



Bond Market Paradigm Shift? - RIA

Some bearish bond investors in Japan and the US appear to believe that a paradigm shift is underway in the sovereign bond markets. To wit, consider the following statement from Jim Bianco on Thoughtful Money: *“If these deficits are really going to kick in and cause problems, these rates are going to go much higher than this.”* The bond market paradigm shift we observe is that some people believe the governments and central banks of the largest nations are no longer managing interest rates. For those who believe in this paradigm shift, we ask a simple question: Why Would They Stop Now?

The governments and central banks of developed countries have long-standing policies that keep high levels of public and private debt serviceable. Moreover, these same policies aim to incentivize further debt accumulation. The bearish voices in the bond market, claiming a paradigm shift is underway, show a disregard for history. Bond bulls and bears can all agree that global fiscal debt trends are not sustainable. However, do you think the governments are now willing to pay the price for such malfeasance?

Two years ago, the Japanese government uncapped its interest rates, and not surprisingly, they have surged higher. However, with their 30-year bond approaching 3%, they announced that they are considering adjusting their debt issuance patterns. As shown below, its 30-year bond fell 35 basis points after the announcement. Bond yields in the US and around the world fell in sympathy. Governments around the world will preserve their debt-driven financial systems and economies by keeping a lid on interest rates. Again, ponder the one simple question if you believe in the paradigm shift: why would the governments and central banks stop manipulating the bond market now?

Japan, Government Benchmarks, JBT, 30 Year, Yield



What To Watch Today

Earnings

- *No earnings releases today.*

Economy

Monday June 02 2025			Actual	Previous	Consensus	Forecast	
07:45 AM	US	S&P Global Manufacturing PMI Final MAY	50.2	52.3	52.3		 
08:00 AM	US	ISM Manufacturing PMI MAY	48.7	48.7	49		 
08:00 AM	US	ISM Manufacturing Employment MAY	46.5		47		 
08:00 AM	US	Construction Spending MoM APR	-0.5%	0.3%	0.1%		 
08:00 AM	US	ISM Manufacturing New Orders MAY	47.2		48		 
08:00 AM	US	ISM Manufacturing Prices MAY	69.8	70.2	71		 
08:15 AM	US	Fed Logan Speech					

Market Trading Update

It does seem to be an *unstoppable* bull market. However, that doesn't mean markets won't pause before attempting to move higher. As we noted last week, the consolidation was expected.

Even with Bessent's comments, that market remains overbought in the short term, and a further consolidation process is likely to occur next week. At the end of this week, we removed our short-market hedge, added to bonds, and reduced equity exposure. If the market is going to consolidate, we can allow cash to act as the primary hedge. However, if the 200-DMA is violated, the 50-DMA will become the next critical support. From a bullish perspective, the 20 and 50-DMAs are now sloping positively, which should provide rising support levels. Overall, we suspect that the market will stabilize. Of course, there are always risks to be aware of, so increased cash levels are essential now.

Most notably, this past week was the successful test of the 200-DMA. The pullback to that previous broken resistance level and subsequent bounce highly suggests that the April correction is complete and that market control returns to the Bulls. As such, there is very little resistance between current levels and all-time highs. However, as noted last week, with the markets still overbought on a momentum basis, further consolidation will be unsurprising before an advance to new highs occurs. With the MACD sell signal triggered and money flows declining, another test of the 200-DMA next week would be unsurprising.

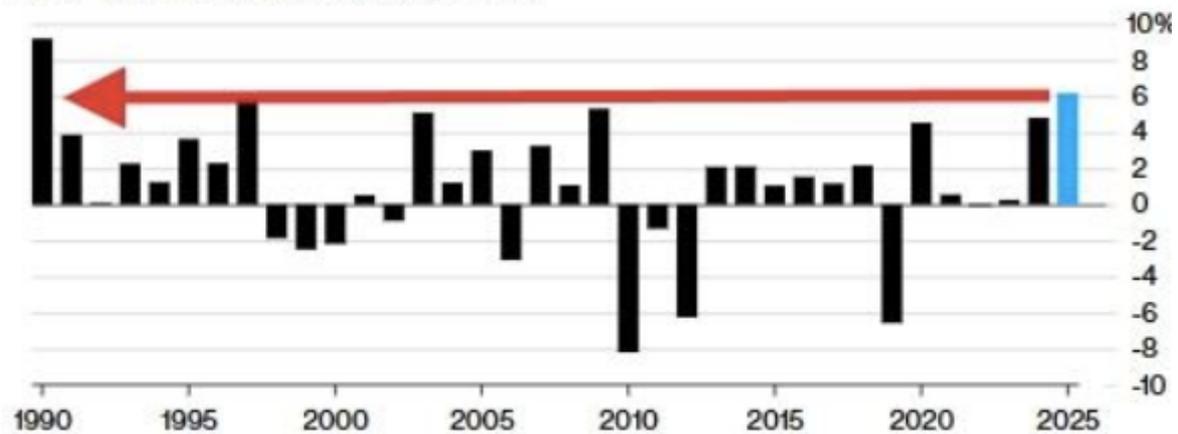


Interestingly, the old saying "April Showers Bring May Flowers" seems apropos, as the tariff-driven sell-off in April sprouted a very strong May advance. Notably, the S&P 500 had its best month of May since 1990.

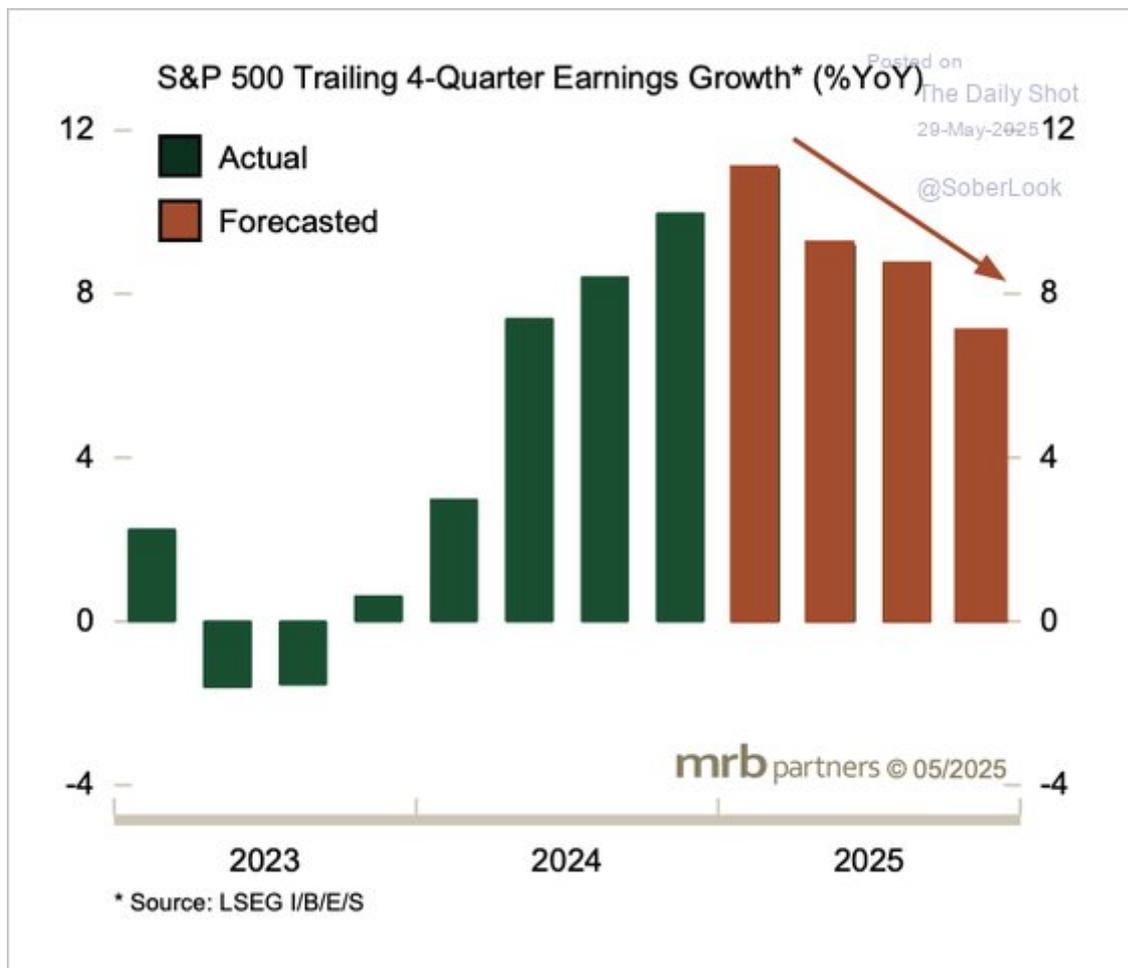
Rapid Rebound

The S&P 500 is on track for its biggest monthly gain in May since 1990

■ S&P 500 monthly percent change in May



However, as noted above, with the market short-term overbought and very bullish, we should expect the market to *struggle* somewhat in June as corporate share buybacks subside and companies go into blackout before Q2 earnings season begins. Furthermore, we have often stated that earnings remain overly optimistic, which concerns markets moving forward. According to MRB Partners, the Q1 earnings season is expected to be the peak for the earnings growth cycle. Given the high correlation between forward earnings estimates and market returns, this commentary should not be readily dismissed.



That said, investors must be most careful of [market narratives](#); These narratives can potentially be far more harmful than helpful to investors who get swept up in the emotions generated by headline-grabbing rationalizations. Such is the topic for this week's [#BullBearReport](#)

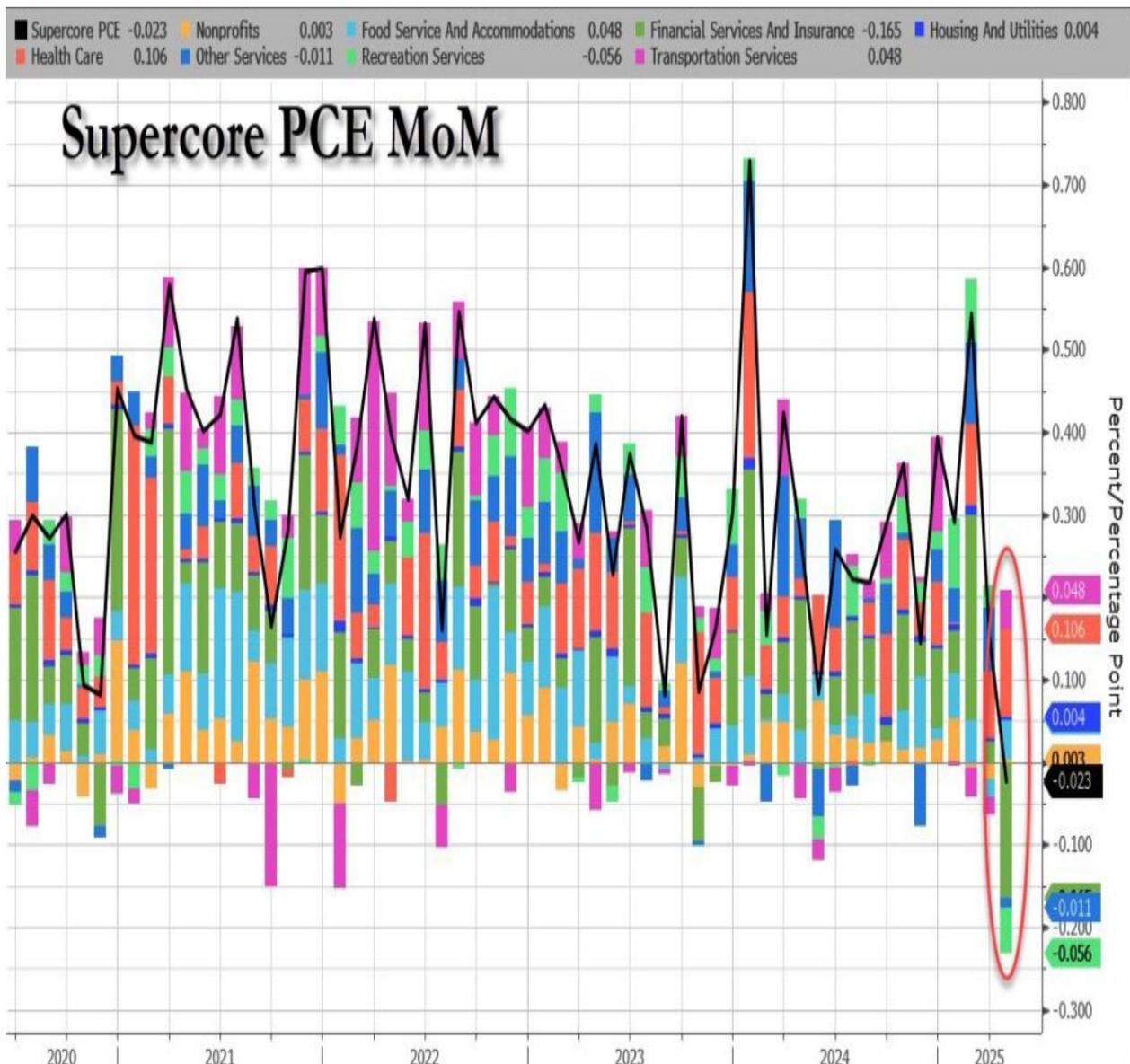


The Week Ahead And PCE Prices

The trend of lower-than-expected inflation data continued on Friday with PCE prices. The monthly PCE and Core PCE price indexes rose by 0.1% following a similar increase last month. The PCE price index is now down to 2.1% on a year-over-year basis. Importantly, the supercore PCE, which measures core services excluding housing, is negative for the first time since the pandemic began. The Fed has frequently noted this as a critical inflation indicator. To wit is the following quote regarding the supercore PCE from Jerome Powell in 2022:

This may be the most important category for understanding the future evolution of core inflation

With inflation running below expectations for several months, the Fed's concerns about tariff inflation may subside. If so, the labor market will likely be their key data point to assess when and how much to cut rates by. Accordingly, the labor market has generally been good. This week, the JOLTS report on Tuesday, the ADP report on Wednesday, and the BLS jobs report on Friday will further inform the Fed about the labor market. Also of interest will be the ISM service and manufacturing surveys. In particular, traders will focus on the employment, new orders, and prices sub-indices.



Ray Dalio Is Predicting A Financial Crisis Again

Ray Dalio, the former head of Bridgewater Associates, is back in the media, trying to stay relevant by claiming the [?deficit has become critical.?](#)

?It?s like ? I?m a doctor, and I?m looking at the patient, and I?ve said, you?re having this accumulation, and I can tell you that this is very, very serious, and I can?t tell you the exact time. I would say that if we?re really looking over the next three years, to give or take a year or two, that we?re in that type of a critical, critical situation.?

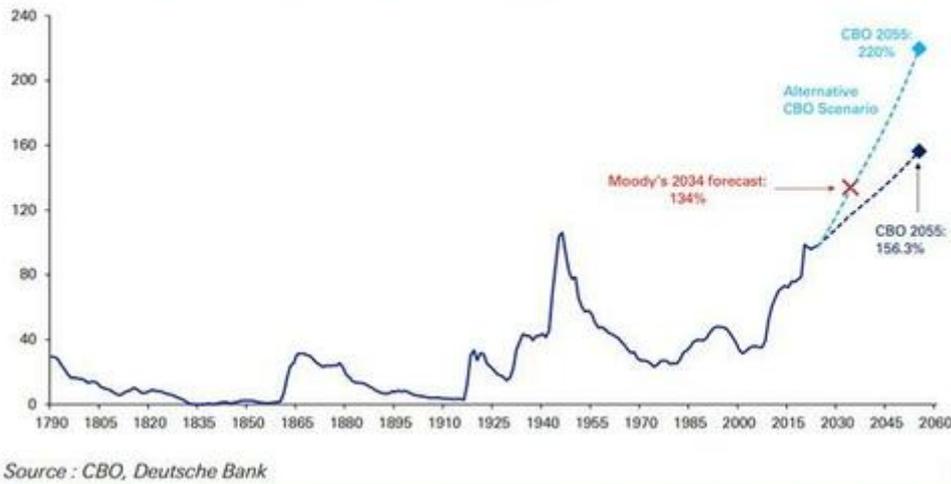
And this from [Bloomberg:](#)

?If you don?t do it (commit to reducing the deficit), you?re going to be in trouble. I can?t tell you exactly when it?ll come, it?s like a heart attack. You?re getting closer. My guess would be three years, give or take a year, something like that.?

Of course, the scare tactics would not be complete without a terrifying chart to back it up, like this from Deutsche Bank:

?Here we remind readers, that the Big, Beautiful Bill currently in Congress has been scored to add about \$5 trillion to the debt, resulting in what we said would be [Debt Doomsday](#) for the US; this is simply a trade-off of short-term prosperity (a few extra trillion in the next 4 years) for long-term economic collapse (that 220% in long term debt.GDP).?

Figure 1: US Federal Debt Held by the Public (% of GDP) plus scenarios with (alternative CBO and Moody's), and without (CBO baseline), tax cut extensions



That is undoubtedly a horrifying chart. [READ MORE?](#)

Tweet of the Day



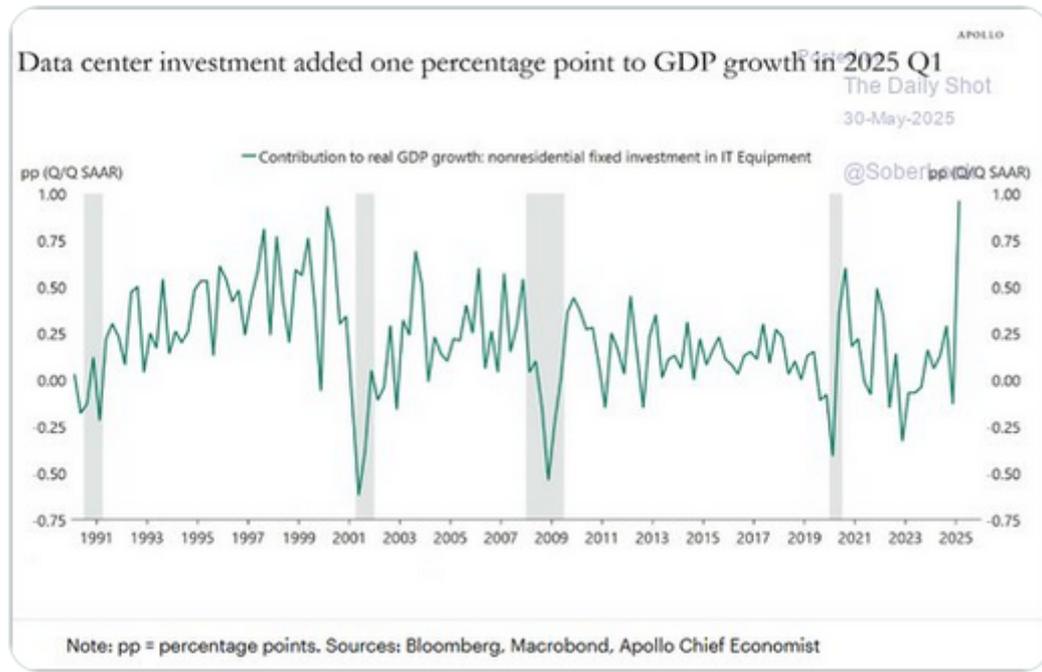
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There was a vastly important, and mostly overlooked, data point in yesterday's #GDP #report. As we noted in our #Dalio article today, #AI #infrastructure spending will drive stronger growth in the future which will solve the #deficit concerns. In yesterday's report, AI #datacenter spending added 1% to the GDP number.

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