newsquawk

US Market Wrap - 2nd July 2026

Tech underperforms while front-end yields fall after soft NFP report

- **SNAPSHOT**: Equities mixed, Treasuries steepen, Crude up, Dollar down, Gold up
- **REAR VIEW**: US NFP misses expectations w/ downward revisions; US u/e rate moves lower alongside drop in participation rate; US initial and continued claims little changed W/W; Money markets continue to fully price one 25bps rate hike by the Fed by year end; Fed's Daly says can't decide now on rates; US Baker Hughes rig counts rise; TSLA Q2 deliveries fail to impress; Softer-than-expected Swiss CPI.
- **COMING UP**: Newsquawk audio and headline service will stop at 18:15BST/13:15EDT, however Newsquawk widgets will continue to function as usual. **Holiday:** US Independence Day. **Data:** Global S&P Services/Composite PMI Final (Jun). **Events:** BoE DMP (Jun). **Speakers:** ECB's Lagarde; BoE's Bailey. **Supply:** Australia.

MARKET WRAP

US equities were mixed on Thursday, with the Dow the only major index to finish in positive territory while the Nasdaq closed lower and the S&P 500 flat. Although the softer-than-expected June nonfarm payrolls report saw traders pare Fed rate hike expectations, helping support broader risk sentiment, renewed weakness in large-cap technology stocks outweighed the macro tailwind for NDX.

Market breadth was notably more constructive than the headline indices suggested. The majority of sectors finished higher, led by the traditional defensive sectors of Health Care, Consumer Staples and Utilities, while the heavyweight Technology, Consumer Discretionary and Communication Services sectors were the clear laggards.

There was no obvious catalyst behind the renewed selling in technology shares, although the move may have reflected a continuation of Wednesday's weakness following the Meta disruption. Meta (META) reversed its previous session's gains, however, with lows seen after CEO Zuckerberg said AI agent development had not accelerated in the way the company had expected. Meanwhile, memory stocks remained under pressure, with the DRAM ETF falling 7.7%, while the Semiconductor ETF (SOXX) declined 5.6%. Those declines more than offset Apple's (AAPL) roughly 5% gain on the session for the Nasdaq 100. Elsewhere, Tesla (TSLA -7.5%) shares plummeted despite stronger-than-expected delivery numbers.

It is also possible that some profit-taking and position squaring took place ahead of the long Independence Day weekend, with US markets closed on Friday.

The macro focus remained firmly on the June employment report. Nonfarm payrolls increased by just 57k, below the 110k consensus, while prior months were revised lower. The softer labour market data prompted markets to pare Fed rate hike expectations, with money markets pushing back the first fully priced 25bp hike to December from October. The repricing weighed on the Dollar and front-end Treasury yields while providing support for precious metals.

In FX, the Dollar weakened against most major peers in response to the NFP report. The Yen and Swiss Franc outperformed as narrowing rate differentials supported traditional havens, while USD/JPY was also likely influenced by a bout of Ministry of Finance intervention during the early European session.

US

NFP: The June employment report was softer than expected, with nonfarm payrolls rising by 57k, below the 110k consensus and down from the prior 172k, although May was revised lower to 129k. April was also revised down by 31k to 148k, leaving the two-month net revision at -74k, a notable deterioration from the +93k net upward revisions seen in the previous report.

Going into the release, many analysts had expected the FIFA World Cup to continue supporting employment, with some desks estimating a boost of around 40k jobs. Instead, leisure and hospitality employment fell by 61k in June, reflecting weaker-than-usual seasonal hiring and largely reversing May's unusually strong 70k increase. Pantheon Macroeconomics argues the weakness is likely temporary, attributing it to the unwind of an unusually generous seasonal adjustment that boosted May payrolls. Outside of leisure and hospitality, employment continued to trend higher in professional and business services, social assistance, and health care.

Private payrolls increased by just 49k, below the 115k consensus and down from 120k previously, while government payrolls rose by 8k after increasing 52k in May.

Elsewhere in the report, the unemployment rate declined to 4.2% from 4.3%, although the improvement was largely driven by a fall in the labour force participation rate to 61.5% from 61.8%, suggesting the lower unemployment rate overstated the underlying strength of the labour market. Wage growth was in line with expectations, with average hourly earnings rising 0.3% M/M and 3.5% Y/Y.

Despite the softer headline, payroll growth remains within the St. Louis Fed's estimated breakeven range of 15k-87k jobs per month, while Governor Waller suggested in April that employment growth around zero could be the labour market breakeven. As such, one softer report is unlikely to materially alter the Fed's policy outlook, particularly given inflation remains above target.

Pantheon Macroeconomics described the report as a "reality check", arguing that business surveys continue to point towards a weaker payroll trend in the second half of the year. The desk highlighted the sharp decline in hiring intentions within the NFIB survey, softer regional Fed surveys and continued weakness in the Indeed and LinkUp measures of job openings. Pantheon expects initial payroll estimates to average around 75k per month in H2 2026, which it believes could ultimately prove consistent with near-zero employment growth after revisions. The BLS's preliminary annual benchmark revisions are due on August 28th, 2026.

From a policy perspective, one softer payroll report is unlikely to significantly reduce expectations for further Fed tightening. However, should this evolve into a broader trend of weaker employment growth, it would make additional rate hikes increasingly difficult to justify. With Chair Warsh having emphasised inflation over employment since taking office, markets will now be watching closely to see whether future Fed communication begins to place greater weight on signs of labour market cooling.

CLAIMS: Initial jobless claims (w/e June 27th) were more-or-less unchanged at 215k (prev. 216k), and marginally beneath the expected 219k, which left the 4-wk average ticking lower to 222k from 224.5k. Unadjusted initial claims were expected at 213,550, +2.7% W/W, with seasonal factors expecting an increase of 6,048, +2.9%. Looking at the state breakdown, the biggest declines were in California (-5,884), Pennsylvania (-3,077), and Minnesota (-1,962), with the largest gains seen in New Jersey (+7,150), Connecticut (+2,563), New York (+1,595), and Illinois (+1,327). Oxford Economics highlights that the data is consistent with the low and stable layoff rate that has defined the labor market in recent months. Meanwhile, the continued claims (w/e June 22nd) rose marginally to 1.814mln from 1.812mln, slightly above the 1.810mln forecast.

FED DALY (2027 voter): Said AI investment shock has people wondering if it will be inflationary. If the Fed acts too quickly, it could prematurely bridle things; if you act too slowly, it could be unwelcome for citizens. Daly does not see any signs of a lack of economic resiliency, despite being above target inflation. The San Fransico Fed President described the labour market as having stabilised and monetary policy as slightly restrictive, which should help inflation come down. Daly noted she can't decide right now on rates, while she called herself a gradualist, wanting to take things slowly. She also acknowledged the move lower in housing inflation in the US.

FIXED INCOME

T-NOTE FUTURES (U6) SETTLED UNCHANGED AT 109-18+

Yield curve steepens as soft NFP prompts markets to pare rate hike bets. At settlement, 2-year -4.1bps at 4.137%, 3-year -2.7bps at 4.163%, 5-year -1.1bps at 4.228%, 7-year unchanged at 4.351%, 10-year -0.2bps at 4.481%, 20-year +0.6bps at 4.986%, 30-year +0.9bps at 4.983%.

THE DAY: Treasuries rallied in the front-end following a softer-than-expected June nonfarm payrolls report, prompting markets to pare expectations for Fed tightening. The report showed payrolls increased by just 57k, well below the 110k consensus (for more analysis please click here).

The release also ended the run of stronger payroll reports seen over the previous three months. In addition, April and May payrolls were revised lower by a combined 74k, leaving the labour market on a weaker footing than previously thought.

The softer report saw traders scale back rate hike expectations, with money markets now fully pricing one 25bp hike by December rather than October previously. A cooling labour market would make it more difficult for the FOMC to justify further tightening, or at the very least strengthen the hand of the more dovish members of the Committee. That said, one payroll report alone is unlikely to materially alter the policy outlook. Chair Warsh stressed at last month's FOMC press conference that policymakers should focus on trends rather than individual data points, meaning upcoming labour market releases will be equally important in determining whether this marks the beginning of a broader slowdown.

Although Treasuries initially rallied across the curve following the data, gains faded further out the curve as the session progressed. By settlement, 10-year note futures were little changed, likely reflecting some profit-taking and position squaring ahead of the early Independence Day market close on Friday. The front-end, however, retained most of its gains as markets adjusted to a slightly less hawkish Fed outlook.

It is also worth noting a sizeable block trade in 5-year Treasury note futures. Around 10k September 2026 5-year contracts (ZFU6) traded at 106-315 at 14:03BST/09:03EDT. Subsequent buying activity in the order book suggests the block may have been buyer-initiated, although the underlying purpose cannot be determined. It may have formed part of a broader strategy, a hedge or a position adjustment.

Elsewhere, weekly jobless claims were broadly unchanged, while Fed commentary came from Daly ahead of the payrolls release. She reiterated that it is too early to determine the appropriate path for rates, said she would not provide false guidance, and stated her preference is for taking policy decisions gradually.

SUPPLY

Notes

- US Treasury to sell USD 58bln of 3-year notes on July 7th, USD 39bln of 10-year notes on July 8th, and USD 22bln of 30-year bonds on July 9th; all to settle July 15th

Bills

- US sold 8-week bills at high-rate 3.650%, B/C 2.70x; sold 4-week bills at high-rate 3.605%, B/C 2.72x
- US to sell USD 92bln of 13-week bills and USD 79bln of 26-week bills on July 6th (sizes unchanged)
- US to sell USD 90bln (prev. 80bln) of 6-week bills and USD 52bln (prev. 50bln) of 52-week bills on July 7th.

STIRS / OPERATIONS

- Fed Pricing: 30bps (prev. Dec +36bps)
- EFFR at 3.63% (prev. 3.63%), volumes at USD 119bln (prev. USD 98bln) on July 1st
- SOFR at 3.66% (prev. 3.68%), volumes at USD 3.321tln (prev. USD 3.418tln) on July 1st
- NY Fed RRP op demand at 2.175bln (prev. 1.00bln) across 4 counterparties (prev. 4) on July 2nd

CRUDE

WTI (Q6) SETTLED USD 0.11 HIGHER AT USD 68.69/BBL; BRENT (U6) SETTLED USD 0.23 HIGHER AT USD 71.80/BBL

The crude complex was slightly firmer and traded within thin ranges amid a lack of geopolitically important headlines. The key risk event on Thursday was US non-farm payrolls, brought forward a day on account of US Independence Day on Friday, which garnered a broad-based dovish reaction, but little move was seen in the energy space. Overall, the crude complex trickled lower throughout following US-Iran indirect talks in Doha, with Qatar's Foreign Ministry noting that mediators concluded separate meetings with US and Iranian negotiators, and that positive progress was made on issues related to the Islamabad MoU. On that footing, Al Arabiya, citing sources, said the next round of US-Iran negotiations is to be held on 18th July. In the US morning, prices found their lows before paring losses and eking out marginal gains; no newsflow was behind the reversal. In the weekly Baker Hughes rig count, Oil +5 at 445, Nat Gas +1 at 126, leaving the Total+7 at 580. As mentioned, newsflow is likely to be light on Friday, with US markets closed and participants away for US Independence Day. WTI traded between USD 67.04-68.80/bbl and Brent USD 70.14-71.92/bbl.

EQUITIES

CLOSES: SPX -0.01% at 7,483, NDX -1.61% at 29,329, DJI +1.14% at 52,904, RUT -0.55% at 2,996

SECTORS: Technology -1.46%, Communication Services -0.84%, Consumer Discretionary -0.81%, Industrials +0.31%, Energy +0.83%, Real Estate +1.19%, Financials +1.58%, Materials +2.08%, Utilities +2.26%, Consumer Staples +2.41%, Health +2.65%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.35% at 6,367, Dax 40 +2.02% at 25,546, FTSE 100 +1.67% at 10,653, CAC 40 +1.65% at 8,475, FTSE MIB +1.60% at 52,428, IBEX 35 +1.37% at 19,672, PSI +1.20% at 9,200, SMI +1.69% at 14,353, AEX -0.04% at 1,073

STOCK SPECIFICS:

- **Dollar Tree (DLTR)** to increase share buyback by USD 2.5bln
- **Rivian (RIVN)** Q2 deliveries beat and raised FY2Y delivery guidance
- **AeroVironment (AVAV)** awarded a USD 500mln US Army contract to procure commercial counter-unmanned aerial systems and counter small-unmanned aerial systems capabilities
- **Tesla (TSLA)** Q2 total deliveries beat.
- **Adobe (ADBE)** was upgraded at HSBC to 'Buy' from 'Hold'.
- **Palantir (PLTR)** was upgraded at DA Davidson to 'Buy' from 'Neutral'. **Blue Owl (OWL)** sought to withdraw USD 4.7bln from the two funds in Q2, down from USD 5.4bln in Q1.
- **Anthropic** is reportedly in talks with **Samsung (005930 KS)** to manufacture a custom AI chip, according to The Information.
- Pocket, a new social AI app from **Meta (META),** is rolling out in select regions where you can discover gizmos, Business Insider has learned. "A gizmo is an interactive, playable AI-generated experience."
- **SoftBank (SFTBY)** is in talks with lenders on securing USD 10bln margin loan backed by an OpenAI stake and a repayment guarantee.
- **Meta (META)** CEO Zuckerberg says in an internal town hall that AI agent development over the last four months hasn't 'accelerated in the way we expected', reports Reuters.
- **Tesla (TSLA)** caps employee AI spend at USD 200 per week after adoption push, The Information reports.
- **Genuine Parts (GPC)** said to receive O'Reilly (ORLY) interest for auto unit.

FX

USD was broadly sold on a softer-than-expected NFP print, with suspected JPY intervention exacerbating the move from a DXY perspective. Payroll growth was 57k in June, shy of the expected 110k, with the net-two month revisions at -74k. The unemployment rate unexpectedly ticked lower to 4.2% from 4.3%, however, accompanied by a drop in the participation rate to 61.5% from 61.8%. USD immediately weakened on the report, with the DXY hitting lows of 100.56. Some of the move has been pared at the time of writing, likely given its one data point in a new Fed Chair environment, where Warsh pays attention to trends, which for now shows an improving labour backdrop since March. In other news, claims were little changed W/W, geopolitical developments have been light, and equities continue to see increased volatility as semiconductors/memory names continue to face pressure. Friday marks Independence Day, and as such, trading conditions are set to be thinner.

JPY led G10 strength against the broad USD weakness, outperforming on potential JPY intervention in European trade. The sharp downside and its magnitude would suggest intervention over a rate check, with the focus turning towards remarks from Japanese officials for any confirmation. Officials this week have engaged in jawboning, including the Top FX Diplomat and Finance Minister, albeit with little success. Additionally, the moves follow reports on Monday that the Japanese government is expected to call for “appropriate” monetary policy, aiming to dissuade the BoJ from further rate hikes. USD/JPY wiped out last week's gains, hitting lows of 160.62 before bouncing to 161.12.

Cable is now in a six-day rally, trading at 1.3344, as it looks to test the 200 DMA of 1.34. Updates included remarks from the likely new UK PM Burnham, who said he will stick to the Labour manifesto on tax; he has not made up his mind on who his chancellor will be.