

# MARKET SUMMARY

Complete Recap of Today's Market Activity

## Big Bond Rally After ADP and ISM

Market Summary: Thursday, June 5, 2025 - 2:57AM

We knew the onus was on weaker economic data to justify any decent drop in rates/yields and we know the first week of any given month has a high concentration of relevant reports and that today's slate is 2nd only to NFP day. Today's heavy hitters included ADP Employment and ISM Services. Both were weak--especially ADP. The employment component of the ISM report actually improved and that serves as a reminder that data doesn't always agree--especially if the sample size is a single month. If Friday's jobs report agrees with ADP, there's more room for improvement for rates. If NFP does like ISM's employment index and rises slightly from last month, bonds will likely have to give back some of today's gains. Future musings aside, it's nice to see the market is willing to do what it's supposed to do with this type of data.



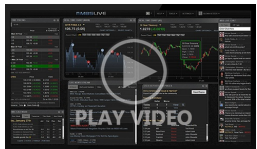
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### Latest Video Analysis



Big Bond Rally After ADP and ISM

### MBS & Treasury Markets

|          |       |       |      |        |         |                     |
|----------|-------|-------|------|--------|---------|---------------------|
| UMBS 5.5 | 98.99 | -0.20 | 10YR | 4.387% | +0.032% | 6/5/2025 5:00PM EST |
|----------|-------|-------|------|--------|---------|---------------------|

## Weaker Econ Data. Lower Yields

It's been a fairly simple morning so far for the bond market. Both of the morning's key economic reports came in weaker than expected. In the case of ADP employment, that's fairly straightforward and fairly substantial (37k vs 115k f'cast), even though it's always worth remembering how inconsistent the correlation with NFP (Friday's big jobs report) can be. The ISM Services (or "non manufacturing") data was more nuanced. The growth metrics were mostly weaker, and decidedly so. But the employment index moved up--always important on jobs week. In addition, the ISM price index continues to surge--something that bonds can't help but notice.

**UPDATE:** Small Improvement After ADP Employment Report

**ALERT:** Negative Reprice Risk Increasing

|            |       |        |            |       |        |          |
|------------|-------|--------|------------|-------|--------|----------|
| 30YR Fixed | 6.89% | +0.02% | 15YR Fixed | 6.14% | +0.02% | 6/5/2025 |
|------------|-------|--------|------------|-------|--------|----------|

## Biggest Daily Drop For Mortgage Rates in Over a Month

Whether or not today's drop in rates is meaningful depends on one's perspective, but in the context of recent rate movement, it's definitely noticeable. The simplest way to think about the improvement is as follows: the average lender is now about an eighth of a percent lower in just over a week.

If we want to be more specific, today's average top tier 30yr fixed rate is down to 6.87% from 6.96% yesterday, making it the best single day drop since mid April. The same rate was 7.08% exactly 2 weeks ago.

Mortgage lenders tend to offer rates in eighth point increments. When the average was at 7.08%, the prevailing rate quote would have been 7.125%. Today it would 6.875%, or a 0.25% improvement. This would drop the payment on a \$400k mortgage by roughly \$67/mo.

As far as motivations for today's larger gains, it all comes down to economic data (which is really the only game in town if we hope to see further improvement). The eternal trade off of the relationship between data and rates is that the economy must weaken in order for rates to drop.

Today's data featured a sharply weaker reading in the labor market from ADP as well as a the lowest reading in nearly a year on a key service sector gauge.

Tomorrow is the least consequential day of the week in terms of economic data, but Friday brings the most significant data of the week in the form of the big jobs report. If it corroborates the message of today's data, rates could continue lower, but it's important to note that there are many past examples of the jobs report being wildly different from the data that comes out earlier the same week.

| Time             | Event                           | Actual   | Forecast | Prior     |
|------------------|---------------------------------|----------|----------|-----------|
| Thursday, Jun 05 |                                 |          |          |           |
| 7:30AM           | May Challenger layoffs (k)      | 93.816K  |          | 105.441K  |
| 8:30AM           | Apr Trade Gap (bl)              | \$-61.6B | \$-94B   | \$-140.5B |
| 8:30AM           | May/24 Continued Claims (ml)    | 1904K    | 1910K    | 1919K     |
| 8:30AM           | May/31 Jobless Claims (k) ★     | 247K     | 235K     | 240K      |
| 12:00PM          | Fed Kugler Speech ☆             |          |          |           |
| 1:30PM           | Fed Harker Speech ☆             |          |          |           |
| Friday, Jun 06   |                                 |          |          |           |
| 8:30AM           | May Participation Rate ☆        | 62.4%    |          | 62.6%     |
| 8:30AM           | May Average earnings mm (%) ★   | 0.4%     | 0.3%     | 0.2%      |
| 8:30AM           | May Non Farm Payrolls (k) ★★    | 139K     | 130K     | 177K      |
| 8:30AM           | May Unemployment rate mm (%) ★★ | 4.2%     | 4.2%     | 4.2%      |
| 10:00AM          | Fed Bowman Speech ☆             |          |          |           |
| 3:00PM           | Apr Consumer credit (bl)        | \$17.87B | \$10.85B | \$10.17B  |

Recent Housing News

- Pending Home Sales Slip, But the Broader Story Remains the Same
- Purchase and Refi Demand Diverge Again
- Home Prices Falling or Growing Less Quickly?

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Calmer, Friendlier Week For Rates Amid Mixed Signals For Housing

In addition to being shorter than normal due to the Memorial Day holiday, there wasn't much meat on this week's event calendar- at least not as far as the rate market was concerned. Earnings releases caused some volatility in the stock market, but rates drifted sideways to slightly lower after a larger drop on Tuesday. Interestingly enough, Tuesday's drop was more to do with bond market improve...

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