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# Investors will weigh whether inflation and potential for interest rate hikes could derail the rally in U.S. stocks.

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NEW YORK · Investors will turn to an important labor market update this week as they weigh whether simmering inflation and the potential for interest rate hikes could derail the rally in U.S. stocks.



Broadcom's results also pose a test in the coming week for the red-hot AI trade. This week, U.S. equity indexes continued their charge higher, with the benchmark S&P 500 posting a gain for a ninth straight week. The index is up more than 10% on the year, while the Nasdaq Composite has climbed 16%.

Technology stocks have led a resurgent market on the back of strong profit outlooks driven by the AI boom, after tech and other influential megacap stocks were hit hard in March.

"That group really had a significant correction," said Chuck Carlson, CEO at Horizon Investment Services. "What has really been a fuel for this market was investors going in looking at the values that had been restored in that group, seeing that earnings were still growing at pretty rapid rates, and going to buy them."

Markets have also been buoyed in recent weeks by hopes for an end to the Iran war, which has now stretched to three months. Asset prices remain susceptible to developments in the conflict heading into next week.

Jobs report to jolt markets?

The monthly employment report, due on June 5, comes as investors are increasingly worried about persistently high inflation, and the potential that this will lead to rate hikes that would be unwelcome for stocks.

Note

Data on Thursday showed that the Personal Consumption Expenditures Price Index rose 3.8% in the 12 months through April, the largest rise since May 2023, driven by higher energy prices amid the Iran war. The Federal Reserve tracks the PCE inflation measures for its 2% target.

“If you were to get a hot employment report alongside still-rising inflation numbers, I think it continues to change the outlook for Fed policy,” said Liz Ann Sonders, chief investment strategist at the Schwab Center for Financial Research. “If it were to be a weaker-than-expected report, then maybe it calms fears that the Fed is going to have to shift to a tightening stance.” *Note*

May's payrolls report is expected to show an unemployment rate of 4.3% and an increase of 85,000 jobs, according to a Reuters poll as of Friday.

An increase of more than 150,000 jobs might be problematic for equities if it fuels fears about an “overheating” economy that also drives U.S. Treasury yields higher, said Angelo Kourkafas, senior global investment strategist at Edward Jones.

“We have enough indications that economic activity remains solid,” Kourkafas said, including the Atlanta Federal Reserve's GDPNow model tracking to 3.8% second-quarter growth, following a blowout first quarter for U.S. corporate profits.

He said that suggests markets should be “less concerned about that recessionary outcome ... but more so are we talking about a potentially overheating economy?”

Broadcom on tap, yields simmer

Quarterly results on Wednesday from semiconductor firm Broadcom, the sixth-largest U.S. company by market capitalization, could cause ripples on Wall Street. Semiconductor shares skyrocketed in recent weeks over optimism about rising chipmaker profits amid the massive AI infrastructure buildout. Since the March 30 market low for the year, the Philadelphia SE Semiconductor Index has jumped about 80%, while Broadcom shares climbed more than 50%. The S&P 500 is up more than 19% in that time.

Other U.S. economic data next week include reports on manufacturing and services sector activity. Another key inflation report the following week will be among the last data before Kevin Warsh's first Fed meeting as chair on June 16-17. *Note*

Futures pricing is indicating a greater chance of a rate hike this year than a cut, despite President Donald Trump's fervent wishes for the Fed to ease monetary policy. *Note*

The potential for rate hikes along with rising inflation is factoring into the recent rise in bond yields. Although benchmark U.S. Treasury yields have backed off somewhat, with the 10-year yield around 4.45%, rising yields are a risk for equities, Carlson said. Higher bond yields stand to translate into higher borrowing costs for consumers and businesses, while also creating more investment competition for stocks. *Note*

“If you saw a real spike in interest rates that was maintained ... that would be the thing that I think would be most disconcerting for investors,” Carlson said.