WELLS FARGO

Weekly — June 6, 2025

Weekly Economic & Financial Commentary

United States: An Orderly Slowing, for Now

- The latest data signal economic growth is moderating but holding up through May, leaving firms generally still reluctant to let go of workers. Although growth is slowing in an orderly fashion for now, we're only beginning to see the effects of tariffs and look for growth to moderate in the second half of the year.
- Next week: CPI (Wed.), PPI (Thu.)

International: European Central Bank Cuts Rates, Maintains Modest Easing Bias

- The European Central Bank reduced its Deposit Rate by 25 bps to 2.00% at this week's meeting. Its medium-term forecasts envisaged underlying inflation slowing slightly below 2%, implying a mild easing bias, though at the same time ECB President Lagarde said the central bank was "getting to the end of a monetary policy cycle." With Q1 GDP data also showing resilience, we expect the ECB to pause in July, and a final 25 bps rate cut in September.
- Next week: Mexico CPI inflation (Mon.), U.K. Weekly Earnings (Tue.), Brazil CPI inflation (Tue.)

Interest Rate Watch: This Might Take a Minute

- The minutes from the Fed's May policy meeting suggest policymakers still place greater emphasis on risks of cost pass through rather than rising unemployment. Recent survey evidence suggests businesses have or believe they can pass on a decent portion of tariff-related costs, but it may take some time for it to materialize in the hard inflation data. We believe the FOMC will hold at its June meeting and is unlikely to adjust policy until it gains further clarity.

Topic of the Week: Implications of a GSE Conservatorship Exit

- The Trump administration is exploring options to end GSE conservatorship and has expressed intent to take Fannie Mae and Freddie Mac public again. Such a move could bring change to the mortgage market and residential sector of the U.S. economy.

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2024				2025							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024	2025	2026
Real Gross Domestic Product [1]	1.6	3.0	3.1	2.4	-0.2	1.2	-1.5	0.3	2.9	2.8	1.0	1.1
Personal Consumption	1.9	2.8	3.7	4.0	1.2	1.9	-0.4	0.1	2.5	2.8	2.0	1.5
Consumer Price Index [2]	3.2	3.2	2.7	2.7	2.7	2.6	2.9	3.0	4.1	3.0	2.7	2.8
"Core" Consumer Price Index [2]	3.8	3.4	3.3	3.3	3.1	3.3	3.7	3.8	4.8	3.4	3.5	3.2
Quarter-End Interest Rates [3]												
Federal Funds Target Rate [4]	5.50	5.50	5.00	4.50	4.50	4.50	4.00	3.50	5.23	5.27	4.13	3.50
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.60	6.45	6.30	6.80	6.72	6.50	6.35
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.20	4.10	4.00	3.96	4.21	4.13	4.16

Forecast as of: May 08, 2025 [1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change
[3] Quarterly Data - Period End; Annual Data - Annual Averages [4] Upper Bound of the Federal Funds Target Range

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

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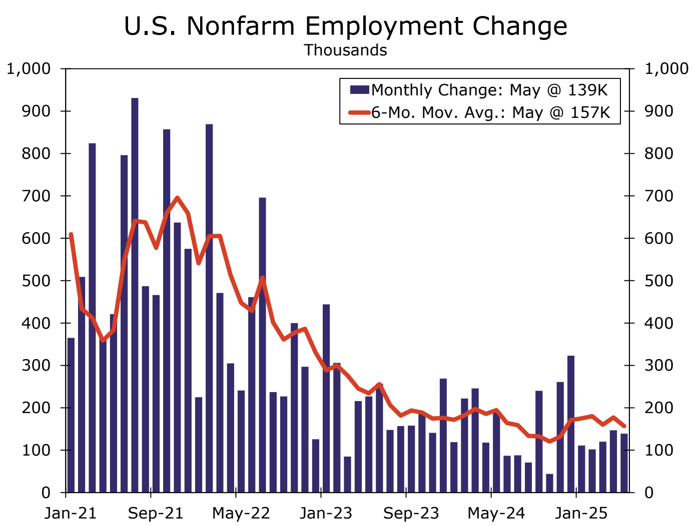
U.S. Review

An Orderly Slowing, for Now

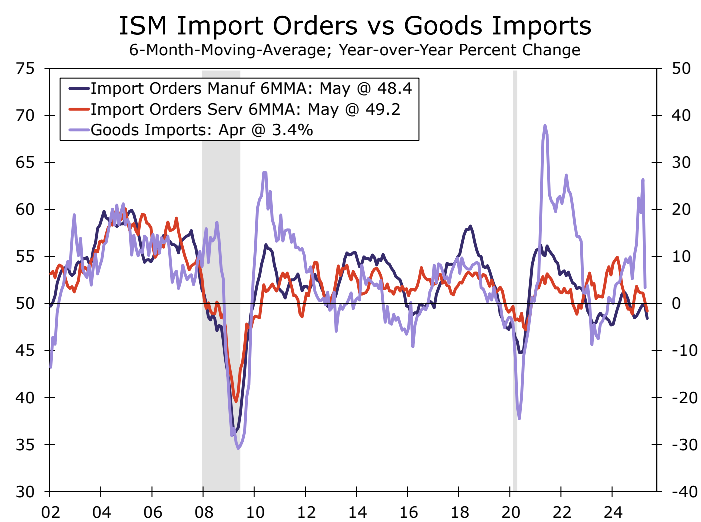
The highlight of this week's data releases was the May nonfarm payrolls report, which showed that employers added 139K jobs over the month (chart). While the gain bested consensus expectations for job growth and brings the three-month moving average up to 135K, the combined -95K revision to April and March payrolls took a lot of the shine out of May's outperformance. Job growth has grown more concentrated with an increasing share of the total gain coming from just two sectors—leisure & hospitality (+48K) and healthcare & social assistance (+78K). The lack of breadth in hiring across sectors warrants attention in the coming months in assessing the degree of labor market moderation. The household survey showed the unemployment rate stayed flat at 4.2%, but digging a bit deeper, it rose 0.06 percentage points to 4.24% on an unrounded basis.

Overall, this morning's data suggest the labor market continued to moderate in an orderly fashion through May. Jobs openings data released earlier in the week similarly showed a labor market that is cooling. April's JOLTS data showed job openings edged higher but remain on a downward trend. The quits rate fell and layoffs ticked up, pointing to a cautious hiring environment. Overall, labor demand is gradually softening, and this is reinforcing a "wait-and-see" stance for the Fed.

Broader activity looks to be softening as well. The May ISM reports showcased a broad strain across both the manufacturing and services sectors, driven in large part by escalating tariff pressures. The ISM Manufacturing Index declined for the fourth month in a row, with the index remaining below the mark of 50—which denotes expansion from contraction in the sector—for a third consecutive print. ISM export orders hit their lowest mark in half a decade, while import orders reached their lowest point since the Great Recession. Throughout industry comments, the tariffs were cited as causing uncertainty and order delays.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: Institute for Supply Management, U.S. Department of Commerce and Wells Fargo Economics

Similarly, the ISM Services Index contracted for the first time in nearly a year in May. The new orders component dropped to the lowest point in two and a half years and signaled a weakening demand environment for the sector, as did a build up in inventories and softer order backlogs. While employment improved a touch and supplier deliveries also notched a gain, the broad decline in the headline index was indicative of mounting pressure. Furthermore, though the modest increase in the supplier deliveries index to 52.5 contributes positively to the headline index, it actually reflects delivery times getting longer, likely due to supply bottlenecks stemming from a tariff-induced pull forward in demand. Tariffs also continued to exert upward pressure on prices, as the prices paid index reached a new two-and-a-half-year high. Together, the reports reflect a cooling in the manufacturing and service sectors, and the outlook remains uncertain in the face of ever-changing trade policy and inflationary risks.

The sharp drop in the import orders indices of each ISM report reflect broader weakness in international trade (chart). This weakness was further underscored by April's international trade balance report. The trade deficit narrowed sharply by $76.7 billion to $61.6 billion, reversing the pull-forward trend that caused net exports to subtract nearly five percentage points from Q1 GDP growth. The sudden pullback in imports suggests the tariff-driven pull forward in demand has run its course. While uncertainty remains abundant in international trade, especially given the pending legal challenges to the current tariffs' implementation, demand for imports has clearly shifted. With imports falling faster than exports, net exports are poised to provide a meaningful lift to Q2 growth.

While it's still the early innings yet for Q2, the underlying details beyond trade and inventories should hold up but be relatively mixed. Total construction outlays for April fell 0.4%, marking a third straight monthly decline. Elevated interest rates are the main culprit here, weighing heavily on both residential and nonresidential activity. Residential construction fell, driven by a decline in single-family outlays, but home improvement spending also declined amid tariff-related input cost concerns. The decline in the Architecture Billings Index signals weaker construction activity ahead, reinforcing that growth headwinds remain in place across the construction sector.

The latest data signal economic growth is moderating but holding up through May, leaving firms generally still reluctant to let go of workers. But less appetite for new workers signals a cautious approach among businesses today as they deal with the pressure of tariffs. Although growth is slowing in an orderly fashion for now, we're only beginning to see the effects of tariffs and look for growth to moderate in the second half of the year.

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U.S. Outlook

Weekly Indicator Forecasts					
Domestic					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
11-Jun	CPI (MoM)	May	0.2%	0.2%	0.2%
11-Jun	CPI (YoY)	May	2.5%	2.4%	2.3%
11-Jun	Core CPI (MoM)	May	0.3%	0.3%	0.2%
11-Jun	Core CPI (YoY)	May	2.9%	2.9%	2.8%
11-Jun	CPI Index NSA	May	—	321.757	320.795
12-Jun	PPI Final Demand (MoM)	May	0.2%	0.2%	-0.5%
12-Jun	PPI Final Demand (YoY)	May	—	2.6%	2.4%
12-Jun	Core PPI (MoM)	May	0.3%	0.3%	-0.4%
12-Jun	Core PPI (YoY)	May	—	3.1%	3.1%

Forecast as of June 06, 2025

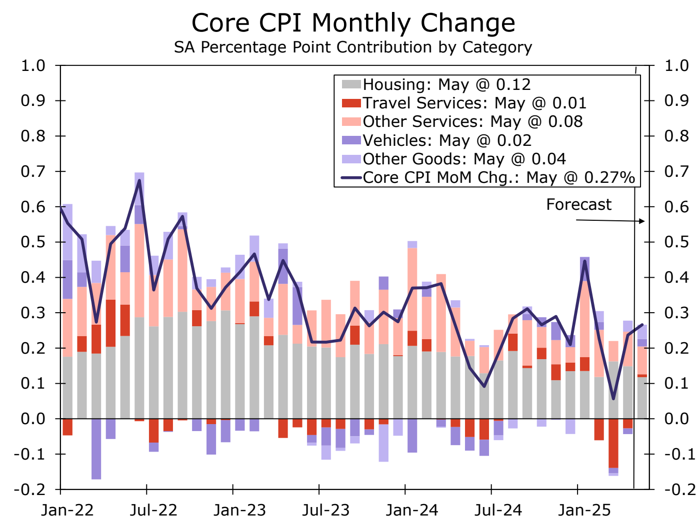
Source: Bloomberg Finance L.P. and Wells Fargo Economics

CPI • Wednesday

May's CPI report will be an important test of the speed and magnitude that higher tariff rates are being passed along to the consumer. Through April, consumer price inflation continued to subside on trend. The headline index rose 0.2% over the month, which brought the year-over-year rate down to 2.3%, or the slowest pace since early 2021. Excluding food and energy, core inflation rose a below-consensus 0.2% over the month as vehicles held down core goods price growth and services prices remained on their downward path. To the degree that whiffs of tariffs showed up in the April report, the May CPI data will test whether they were early glimmers of price pressures to come or monthly noise.

In particular, repeat strength in core goods categories such as household, recreational and IT goods would suggest higher import duties are already being passed along to consumers. For now, however, we see front-loading of inventories and efforts to avoid alienating customers, especially as it remains to be seen where tariff rates eventually land, as mitigating the early inflationary effects of tariffs. We forecast core CPI rose 0.3% over May as strength (but not stand-out strength) in core goods is counterbalanced by continued services disinflation. Headline CPI growth should be smaller (0.15%) over the month as consumers benefited from more breathing room in gas prices and relatively tame growth in food prices.

While May's Consumer Price Index is not expected to deliver a stand-out increase, we look for inflation to pick up through the second half of the year. For more detail, please see our May CPI Preview report.



Source: U.S. Department of Labor and Wells Fargo Economics

Producer Price Index • Thursday

The headline PPI for final demand slipped 0.5% over April as the selling prices received by domestic producers of goods and services saw the largest monthly decline since the spring of 2020. Under the hood of the soft print, however, the stagflationary impulse from tariffs is evident. Domestic manufacturers have started to increase prices, and the PPI for core final demand goods (i.e., excluding food and energy goods) rose 0.4% in April—twice its average pace from 2023-2024. Meantime, the trade services component, which can be thought of as a measure of margin prices (i.e., the difference between wholesalers' and retailers' selling prices and the costs of acquiring their goods), plummeted 1.6% over the month. The profit squeeze implied by April's print leaves firms with the difficult choice to either accept lower margins or pass higher costs along to their customers via higher selling prices.

Looking ahead, we forecast the May PPI to come in stronger than April as core goods price growth remained robust, but to remain relatively soft at 0.2% over the month. For the time being, trade policy uncertainty and general wariness to increase prices will likely weigh on margins, although we expect a more modest drag in May relative to April's nosedive. More broadly, however, the higher costs of production due to hiked levies alongside the protection afforded by the tariffs is likely to lead domestic producers to start to push up selling prices. Year-over-year, we look for the headline final demand PPI inflation to rebound to 2.6% from 2.4% in April.

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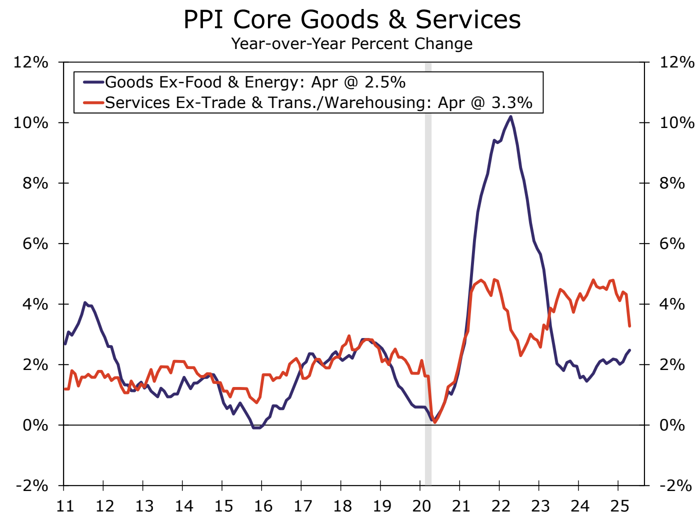


Source: U.S. Department of Labor and Wells Fargo Economics

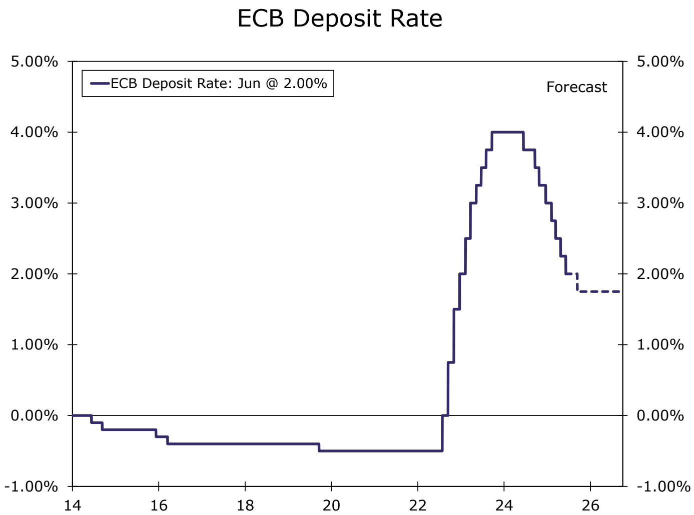
International Review

European Central Bank Cuts Rates, Maintains Modest Easing Bias

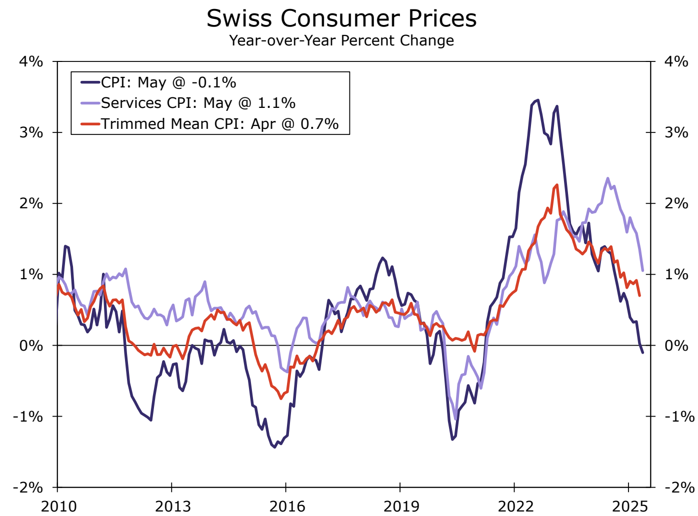
The European Central Bank (ECB) continued its monetary policy easing cycle at this week's meeting, lowering its Deposit Rate by 25 bps to 2.00%. Its accompanying statement contained both dovish elements and some more constructive elements. The ECB noted that current conditions were exceptionally uncertain, while also observing a deceleration in underlying inflation pressures and wage growth. While the ECB offered limited policy guidance for the meetings ahead, ECB President Lagarde did say the central bank was “getting to the end of a monetary policy cycle.” Meanwhile, the ECB's updated economic projections—which forecast underlying inflation at 1.9% in 2026 and 2027 (slightly below the central bank's inflation target)—in our view suggest the ECB maintains a modest easing bias. We think this week's monetary policy announcement supports further monetary easing, though it does not alter our view on the likely pace of ECB rate cuts. We expect a pause from the ECB at its July meeting and a 25 bps rate cut by the ECB in September, which would take the Deposit Rate to 1.75%. This week's inflation news was very favorable for the European Central Bank. Headline inflation slowed to 1.9% year-over-year in May, just the second time since mid-2021 that it has printed below the central bank's 2% inflation target. Perhaps even more significant, there were also signs of an ebbing in underlying price pressures. Core inflation slowed more than expected to 2.3%, while services inflation also slowed sharply to 3.2%. With wage growth also decelerating (Q1 compensation per employee slowed to 3.8% year-over-year), the outlook remains for a further ebbing of inflation pressures over time.

The Bank of Canada (BoC) announced its latest monetary policy decision this week, keeping its policy rate steady at 2.75% for a second straight meeting. The BoC remains in a “wait-and-see” mode for now, though with a hint of a bias toward further easing. The central bank said GDP growth was slightly firmer than expected in Q1 but should slow going forward. In addition, while it noted that headline inflation was lower on the removal of the carbon tax, core inflation pressures had firmed. Moreover, the BoC also said in its announcement that with “uncertainty about U.S. tariffs still high, the Canadian economy softer but not sharply weaker, and some unexpected firmness in recent inflation data, Governing Council decided to hold the policy rate as we gain more information on US trade policy and its impacts. We will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs.” In accompanying comments, Governor Macklem said “there could be a need for a reduction in the policy rate if the economy weakens in the face of continued US tariffs and uncertainty, and cost pressures on inflation are contained.” This week's data leave the outlook for the next meeting in July an open question, in our view. Canadian May employment rose by 8,800, while there were large gains in both full-time and private sector jobs. The hourly wage rate for permanent employees was also an upside surprise, holding steady at 3.5% year-over-year, although the unemployment rate did tick up to 7.0%. Separately, Q1 productivity and cost data showed an easing in compensation growth and unit labor cost pressures. We still view a Bank of Canada July rate cut as possible and, for now, that remains our base case; however, the central bank will likely want to see softness in CPI, labor and business sentiment data in the intervening period to lower rates further.

The Swiss National Bank (SNB) announces its next monetary policy decision later in June, and we think this week's data should be enough for the SNB to lower its policy rate by 25 bps to 0.00% at that announcement. The Swiss May CPI dipped 0.1% year-over-year, matching the consensus forecast but still falling into deflationary territory for the first time since early 2021. Meanwhile, underlying price measures showed a continued disinflationary trend, with core inflation easing to 0.5% and services inflation slowing to 1.1%. Swiss activity data were firmer, while sentiment data were mixed. Swiss Q1 GDP rose 0.5% quarter-over-quarter, reflecting gains in exports and investment spending and a modest increase in consumer spending. When adjusted for sports events, Q1 GDP rose an even stronger 0.8%. The May PMIs showed some weakness in the manufacturing index, which fell to 42.1, but some strength in the services index, which rose to 56.3. Given overall subdued Swiss inflation readings and widespread expectations of SNB easing, we expect a 25 bps rate cut this month. Still, given some resilience in Swiss economic activity, we do not expect the SNB to lower interest rates further beyond its June meeting.



Source: Datastream and Wells Fargo Economics



Source: Datastream and Wells Fargo Economics

Elsewhere, the news from a couple of key emerging economies was subdued and dovish in tone. China's official PMI figures for May were largely unimpressive, with the manufacturing PMI coming in at 49.5 as expected, while the non-manufacturing PMI ticked down to 50.3 against expectations for the measure to increase slightly. The non-manufacturing PMI covers the services and construction sectors, and a fall in the underlying construction reading drove the downward move. The composite PMI inched up to 50.4, though this is a subdued reading by historical standards. Turning to the Caixin PMIs—which focus on smaller firms—the results followed a similar overall story. The Caixin manufacturing PMI fell noticeably to 48.3 against expectations for it to tick up to 50.7. The Caixin services PMI came in a bit higher than expected at 51.1, but the composite index still fell to 49.6. In our view, these results align with our forecast for China's economy to hold up somewhat decently this year, though still slow from last year's growth pace of 5.0% to 4.7% for 2025.

Finally, the Reserve Bank of India (RBI) surprised market participants with a larger-than-expected rate cut at this week's monetary policy announcement. The RBI cut its repurchase rate by 50 bps to 5.50%, while also reducing its Cash Reserve Ratio by one percentage point to 3.00%, providing a boost to liquidity. The central bank maintained its GDP growth forecast for the current fiscal year at 6.5%, while lowering its inflation forecast to 3.7% (from 4.0% previously). Easing inflation and likely some desire to insulate the economy from global risks were probably motivations behind today's move. In adjusting policy, the RBI also changed its monetary policy stance to neutral from accommodative, potentially signaling room for more rate cuts is limited. That said, we still anticipate modest further easing from the Reserve Bank of India later this year.

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International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
9-Jun	Mexico CPI Inflation (YoY)	May	4.38%	-	3.93%
10-Jun	U.K. Avg. Weekly Earnings (3-MMA YoY)	Apr	5.5%	-	5.5%
10-Jun	Brazil CPI Inflation (YoY)	May	5.38%	-	5.53%

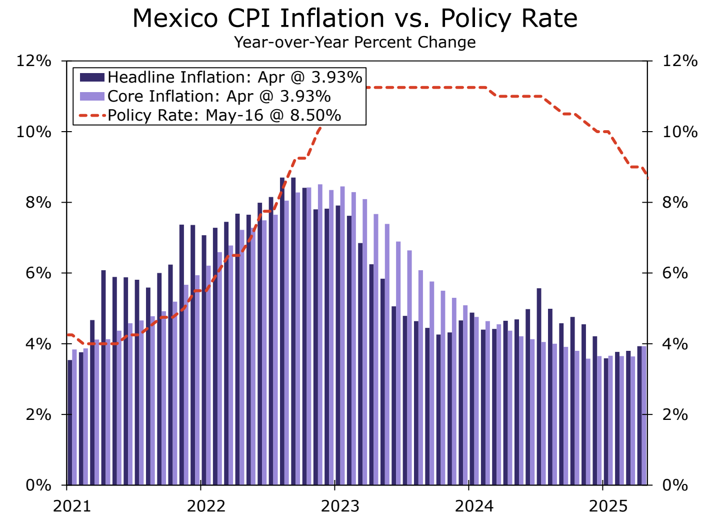
Forecast as of June 6, 2025

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Mexico CPI Inflation • Monday

Mexico CPI inflation data for May will be released next week. The consensus forecast is for some quickening in CPI inflation to 4.38% year-over-year and core inflation to 4.03% year-over-year. However, that uptick largely reflects base effects stemming from a weak reading in May last year. For May 2025, the sequential monthly increase in prices is expected to be moderate and could still portend an overall deceleration of inflation moving forward.

The current policy rate is 8.50% in Mexico, and we expect a further 100 bps of easing from Banxico this year. Our dovish-leaning forecast stems from several factors. First, economic growth in Mexico has been somewhat subdued, and our outlook for 2025 is pessimistic; we see the economy contracting overall this year by 0.4%. Heightened tariffs from the United States are a key factor driving our forecast for a Mexico recession this year. Another factor that can help bring about meaningful further Banxico easing is the relative stability and strength in the Mexican peso recently. Given subdued growth performance recently and expectations for growth this year, local currency stability, and softening price pressures, we see Banxico delivering another 50 bps rate cut at its June meeting, and another 50 bps of cumulative easing in the third quarter, to reach a policy rate low of 7.50%.

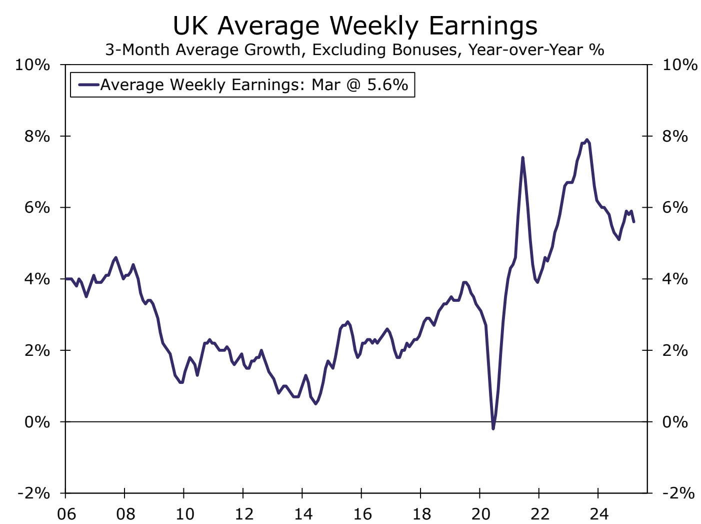


Source: Bloomberg Finance L.P. and Wells Fargo Economics

United Kingdom Weekly Earnings • Tuesday

The United Kingdom average weekly earnings data coming out next week will be a key input into Bank of England (BoE) policymakers' decision on June 19. The earnings data are from April and are measured by comparing the three months to April from this year to that same period from a year ago. The consensus view among economists is for headline earnings to remain steady at 5.5% year-over-year. There are also some underlying measures that look at weekly earnings excluding bonuses, and private sector weekly earnings excluding bonuses. Both measures are expected to slow to 5.3%. If realized, these figures would point to an ongoing but gradual lessening in wage pressures, which should ultimately see a further lessening in inflation pressures.

In terms of our own BoE outlook, we see the central bank maintaining a gradual pace of rate cuts going forward, and look for a rate pause at the upcoming June meeting. This view is based on a combination of factors: 1, price pressures are lingering somewhat; 2, wage growth is still somewhat elevated; and 3, economic growth remains reasonably steady. At this time, we do not see sufficient rational for the Bank of England to hasten its pace of rate cuts. With that being said, next week's wage data will be of the utmost relevance for helping market participants to determine what, if any, changes could occur with the central bank's future policy rate decisions.

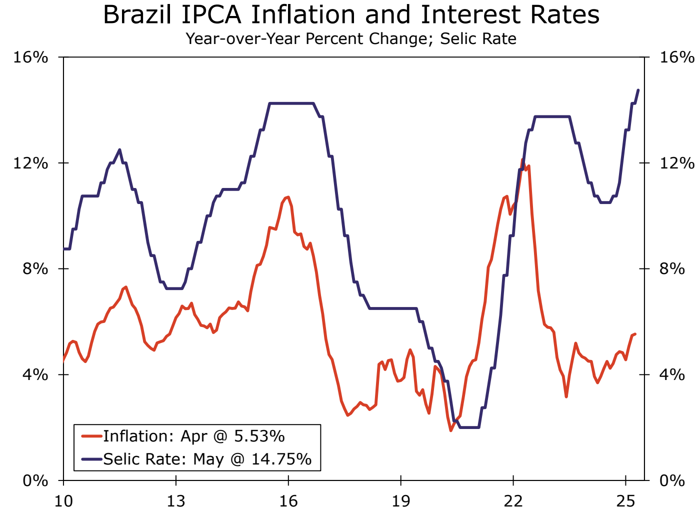


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Brazil CPI Inflation • Tuesday

Next week we get Brazil inflation data for May. Economists expect price pressures to have eased slightly, to 5.38% year-over-year, which would also be reflective of only a moderate monthly increase in prices. Even if this slight softening is realized, however, the year-over-year reading would still be above the upper bound of the Brazilian Central Bank's (BCB) inflation target of 3% +/- 1.5 percentage points.

We expect BCB policymakers to deliver a 25 bps rate increase at their upcoming June 18 meeting. This move would take the policy rate to 15.00% and would mark 450 bps of cumulative monetary policy tightening since last fall. This tightening was necessitated, in our view, by persistent price pressures and a solid economic performance that contributed to inflation sticking around. Concerns around fiscal responsibility have also been relevant in making the case for this scale of monetary tightening. Looking ahead, we believe that policymakers will opt to hold the Selic rate after hiking in June to 15.00% for the rest of this year. It will take some time for the full weight of the previous rate hikes to transmit through the economy, and BCB officials communicated a slightly less-hawkish bias than previously in their latest monetary policy announcement. With that being said, the incoming inflation data can influence the potential future path for Brazil's monetary policy, and whether additional rate hikes could be delivered. (Return to Summary)



Source: Bloomberg Finance L.P. and Wells Fargo Economics

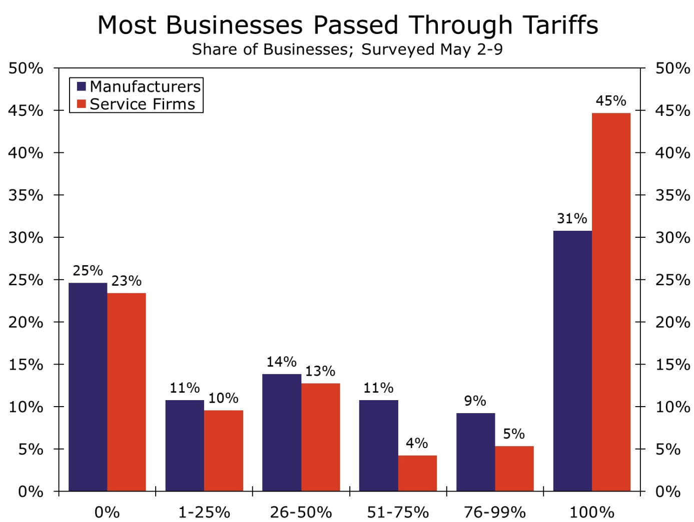
Interest Rate Watch

This Might Take a Minute

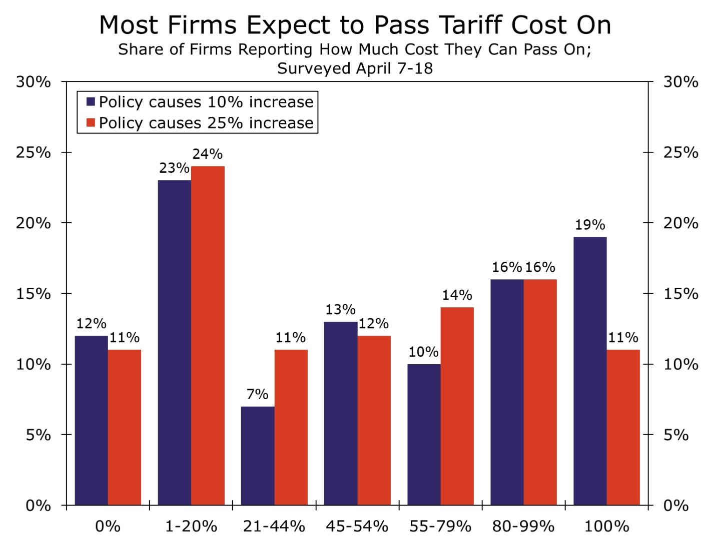
Just about everyone from market participants to business owners, consumers and the Fed are trying to figure out how much the recent escalation in tariff policy will bid up the cost of everyday living. While most agree risks to inflation are elevated today, what's less widely understood is to what degree this universal tariff environment will drive persistent price pressure. Hard inflation data are not yet showing much effect, but businesses are reporting that they are passing or planning to pass on the cost of tariffs. Teasing out that uncertainty is the theme of a number of reports out in recent weeks.

Last week brought the minutes of the Federal Open Market Committee's (FOMC) most recent meeting in early May. The minutes strike a cautious tone among Fed officials. While policymakers acknowledged risks to both sides of its dual mandate, inflation concerns were discussed at greater length as the Fed still appears more worried of cost pass-through rather than rising unemployment. The minutes noted, "Many participants remarked that reports from their business contacts or surveys indicated that firms generally were planning to either partially or fully pass on tariff-related cost increases to consumers." This point was further demonstrated by separate surveys out this week from the Federal Reserve Banks of New York and Atlanta.

A survey of business behavior in New York and northern New Jersey revealed that most firms (45% service firms and ~30% of manufacturing firms surveyed) had fully passed tariff-related costs on to consumers. While most businesses passed on at least some cost (chart), about 25% of service and manufacturing firms reported *not* passing any costs on. For those firms that did pass costs on (or were planning to), they did so quickly—from immediately to within three months. A separate report from the Federal Reserve Bank of Atlanta found varying degrees of pass-through reported by businesses (chart) though on average they expect they'd be able to pass on about half of the tariff-related cost to customers. The report notes that businesses expect they will be able to pass less on today than compared to tariffs in 2018, signaling consumer price sensitivity. For context, the Atlanta Fed survey was tallied between April 7-18, while the N.Y. Fed survey was conducted May 2-9, so the responding firms were exposed to different tariff rates.



Source: Federal Reserve Bank of New York and Wells Fargo Economics



Source: Federal Reserve Bank of Atlanta and Wells Fargo Economics

The Fed's May Beige Book, which summarizes economic conditions across all seven Federal Reserve districts, was also released this week and noted that while tariffs were putting upward pressure on costs, "contacts' responses to these higher costs varied, including increasing prices on affected items, increasing prices on all items, reducing profit margins, and adding temporary fees or surcharges."

Survey results can ultimately translate to higher prices, but it will take some time for it to materialize in the hard inflation data. Since the Fed's last meeting the inflation data have moderated further through April, and likely remained tame into May, though higher input costs were reported by manufacturing and service industries within the May ISM surveys. Labor market sentiment is much more mixed and the hiring data remained stable with employers adding 139K net new jobs in May. Policymakers judged the labor market as “broadly in balance” in May, while acknowledging there are risks to the outlook. While weaker, we don't suspect the May employment report materially changed most policymakers' assessment.

With firmer expectations around inflation expectations and a still-stable broad read on the labor market today, the Fed is unlikely to adjust rates at its next monetary policy meeting in less than two weeks' time. Market pricing suggests the probability is essentially nonexistent for a June cut, and investors don't expect the Fed to act until the fall, when there is greater certainty around inflation. We hold a similar view and look for the Fed's first cut to come in September. While we anticipate some inflationary pressure, we expect labor market moderation to come into greater focus for the Fed, and in judging the risks to both sides of its mandate, we expect conditions will motivate the Fed to reduce rates later this year.

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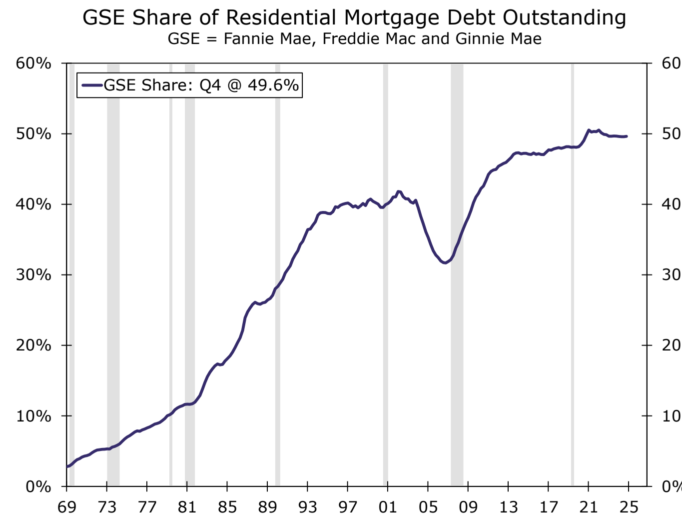
Topic of the Week

Implications of a GSE Conservatorship Exit

During the height of the 2008 global financial crisis, the government-sponsored enterprises (GSE) Fannie Mae and Freddie Mac were placed into federal conservatorship. As the market for home loans collapsed, the Federal Housing Finance Agency took control of these firms in order to stabilize the housing market. Ultimately this move aimed to ensure continued availability of mortgage credit. Now, almost 17 years later, discussions surrounding an end to the conservatorship have been swirling.

Similar to the first administration, the current Trump administration is exploring options to end the conservatorship and have expressed intent to take Fannie Mae and Freddie Mac public again. Details remain scarce at present. However, the GSEs hypothetically would continue to operate similarly and would provide the same market resources that currently exist.

That said, GSE exit stands to potentially have a few implications for the mortgage market and residential sector of the U.S. economy. As shown in the chart, GSEs currently hold roughly half of residential mortgage debt outstanding, a share that has risen significantly over the past several decades.Their outsized role in the mortgage market means policymakers will need to tread carefully so as not to lose investor confidence and exert pressure on already elevated mortgage rates.When the 2008 conservatorship went into effect, the U.S. Department of the Treasury provided roughly $190 billion in liquidity to these firms. This level of backing eases market concerns for solvency issues, and without this implied support, perceived risk may rise. Hence, volatility in secondary markets for mortgages and mortgage-backed securities may require higher risk premiums, applying further upward pressure to mortgage rates.



Source: Federal Reserve Board and Wells Fargo Economics

The Trump administration has said it would support the GSEs if needed to relieve mortgage rate pressures. Despite the desire for an exit, GSE privatization seems unlikely in the near-term given the regulatory and political complexities associated with such a move. For Fannie Mae and Freddie Mac to organically exit their conservatorship without any restructuring, the GSEs would need to build sufficient capital reserves. Given the current structure of high capital requirements and low earnings retention, a natural exit would require a significant amount of time without changing the level of capital requirement.

Without any changes to the current structure and agreements of the 2008 conservatorship, a natural exit for Fannie Mae and Freddie Mac does not appear likely anytime soon. Given policy proposals have yet to be put forward, understanding the exact nature of an exit from the conservatorship remains clouded. Nonetheless, such a move could bring change to the mortgage market and the housing sector, which remains in a weak state thanks to significantly adverse affordability conditions for home buyers.

(Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates	Friday 6/6/2025	1 Week Ago	1 Year Ago
SOFR	4.29	4.33	5.33
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.34	4.33	5.39
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	4.02	3.90	4.72
5-Year Treasury	4.09	3.96	4.30
10-Year Treasury	4.47	4.40	4.29
30-Year Treasury	4.93	4.93	4.44
Bond Buyer Index	5.27	5.25	3.97

Foreign Exchange Rates	Friday 6/6/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.140	1.135	1.089
British Pound ($/£)	1.353	1.346	1.279
British Pound (£/€)	0.842	0.843	0.851
Japanese Yen (¥/$)	144.780	144.020	155.610
Canadian Dollar (C$/$)	1.369	1.374	1.367
Swiss Franc (CHF/$)	0.822	0.822	0.889
Australian Dollar (US$/A$)	0.649	0.643	0.667
Mexican Peso (MXN/$)	19.125	19.438	17.985
Chinese Yuan (CNY/$)	7.192	7.199	7.245
Indian Rupee (INR/$)	85.635	85.581	83.478
Brazilian Real (BRL/$)	5.600	5.723	5.254
U.S. Dollar Index	99.222	99.329	104.102

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Foreign Interest Rates	Friday 6/6/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.77	1.84	3.54
3-Month U.K. Govt Bill Yield	4.27	4.27	5.25
3-Month Canadian Govt Bill Yield	2.67	2.65	4.63
3-Month Japanese Govt Bill Yield	0.45	0.41	0.05
2-Year German Note Yield	1.87	1.78	3.02
2-Year U.K. Note Yield	4.01	4.02	4.33
2-Year Canadian Note Yield	2.69	2.59	3.94
2-Year Japanese Note Yield	0.76	0.74	0.34
10-Year German Bond Yield	2.57	2.50	2.55
10-Year U.K. Bond Yield	4.64	4.65	4.17
10-Year Canadian Bond Yield	3.33	3.20	3.39
10-Year Japanese Bond Yield	1.46	1.50	0.96

Commodity Prices	Friday 6/6/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	64.43	60.79	75.55
Brent Crude ($/Barrel)	66.26	63.90	79.87
Gold ($/Ounce)	3335.82	3289.25	2376.06
Hot-Rolled Steel ($/S.Ton)	878.00	842.00	742.00
Copper (¢/Pound)	488.20	467.75	467.80
Soybeans ($/Bushel)	10.67	10.51	11.88
Natural Gas ($/MMBTU)	3.71	3.45	2.82
Nickel ($/Metric Ton)	15,341	15,179	18,032
CRB Spot Inds.	564.04	559.48	552.40

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