

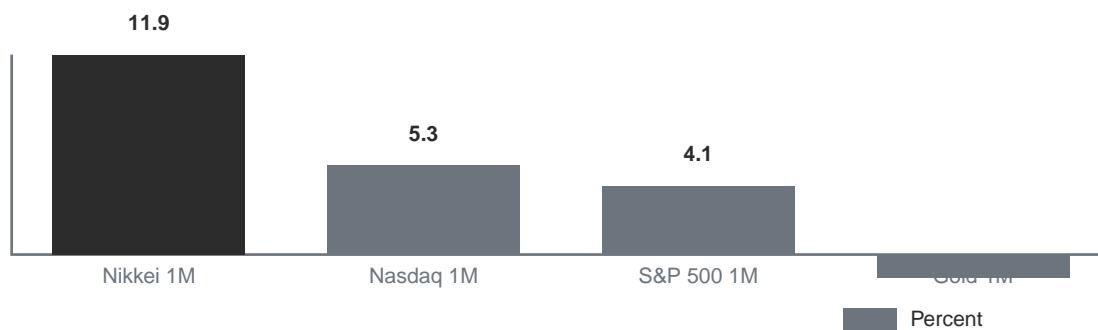
# May Payrolls & the June Cut Window: Three Scenarios for June 17 to 18

Research Team

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The May 2026 FOMC held the federal funds rate at 3.5% to 3.75% with data-dependent guidance, leaving the June 17 to 18 meeting live but not pre-committed. By the first week of June, markets had cleared the decisive pre-FOMC cluster: U.S. manufacturing and services PMIs, euro-area CPI, ADP, jobless claims, and May nonfarm payrolls. Equity leadership remained firm on the research page (Nikkei +11.9% one-month, Nasdaq +5.3%, S&P 500 +4.1% as of 31 May 2026) while gold softened (-1.4% one-month) and nominal 10-year Treasury yields pushed toward ~4.6%. This report is a post-payrolls-week playbook: how labor, inflation, and cross-asset positioning set three scenarios for June policy, and how to barbell duration, quality growth, and inflation hedges into the FOMC.

## Pre-FOMC Market Snapshot (31 May 2026)



Source: AVANTAS Research performance table

### Key Takeaways:

- May payrolls and the 1 to 5 June cluster are the last major labor-and-inflation inputs before June 17 to 18; June OIS pricing remains the master variable for cross-asset beta.

- Soft payrolls plus cooling ISM prices support an insurance cut or dovish hold; sticky wages with firm services PMIs keep patience and hurt long duration.
- Headline CPI can still diverge from core when oil moves, do not treat gasoline alone as blocking cuts if labor normalizes and core services cooperate.
- **Cross-asset:** quality equities with pricing power, front-end carry, and barbell Treasuries win in the base sticky case; gold and energy hedge oil-driven headline tails.
- **Portfolio takeaway:** trade the scenario matrix, not relief headlines, barbell rates, maintain quality equity core, and keep gold or energy sleeves until the FOMC clears the path.

## Executive Summary

**Investors entered June with a familiar policy bind:** growth positive but slowing at the margin, inflation above target with mixed drivers, and the Fed unable to cut aggressively while headline CPI can still rise on energy. The payrolls week does not resolve every question, one print rarely does, but it updates the probability weights on June action. Soft May jobs with stable unemployment and cooling ISM price sub-indexes reopen insurance-cut pricing and support bull steepening; sticky average hourly earnings with firm services inflation keeps the first cut live for July and pressures long Treasuries and long-duration tech. Our base case after the cluster: hold with dovish optionality, not a guaranteed June cut, until the SEP and dot plot refresh at the meeting.

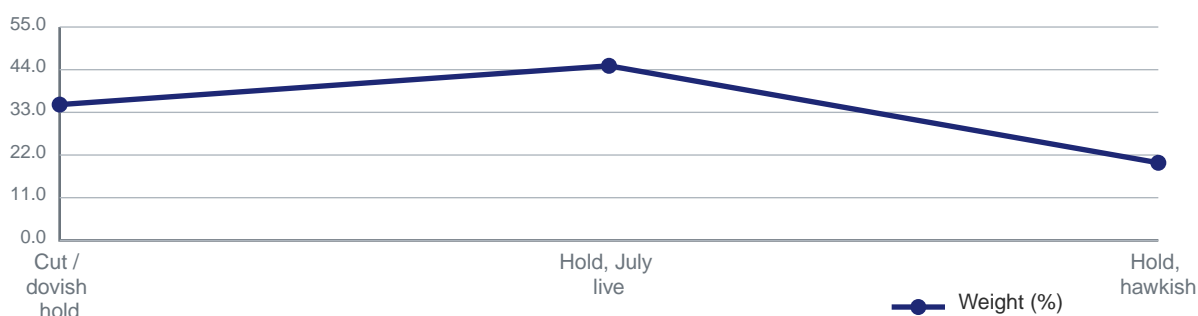
## The 1 to 5 June Data Cluster: What Matters

**The pre-FOMC calendar (GMT+8) stacked high-impact releases:** U.S. manufacturing PMIs (1 June), euro-area CPI (2 June), JOLTS and ADP (2 to 3 June), services PMIs and ISM prices (3 June), and May nonfarm payrolls with average hourly earnings (5 June). Markets blend signals, but payrolls carry the largest Fed weight when core inflation has only gradually cooled. Watch payroll growth versus the prior month's 115K print and consensus near 95K, unemployment holding near 4.3%, and earnings growth for services stickiness. Euro-area CPI near 3.3% year-on-year adds a global inflation tone, hawkish ECB messaging can reinforce Fed patience even when U.S. labor softens.

## Reading May Payrolls: Signal vs Noise

Payrolls are volatile month to month; revisions and weather distortions matter. The Fed's reaction function weights the unemployment rate, claims trend, and wage growth alongside inflation, not a single NFP surprise. A sub-consensus print with stable unemployment argues for normalization, not recession, and can support an insurance cut if paired with benign ISM price readings. A beat with upward wage revisions does the opposite, especially if services PMIs stay above 50 with elevated prices paid. JOLTS openings near 6.87M and ADP near 116K consensus provide cross-checks; large divergences between household and establishment surveys warrant caution before repositioning.

### June FOMC Scenario Tilt Post-Payrolls (Illustrative)



Source: Illustrative; AVANTAS Research Analysis

## Three Scenarios for June 17 to 18

**Scenario A , Soft labor, June cut or dovish hold:** May payrolls at or below consensus, unemployment stable-to-up slightly, ISM prices cooling, euro CPI not re-accelerating. Market reaction: bull steepener, quality growth and Nasdaq leadership extend, dollar softer, gold flat to up on lower real yields. Scenario B , Mixed data, hold with July live: Payrolls near consensus, wages sticky but not re-accelerating, core services still above comfort. Fed unchanged in June with patient language; equities range-bound with high dispersion, barbell rates and quality win. Scenario C , Sticky labor and inflation, June cut priced out: Payrolls beat with firm earnings, services prices elevated, euro CPI sticky. Bear flattening or higher term premium, long-duration tech underperforms energy and staples, gold bid on policy uncertainty.

## Cross-Asset Playbook by Scenario

**Nominal Treasuries:** Scenario A favors tactical long duration and bull steepening; B prefers front-end carry with belly barbell; C underweights long bonds. TIPS: rise in C if breakevens move; partial hedge in B. Equities: quality and pricing power win in B; broad beta rallies in A; C favors staples, utilities, and energy over long-duration growth. Credit: IG (LQD +0.4% one-month on the 31 May table) holds in A and B; HY widens in C if growth scare follows sticky inflation. Commodities: energy tactical overweight when oil feeds headline CPI; gold strategic hedge across scenarios but can lag in A if real yields fall on cuts. FX: dollar mixed, rate differential vs haven demand; Nikkei offers idiosyncrasy (0.47 correlation vs S&P on our matrix).

## Portfolio Positioning Into the FOMC

After the payrolls week, rebalance toward scenario weights rather than chasing the first post-release tick. Maintain a quality equity core (Mag 7 still faces AI capex ROI scrutiny); avoid maximum long-duration into the FOMC unless Scenario A dominates pricing. Keep gold and energy sleeves as inflation-policy hedges when oil can move headline CPI faster than core. **Pair trade watch:** Nasdaq versus energy expresses growth versus inflation; front-end Treasuries versus belly expresses cut timing. Compare market-implied year-end policy rates to the March SEP median before the June SEP refresh.

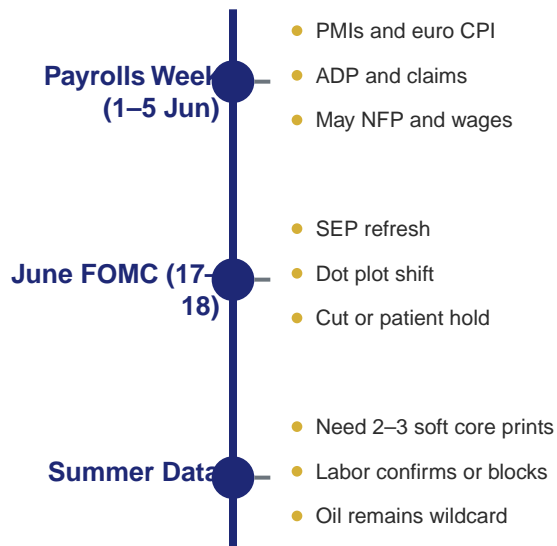
## What Else Matters Before June 17 to 18

May CPI and PCE if still pending or revised; initial claims trend; gasoline retail prices and WTI; Michigan and market-based inflation expectations; Fed speakers on look-through versus persistence; FOMC minutes tone from May; credit spreads and equity volatility for growth-scare signals; month-end and quarter-end liquidity flows.

## Timeline and Outlook

**Near-term (days to June FOMC):** Payrolls week sets the labor leg; any late May PCE or early June CPI fills the inflation leg. **Medium-term (3 to 6 months):** One soft jobs print does not make a cutting cycle, two to three cooperative inflation readings still needed for sustained easing pricing. **Long-term (12+ months):** Higher neutral rate near SEP assumptions keeps strategic duration shorter than pre-2020 norms; oil and geopolitics remain recurring headline CPI risks.

## Timeline Overview



Source: AVANTAS Research Analysis

## Risk Factors

Sticky core services delaying June cuts; renewed oil spike lifting headline CPI; Mag 7 AI capex guide lower or narrow earnings concentration; hawkish June FOMC surprise; sharp gold or energy reversals; liquidity gaps around the FOMC decision and month-end rebalancing; euro-area inflation re-acceleration reinforcing global patience.









## Conclusion

May payrolls and the 1 to 5 June cluster are the last major gate before June 17 to 18. Position for three scenarios, not a single bet: barbell rates, quality equities with pricing power, and inflation hedges until the FOMC clears the Fed's path.

## Asset Class Impact

**Nominal Treasuries:** Neutral barbell; tactical duration on soft labor. TIPS: Neutral inflation hedge. Gold: Overweight policy and geopolitical hedge. Energy equities: Overweight tactical headline CPI hedge. Quality / Nasdaq: Overweight selective; trim on sticky surprise. Long duration: Underweight in base case. IG credit: Neutral quality. HY: Neutral selective. USD: Neutral two-way. Nikkei: Overweight selective diversifier vs U.S. concentration.

## Asset Class Impact

Asset	View	Commentary
Nominal Treasuries	 Neutral	Barbell; add duration on soft labor.
TIPS	 Neutral	Neutral inflation hedge.
Gold	 +1	Overweight policy/geopolitical hedge.
Energy (XLE)	 +1	Overweight headline CPI hedge.
Quality / Nasdaq	 +1	Overweight selective; trim if sticky.
Long Duration	 -1	Underweight into FOMC.
IG Credit	 Neutral	Neutral quality.
Nikkei	 +1	Overweight diversifier vs U.S. beta.

*Source: AVANTAS Research Analysis*