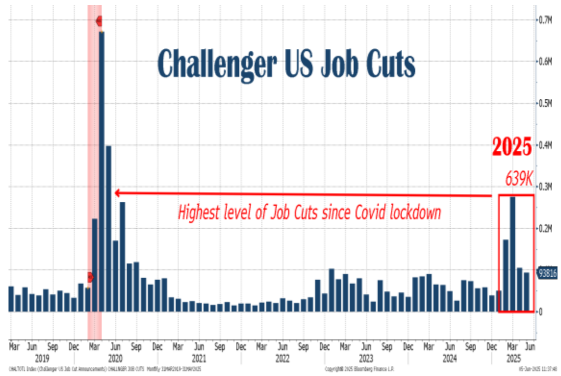
Grade this report a D-.

MOST JOB CUTS SINCE PANDEMIC

Following the APD Payroll Report, Challenger, Gray & Christmas, Inc. (the largest outplacement firm in the country) reported that pink-slip announcements surged +47% from the year-ago level. The 93,816 notices were the highest for any May dating back to the 2020 pandemic recession, and before that, try May 2009 when the economy was in the final leg of the Great Recession.

Not only that, but "economic conditions" were the primary reason cited for the labor shedding in May — surging more than threefold since this time last year.

As depicted below, year to date, firms have announced 696,309 cuts in 2025, the most since the 2020 crisis.



The services sector weakness is not a good sign for the economy. U.S. employers from the services sector announced 22,492 job cuts in May, the highest since the 2020 crisis. Outside of 2020, this is the highest number of layoffs in 20 years.

Bottom line: Grade this report a D-. The labor market is weakening at a notable clip, and the Fed has gone AWOL because of all the tariff uncertainty.

CLAIMS RISE AGAIN

Now that the severance packages have run their course, we are finally seeing initial jobless claims hook up in each of the past two weeks. In the latest week (May 31), they rose to 247,000 from 239,000 — the consensus was at 235,000. This is the highest reading since early October. The four-week moving average rose to nearly an eight-month high of 235,000 from 230,500 last week.

The backlog of continuing claims has substantially risen to levels last seen nearly four years ago.

Bottom line: Grade this report a C-. Keep a close eye on this high frequency claims data. The labor markets are now weakening in real time. A further rise in claims will likely lead to a higher unemployment rate.

DOWN 696,000 OR UP 135,000?

"Yep. We are in the downward revision leg of the cycle, close enough to revisions into negative territory to think a recession is around the corner. That's still my base case. There will be a violent market reaction if and when that becomes apparent."— Ed Harrison, Senior Editor, Bloomberg Economics

Finally, the non-farm payrolls came in a smidge better than expected in May, with the headline at +139,000 versus the +126,000 consensus estimate.

That was the good news; the bad news is virtually all historical data points during the Trump administration were revised lower, with April revised 30,000 lower from 177,000 to 147,000 and March revised 65,000 lower from 185,000 to 120,000. Worse, every single month under the Trump administration has been revised lower.

Given that the last four jobs reports were all revised lower, what's the odds that May's report isn't revised lower next month? In July, we'll find out that May's jobs were below estimates, but no one will care, as June's number will beat estimates, until it too is revised lower.

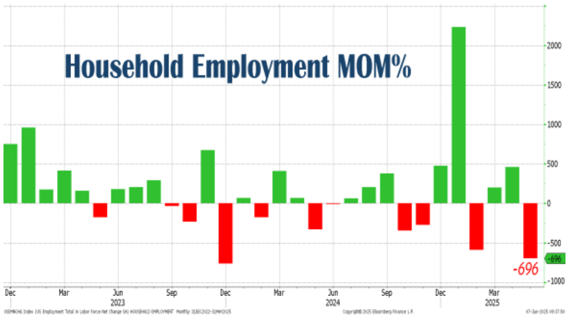
Never mind that over half of the headline gain came via the "birth-death" model (aka "guess"), which never seems to go down. When you strip out that skew and count in the revisions, payrolls were actually negative last month. But…the markets are fixated on the headline; details be damned.

And let me add this ditty. The more inclusive Quarterly Census of Employment and Wages (QCEW) data, which covers 97% of businesses, reported that through December of last year jobs grew at less than +0.8%. The inflated non-farm payroll data showed a +1.2% year-over-year trend. So, we obviously are in for future downward revisions, keeping in mind that the most recent gap between the yearly trends in the two series amounts to 800,000 jobs.

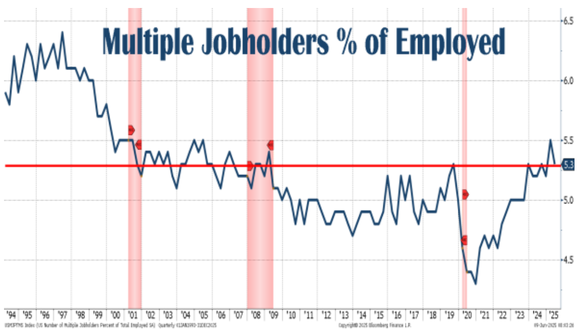
Turning to the unemployment rate, there were no surprises here: Consensus expected an unchanged 4.2% print from April and got just that. But this happened only because 625,000 people left the job market. Had the participation rate (the percentage of the working-age population that is employed or actively seeking employment) remained the same, the unemployment rate would have climbed to 4.6%, which would have been above the Fed's peak projection of 4.4%

for this year. In other words, the U-3 unemployment rate is very well concealing the actual slack in the labor market. Don't be complacent based on where the unemployment rate sits today.

Meanwhile, the household survey was horrible, but this receives little attention. Employment here cratered by -696,000 and is lower now than at the turn of the year. Most importantly the prime working-age demographic group lost -198,000 and is declining now in three of the past four months. Not to mention that almost all of the slippage in the household survey was in full-time jobs — plunging -623,000.



At 5.3% as a percentage unemployed, we are at levels where we entered the Great Financial Crisis and pandemic recessions and just slightly behind those observed in 1999-2000. When we have the highest number in tracking of folks working two part-time jobs to make ends meet, you know something just ain't right!



Bottom line: That we are seeing a "solid" labor market backdrop is as FALSE a narrative as there is out there. Here we had three sharp downward revisions in a row. The combined miss from the actual revised numbers to the initial consensus expectation was a cumulative -133,000!

The reality is that the weak labor market has actually gotten even weaker. But Wall Street and the financial media will continue to misrepresent these bogus reports to put more lipstick on an even bigger pig.

All that said, no contraction in the job market, and an unemployment rate stable along with the wage number cements the market view that September will be the earliest the Fed rekindles its rate-cutting cycle — if it ends up moving at all this year. Not until more serious cracks emerge in the labor market, given that businesses in the various surveys have said they will be raising prices over the next three months, will the Fed contemplate cutting rates again.

BEIGE TURNS RED

*"**Reports across the twelve Federal Reserve Districts** indicate that **economic activity has declined slightly** since the previous report."*

"Half of the Districts reported slight to moderate declines in activity, three Districts reported no change, and three Districts reported slight growth."

***On balance, the outlook remains slightly pessimistic and uncertain**, unchanged relative to the previous report.*

*"Employment has been little changed since the previous report. **Most Districts described employment as flat, three Districts reported slight-to-modest increases, and two Districts reported slight declines."***

*"All Districts reported **elevated levels of economic and policy uncertainty**, which have **led to hesitancy and a cautious approach to business and household decisions**."*

*"**Consumer spending reports were mixed, with most Districts reporting slight declines or no change."***

— June 4 Beige Book

On the inflation front, I couldn't help but note this little comment:

*"Contacts that plan to pass along tariff-related costs expect to do so within three months….There were widespread reports of contacts expecting costs and prices to rise at a faster rate going forward. **A few Districts described these expected cost increases as strong, significant, or substantial.** All District reports indicated that higher tariff rates were putting upward pressure on costs and prices."*

So, in the past six weeks, the economy has shifted from "little changed" to "declined slightly." Fully 75% of the country is now in either contraction or stagnation mode, up from around 50% in the April 23 Beige Book. That is a big move. On the job front, only 25% of the country is showing any job momentum.

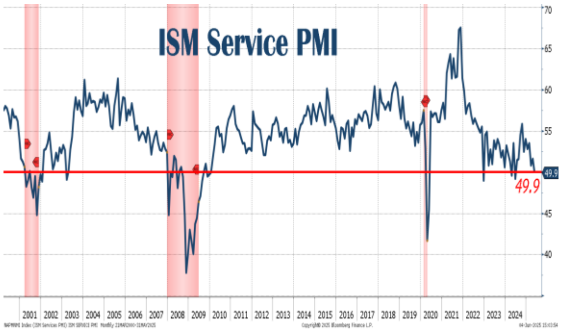
Aside from that, Mrs. Lincoln, how was the play?

Bottom line: The Fed's Beige Book placed a stamp of approval on the recession call. If it weren't for the tariff file, there is little doubt that the Fed would be cutting rates.

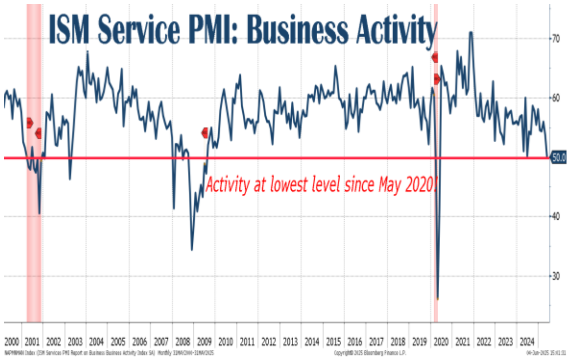
NO OPTOM "ISM"

The ISM Manufacturing Index is considered a key indicator of the state of the U.S. economy because it indicates the level of demand for products and services by measuring the amount of ordering activity at the nation's firms.

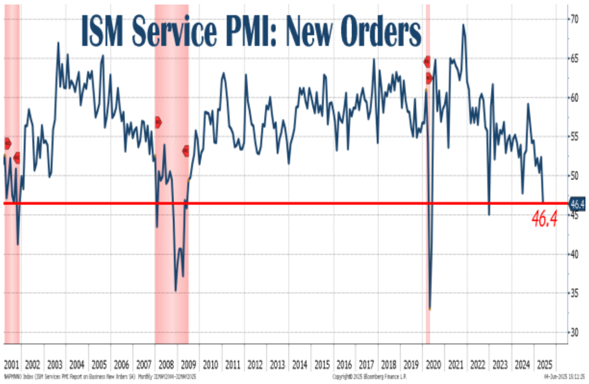
The ISM services Purchasing Managers Index just came in for May and was super-weak, dipping below the 50.0 threshold for growth (49.9) for the first time since last June and down from 51.6 in April. Not to mention this is the fourth time it has been in contractionary terrain since May 2020.



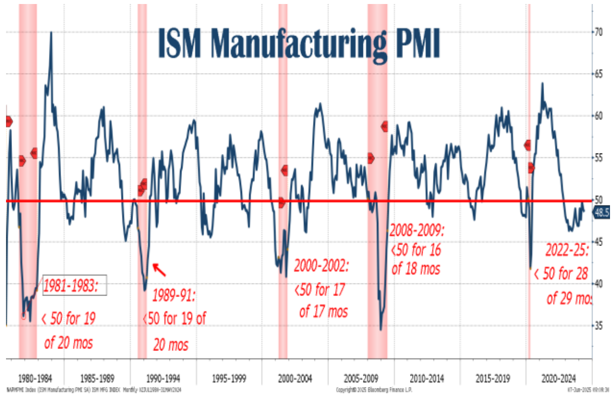
The “business activity index,” which lines up with service-sector gross domestic product (GDP) growth the best, has gone from 55.9 in March to 50.0 on the nose in May — the lowest since May 2020. As per the chart below, only in the winter of 2003 during the Iraq War did a number this low fail to trigger an outright recession.



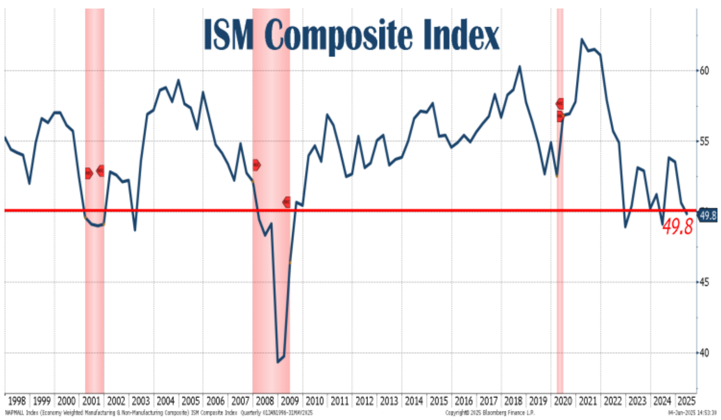
New orders, the mother’s milk for future demand, slumped badly to 46.4 from 52.3, which is a huge decline to contraction mode (the lowest reading since December 2022).



On the manufacturing front, the ISM Manufacturing Index shows that the manufacturing sector contracted in May for the twenty-eighth time in the last 29 months.



The combined ISMs have swung from 52.9 a year ago to 49.7 in May. History shows that less than 5% of the time historically was the economy still in official expansion when this index dipped below that critical 50 threshold.



Bottom line: It’s hard to put a positive spin on this. The litany of soft economic data continues unabated.

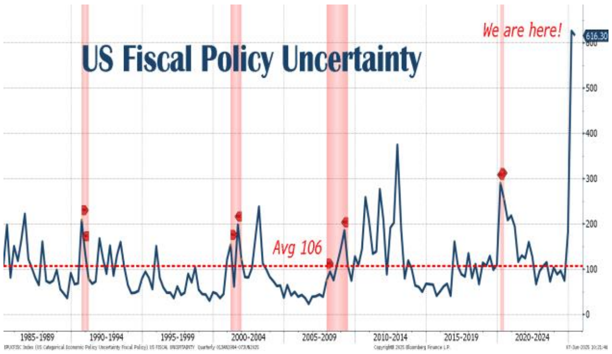
UNCERTAINTY IS THE WORD!

“I’d vote for it if we got real spending cuts. But this bill is the largest debt increase in U.S. history — $5 trillion….That’s like giving your 16-year-old a credit card, watching them rack up $2,000 on booze and gambling, then raising their limit to $10,000. Irresponsible. Rand Paul, U.S. Senator (R)

It's not just the trade front that has created elevated uncertainty, but fiscal policy as well. As of this writing, ten senators (Johnson, Lee, Curtis, Hawley, Collins, Murkowski, Paul, Tillis, Cruz, and Cornyn) say they will not vote for the House bill, and it’s not as if all ten have the same concerns. (Remember, the GOP only hold a 53-47 majority in the Senate.)

Clearly some are worried about the deficit numbers. To wit: the Congressional Budget Office has published its estimate that the “Big, Beautiful Bill” will add $2.4 trillion to the federal debt over the coming decade. Others don’t like the spending increases, and some think spending cuts are too high. Others have concerns over the energy tax credits. At least one does not want the debt ceiling lifted. Yet, others have issues over the state and local taxes increase proposals. Thus, the reasons for not coming on board vary from member to member. Notably, Senator Johnson told CNBC that no amount of White House pressure is going to matter.

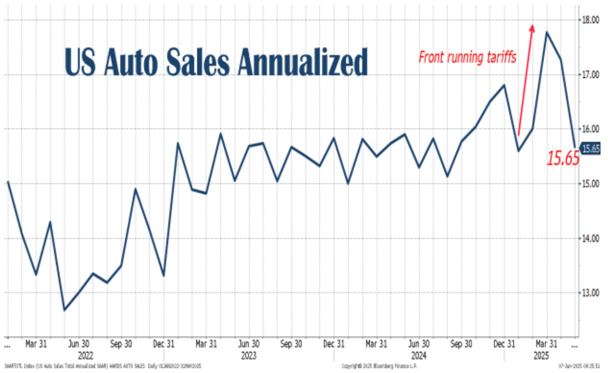
"The truth is that our whole budget has grown from about 3.6 trillion a decade ago to 7.2 trillion....Now it's doubled and everybody wants to applaud themselves for $160 billion of reductions and increases? I'm sorry, I don't think that's good enough." — Chip Roy, U.S. Representative, Texas (R)



Bottom line: Until there is greater clarity on both trade and fiscal policy, companies will remain in a state of paralysis and are likely to sit on their hands until the dust clears.

AUTO SALES IN REVERSE

The May auto sales report which was in a word DISMAL. The prior spurt in auto sales was an effort to front run tariffs. This has clearly been borrowed from future sales. To wit: Vehicle sales sagged -9.4% month over month in May (after a -3.2% reversal in April) to 15.65 million units (annualized). This was well below the 16.3-million consensus forecast and now at the lowest level since January of this year.



Bottom line: One month does not make a trend, but further weakness would be another headwind to the economy.

THE FRUGAL CONSUMER IS BACK

With 86% feeling that the economy remains uncertain and 58% believing a recession is inevitable, a whopping 77% of Americans have fundamentally changed how they manage their spending due to ongoing economic conditions.

In a world where "YOLO" spending and "buy now, pay later" culture have dominated headlines, Americans are NOW getting surprisingly practical about money.

This isn't a data point, but it may well have been, and I'm talking about the article in *The Wall Street Journal* titled "Campbell's Snack Business Struggles as Consumers Get Pickier About Food Spending." The opening sentence on today's consumer just about said it all:

> *"Consumers are becoming choosier, cutting back on discretionary snack purchases and cooking more meals at home, according to Campbell's Chief Executive Mick Beekhuizen."*

And now have a look at the *Financial Times* article "Wealthier Americans Flock to Dollar Stores as Tariffs Stoke Consumer Angst." Dollar Tree and Dollar General revealed that they are seeing rising inbound traffic from middle- and higher-income households.

Dollar Tree reported that 2.6 million new customers visited its stores in the first quarter, with the majority of them from higher income brackets.

> *"We saw a meaningful traffic increase from customers with household incomes of more than $100,000."*
> *— Mike Creedon, COO, Dollar Tree, June 4, 2025*

Bottom line: It would appear that consumers are changing their consumption behavior. This could be the canary in the coal mine, as recessions always start with this change of behavior.

THE TRAVEL BUG

> *"There's a pullback in travel demand…Prices for hotels and airfares have fallen."*
> *— Laura Rosner-Warburton, Senior Economist, MacroPolicy Perspectives*

Also, as discussed in last week's *WRV*, the leisure/hospitality industry touches around 20 million jobs in the U.S., and counting in all the multiplier effects, also touches $2 trillion of GDP. That is not chump change. Look at what is happening in Canada alone. The number of Canadians taking return trips by air from the United States declined by -20% year over year in April, and car trips were down by a sharper -35% year over year.

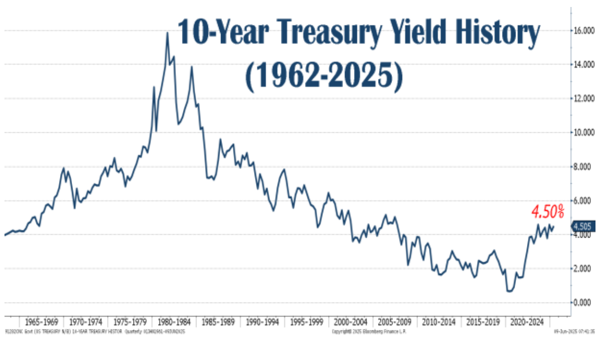
Things have become so desperate that Visit California has launched a campaign labeled "California Loves Canada" and is offering a 25% discount on hotel rates for Canadian travelers. This is a source of deflation that is being met with deaf ears at the Federal Reserve.

Bottom line: A decline in travel is a threat to the U.S. economy that exceeds the auto sector, which typically makes the front-page news.

WHAT'S WRONG WITH THE BOND MARKET?

"I don't want to be the one to stand in front of the steamroller right now….I'll let somebody else help stabilize the long end. I'm concerned that it's going to get worse before it gets better."
—Bob Michele, Global Head of Fixed Income, JPMorgan Asset Management

Last week, the 10-year Treasury yield rose nine basis points to 4.50% for the week and are now back to testing their nearby highs.



The Treasury market is being tossed about by the extreme policy uncertainty emanating from Washington, D.C. That uncertainty can be clearly seen in the Treasury market *term premium*, which has spiked by +60 basis points since April to the highest level (.80 basis points) in eleven years and is now +100 basis points above the norm of the past decade. This could be explained if inflation and growth expectations were surging. But that is not the case.

The story is in the term premium, which reflects the inherent policy risks and uncertainty embedded in nominal bond yields. In other words, this is the market interest rate that is not explained by the economy, inflation, or the Fed. At first, the surge in yields reflected all the uncertainty surrounding trade and tariff policy. What then replaced that uncertainty was the fiscal risk premium embedded in the Treasury market as investors sense that the White House and Congress are bent on taking what already was an unsustainable budget path into a completely different orbit.

In other words, if not for the general policy uncertainty out of Washington and now heightened fiscal risks, the 10-year Treasury yield would be below 4.0% at the current time, not 4.5%.

On the positive side, and despite the selloff and all the dire warnings surrounding our fiscal situation, the yield on the 10-year Treasury is around 4.5%. To actually lose money on a total rate of return basis over 12 months, the yield would have to surge +70 basis points. While that scenario could unfold, there is a lot of coupon protection against rising yields. On the flip side, if yields were to drop -70 basis points (Note they were there last September),the total return would be close to +10%. From my perch, that risk return profile looks pretty attractive.

Bottom line: Short term anything can happen, but if one has a 12-month horizon, now may be an excellent time to start adding or increasing exposure to the Treasury market.

WHY SUBSCRIBE TO THE WRV?

There is a lot of noise in the financial world and social media about the markets and the economy. I do what I always do, block out the noise, rhetoric and bullish biases (that point to the rewards without discussing the risks) that dominate Wall Street research and, most of all, try to keep investors out of trouble. This constant analysis goes through the noise, debunks misleading headlines and makes deep dives into the financial markets and economic reality.

Call me a "permabear" if you will, but I see myself more as the car mechanic who fixes your brake lights and makes sure your side-view mirrors are okay. Risks should never be ignored, and I focus on identifying them. It's what makes the *Weekly Relative Value (WRV)* unique in the marketplace**.**

By subscribing, you will always be up to date with the most relevant economic and market trends, and most importantly, you will be aware of the key risks. To receive future issues of *WRV* in your inbox, subscribe here.

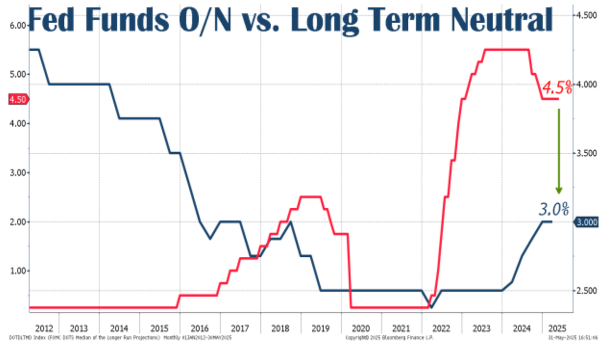
MARKET OUTLOOK AND PORTFOLIO STRATEGY

The Organization for Economic Co-operation and Development (OECD) slashed its forecasts for U.S. and global economic growth, citing, you guessed it, tariffs and rising inflation. The U.S. growth forecast was cut quite a bit to +1.6% from +2.8% last year. The OECD didn't stop there but also trimmed 2026 to +1.5% from +1.6%. So much for tariffs and the Big, Beautiful Bill creating the conditions for economic improvement.

As discussed above the labor market is clearly weakening. At the same time delinquency rates on credit cards, autos and student loans have reached 11-year highs. Consumption is slowing. Outside of AI, capital expenditure has come to a standstill. The housing market is screaming. Indeed, the spring sales season has been a bust. The U.S. market now has nearly 500,000 more sellers than buyers, according to real-estate brokerage Redfin.

I don't see any signs of vitality coming to the rescue anytime soon. In other words, recession risks are seriously underrated. Do not be surprised to see near-negative GDP growth between now and the end of the year.

As the following graph shows, the Fed is restrictive relative to where they believe the long-term "neutral" fed funds rate (the theoretical rate which is neither stimulative nor restrictive to the economy) should be. In other words, the Fed could lower rates by 150 basis points to 3% and still not be stimulative.



Despite this, there are now 0% odds being attached to a Fed rate cut in June, the July 30 meeting is now down to just 15% odds (from 30%) ahead of the jobs report, and September is all the way down to a 70% probability (from 90%).

But the big reason the Fed is waiting so long to ease is due to tariffs. The New York Fed just completed a survey, and the results were less than encouraging, as most firms (three-quarters) are passing through at least some of the tariff costs. Nearly one-third of manufacturers are passing along tariff-induced costs, and 45% are doing so in the services sector.

Manufacturing firms have increased their prices on tariffed goods by 20%, while service sector companies boosted them by 15%. Amazingly, the survey found that a “significant share of businesses” has increased prices on both goods and services NOT affected by the trade war. That, for sure, will not sit well with the White House.

My long-term view is that the trade war will prove to be more *deflationary* than *inflationary*. If the economy is in recession, reduced aggregate demand will put a lid on higher prices. That said, in the here and now, the bond market will key off of incoming fiscal and trade policy developments along with the incoming inflation data.

Note: This week the Consumer Price Index and Producer Price Index will be released, and both indices are expected to show an uptick in inflationary pressures. Should the data come in higher-than-expected, look for the bond market to exhibit more volatility and more selling pressure on the long end of the curve. Conversely, should inflation come in on the soft side, the long end of the yield curve will likely outperform the front end of the curve.

From a portfolio perspective, in this headline driven, extremely volatile and uncertain environment, credit unions should stick to the tried-and-true approach of managing a risk-appropriate ladder strategy. This is no time to be a hero.

MORE INFORMATION

For more information about credit union investment strategy, portfolio allocation and security selection, please contact the author at **tom.slefinger@alloyacorp.org** or (630) 276-2753.

As Alloya’s Market Strategist, **Tom Slefinger** leverages nearly 40 years of investment strategy expertise to deliver insightful commentary on the economy and market events to optimize balance sheet performance at the credit union level. With thousands of subscribers, Tom’s daily and weekly publications are widely read amongst credit union executives.

Prior to becoming the corporate's Market Strategist, Tom served as the Senior Vice President of Institutional Fixed Income Sales at Alloya Investment Services, a division of Alloya Solutions, LLC. In this role, Tom developed and managed operations associated with institutional fixed income sales in addition to developing investment portfolio strategies, identifying appropriate sectors and securities, and optimizing portfolio performance at the credit union level.

Tom holds a B.S. in business administration from the University of Maine. In addition, he holds a Series 7 and 63 through ISI.