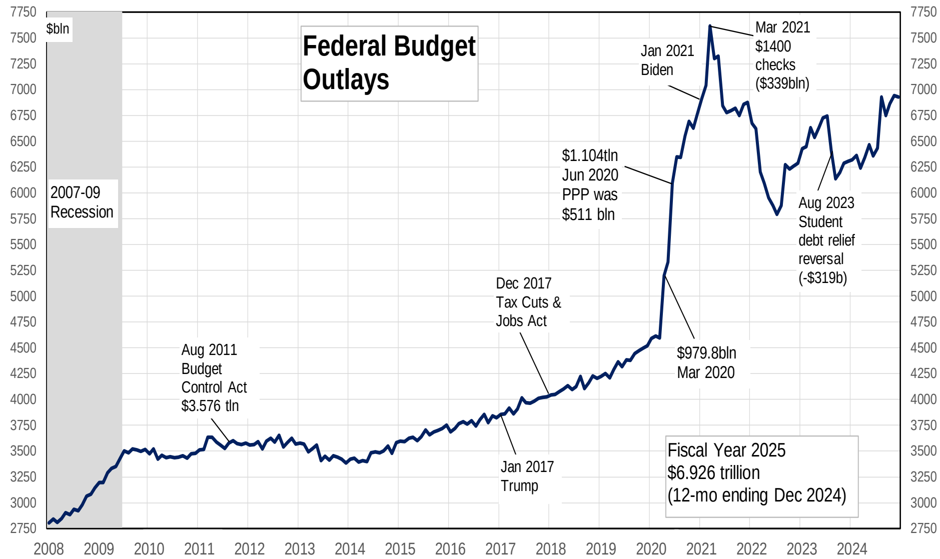
Financial Markets This Week

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

17 JANUARY 2025

FEDERAL GOVERNMENT SPENDING



Federal government spending is in the news. We got the December 2024 Federal budget results this week and will look at the quarterly trend. Federal budget outlays are $6.926 trillion in the 12 months ending December 2024 and there is talk of cutting overall spending by $2 trillion in the new administration coming to Washington. The Federal budget deficit is running $2.033 trillion in the 12 months ending December 2024, so it looks like someone wants to eliminate the red ink without raising taxes of course.

FY Mln $	Budget Deficit	Total Outlays	Nondefense Discretionary	
2010	-1,294,373	3,457,079	658,312	Nov 2010 Republicans win House
2011	-1,299,599	3,603,065	647,745	Budget Control Act 2011 signed August 2
2012	-1,076,573	3,526,563	605,182	-6.6%
2013	-679,775	3,454,881	576,612	-4.7%
2014	-484,793	3,506,284	582,418	1.0%
2015	-441,960	3,691,850	588,756	1.1%
2016	-584,650	3,852,615	600,424	2.0%
2017	-665,450	3,981,634	610,118	Trump takes office January 2017
2018	-779,140	4,109,047	638,949	Community development, Veterans benefits
2019	-983,596	4,446,960	661,334	3.5% increase, Health, Veterans, Justice
2020	-3,132,457	6,553,621	914,005	Pandemic spending surge 38.2%
2021	-2,775,359	6,822,470	894,798	Biden takes office Jan 2021

There's a new president in town on Monday, January 20, same as the old president that took office in January 2017. Almost every president wants the nation to tighten its belt and reduce Federal government spending, if only to make way for new programs. Looking back to the Budget Control Act of 2011 signed by Obama in August that year, as things ended up, without going into details (debt-ceiling crisis, super committee, sequestration), nondefense discretionary spending was cut by about 10% over the course of 2012 and 2013, and spending was flat for a few more years after that. Not a bad outcome to shoot for again in 2025 if you are a bond market participant and concerned about the national debt. Nondefense discretionary spending is about the only expenditures that can be cut back without major changes in law to the existing mandatory programs like social security, medicare, or interest on the public debt, a separate no-touch expenditure. Trump 1.0 came into office in January 2017, and signed the Tax Cuts and Jobs Act in December 2017. Concerned about that budget buster Trump asked cabinet members to cut the spending in their departments by 5% at the start of FY2019 in October 2018. Seems reasonable:

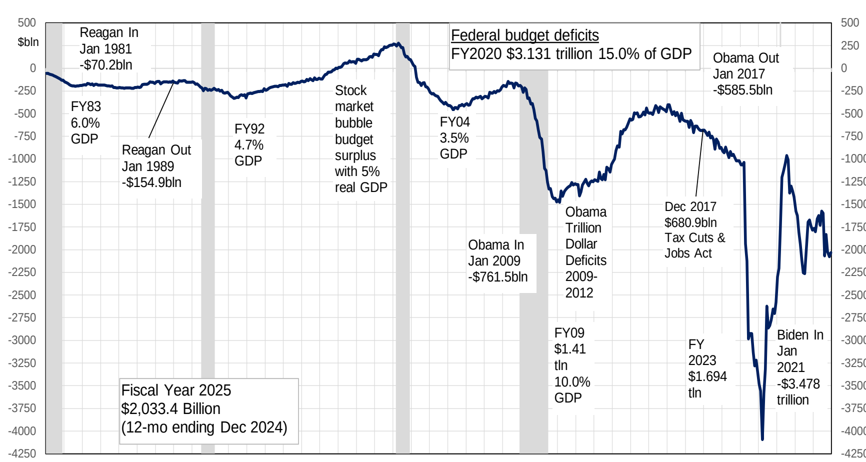
"corporations cut spending 5% all the time." Just looking at the figures in the table here for nondefense discretionary spending, there was a 3.5% increase in FY2019 (Health, Veterans, Justice Department were notable). It is unclear what happened to the 5% cuts ask, and the Pandemic sent spending up 38.2% in FY2020. Things do not always go as planned.

In the new fiscal year, total budget outlays are already up 10.9% in Q4 2024 from the prior year to $1.793 trillion: a $176.4 billion difference. January 1, 2025 was a non-business day so some outlays were made early in December and that is why Veterans Affairs outlays are so much faster in Q4 2024. There are some big increases: Homeland Security up 40.5%, disaster relief from FEMA.

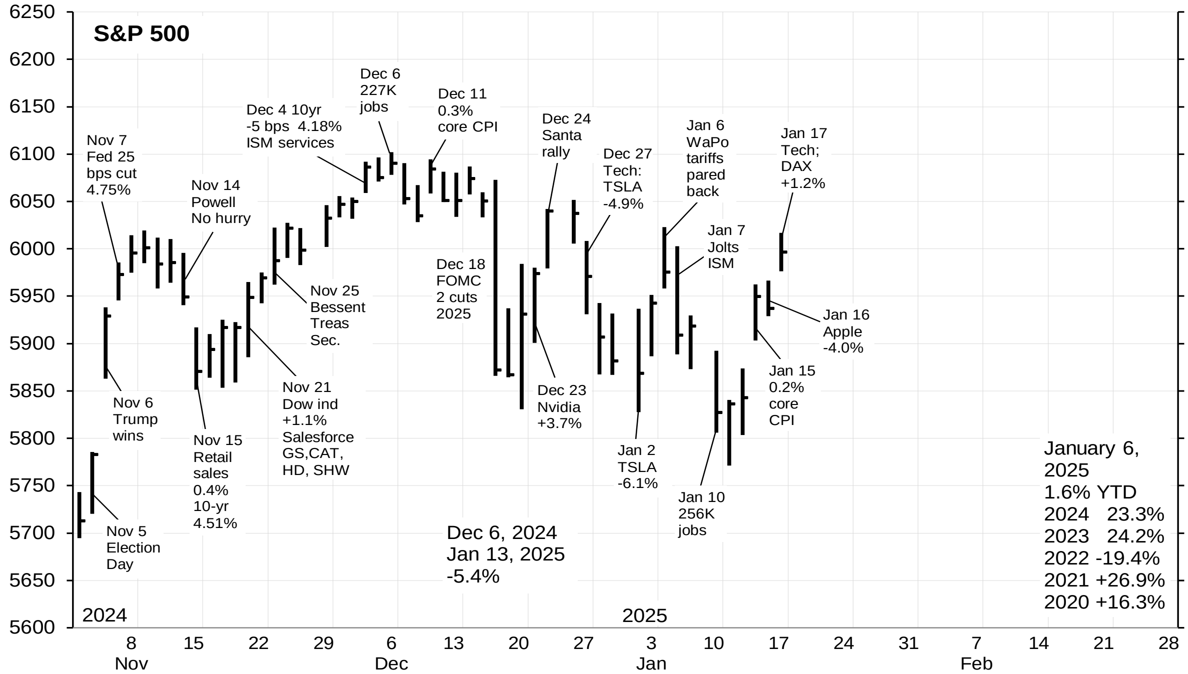
Social Security is 7.9% greater than last year. Hopefully, Congress won't cut the meager payouts back before millions of retiring baby boomers need it. Washington would be better to stop warning the sheep that "benefits will be cut 17%" next decade. Quit telling people their benefits will be cut by 17 percent. There's already no money left in the trust fund and benefits are paid by giving funny money paper IOUs in the trust fund to the U.S. Treasury so they can borrow from the market to make up the shortfall each month.

There is a lot of finger-pointing at the $36 trillion National Debt, but this is just a number on a piece of paper with much of the debt owed to the Fed and foreign investors and nonmarketable social security type of debt. All is well. No worries.

Federal Government Spending ($bln) Where to cut?	1 Qtr FY25 Q4 24-Q4 24	1 Qtr FY24 Q4 23-Q4 23	Fiscal Year Changes	Fiscal Year % chg	Full Year FY 2024
TOTAL BUDGET OUTLAYS	1,793.884	1,617.504	176.380	10.9	6,750.493
Legislative	1.779	1.743	0.036	2.1	6.835
Judicial	2.345	2.272	0.073	3.2	9.480
Agriculture	67.839	61.197	6.642	10.9	203.402
Commodity Credit Corporation	7.295	6.691	0.604	9.0	5.524
Food Stamps	27.867	27.454	0.413	1.5	106.754
Child Nutrition	9.112	8.697	0.415	4.8	32.733
Commerce	6.482	3.356	3.126	93.1	14.831
Defense	250.263	226.772	23.491	10.4	826.277
Military Personnel	79.744	69.714	10.030	14.4	191.945
Operation Maintenance	83.829	78.121	5.708	7.3	332.047
Procurement	46.496	40.591	5.905	14.5	152.259
Research Development	34.765	34.508	0.257	0.7	137.960
Military Construction	3.701	3.175	0.526	16.6	12.068
Education	42.653	41.970	0.683	--	268.353
Office of Federal Student Aid	18.051	12.336	5.715	46.3	160.693
Energy	13.914	12.248	1.666	13.6	49.315
Health Human Services	452.311	376.986	75.325	20.0	1720.621
Medicare	277.167	209.883	67.284	32.1	1052.675
Medicaid States Grants	159.430	148.202	11.228	7.6	617.517
Homeland Security	31.400	22.341	9.059	40.5	89.290
Housing Urban Development	17.661	17.433	0.228	1.3	51.976
Interior	5.725	4.230	1.495	35.3	17.088
Justice	10.765	10.580	0.185	1.7	43.995
Labor	11.835	8.251	3.584	43.4	65.672
State Unemployment Benefits	8.811	8.083	0.728	9.0	36.611
State	9.340	7.737	1.603	20.7	37.017
Transportation	30.364	27.125	3.239	11.9	117.389
FAA	6.129	5.700	0.429	7.5	23.096
Federal Highway Admin.	15.848	14.758	1.090	7.4	61.523
Treasury	354.692	322.027	32.665	10.1	1316.852
IRS	57.015	34.207	22.808	66.7	229.985
Premium Tax Credit	34.232	26.075	8.157	31.3	110.195
Earned Income Credit	0.890	0.765	0.125	16.3	60.011
Child Tax Credit	0.581	0.541	0.040	--	26.247
Interest on Public Debt	308.353	288.011	20.342	7.1	1133.037
Veterans Affairs	105.118	80.644	24.474	30.3	325.004
Corps of Engineers	4.009	3.398	0.611	18.0	11.345
Other Defense Civil Programs	26.875	17.832	9.043	50.7	66.220
Environmental Protection	23.917	3.241	20.676	638.0	13.699
Exec. Office of President	0.127	0.139	-0.012	-8.6	0.607
International Assistance	7.860	9.451	-1.591	-16.8	35.794
NASA	6.771	6.861	-0.090	-1.3	25.015
National Science Foundation	2.326	2.044	0.282	13.8	9.392
Personnel Management	33.528	31.941	1.587	5.0	126.173
Small Business Admin.	0.307	0.468	-0.161	-34.4	33.197
Social Security Admin.	395.135	366.335	28.800	7.9	1519.734
Retirement Benefits	333.606	311.028	22.578	7.3	1293.782
Federal Disability Payments	38.919	37.797	1.122	3.0	153.918
Other Independent Agencies	2.536	72.794	-70.258	--	77.793



INTEREST RATES



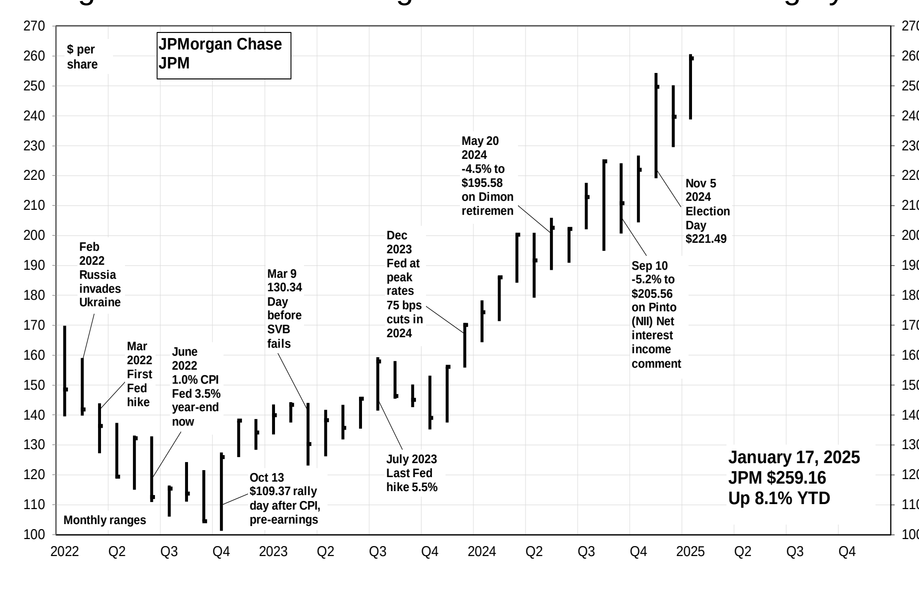
Crazy stock market reactions to the inflation data this week, but then again, share prices had been beaten down pretty good. S&P futures even jumped 0.7% on Tuesday's PPI report, before the Wednesday 0.2% core CPI reaction of 1.2% in the first half-hour. The Fed needs a lot more 0.1s and 0.2s each month to get inflation down to 2% target. Stocks closed the gap left over from the November 5 Election Day rally, then took off on CPI following bonds. Still wondering how 0.2% core CPI can be so exciting, but stocks did this rally thing the month before on December 11 with core CPI even higher at a 0.3% monthly change. On Thursday, Fed governor Waller said CPI was good and he could see a rate cut in the first half of the year which brought bond yields down, helping stocks. For the record, the S&P 500 fell 5.4% high-low from early December, in recovery, but failed at the 6,000 line Friday.

JPMorgan Chase (JPM) up 17% from $221.49 on Election Day November 5

The bank reported earnings before the open on Wednesday and rose 2.0% later that day, powered by an unexpectedly big overall market reaction to the "tame" 0.2% core CPI that morning with the S&P 500 rising 1.8% Wednesday. Dimon said he does not favor weakening regulation: it should be balanced between promoting economic growth and maintaining a safe and sound banking system. Good to know. How about interest on savings accounts.

JPM results (billions)

Quarter	Net Income	Provision for Credit Losses	Stock price Qtr end
12.31.2024	14.005	2.631	239.71
9.30.2024	12.898	3.111	210.86
6.30.2024	18.149	3.052	202.26
3.31.2024	13.419	1.884	182.35
12.31.2023	9.307	2.762	170.10
9.30.2023	13.151	1.384	145.02
6.30.2023	14.472	2.899	145.44
3.31.2023	12.622	2.275	130.31
12.31.2022	11.008	2.288	134.10

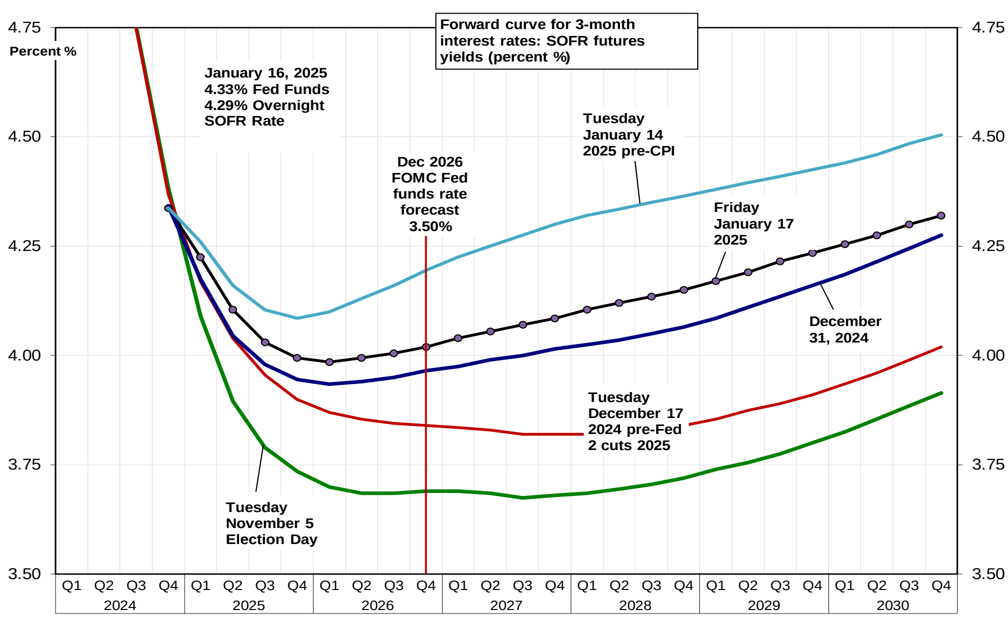


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	15-Jan	8-Jan	1-Jan	25-Dec	3/11/20*	3/11/20
Factors adding reserves						to Jan 15
U.S. Treasury securities	4274.615	4291.067	4291.106	4308.893	2523.031	1751.584
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2233.205	2233.262	2233.262	2245.479	1371.846	861.359
Repurchase agreements	0.000	0.000	0.000	0.001	242.375	-242.375
Primary credit (Discount Window)	2.665	2.405	3.227	2.056	0.011	2.654
Bank Term Funding Program	1.333	3.351	4.412	5.780		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.949	1.955	1.962	1.976		
Main Street Lending Program	7.649	8.270	8.260	8.253		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.098	1.120	1.120	1.121	0.058	0.040
Federal Reserve Total Assets	6885.3	6904.7	6902.9	6937.2	4360.0	2525.277
~~3-month Libor %~~ SOFR %	4.28	4.29	4.49	4.40	1.15	3.130
Factors draining reserves						
Currency in circulation	2356.047	2366.173	2373.847	2367.553	1818.957	537.090
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	651.187	620.531	721.892	735.039	372.337	278.850
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	119.977	185.144	473.460	180.989	1.325	118.652
Federal Reserve Liabilities	3526.263	3572.214	4010.579	3718.761	2580.036	946.227
Reserve Balances (Net Liquidity)	3359.041	3332.435	2892.359	3218.476	1779.990	1579.051
Treasuries within 15 days	36.997	72.540	61.662	34.657	21.427	15.570
Treasuries 16 to 90 days	241.106	225.590	236.055	259.288	221.961	19.145
Treasuries 91 days to 1 year	453.140	442.049	442.471	442.817	378.403	74.737
Treasuries over 1-yr to 5 years	1456.834	1465.828	1465.857	1487.674	915.101	541.733
Treasuries over 5-yrs to 10 years	545.670	549.009	548.993	548.547	327.906	217.764
Treasuries over 10-years	1540.868	1536.050	1536.069	1535.911	658.232	882.636
Note: QT starts June 1, 2022	Change	1/15/2025	6/1/2022			
U.S. Treasury securities	-1496.164	4274.615	5770.779			
Mortgage-backed securities (MBS)	-474.241	2233.205	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets January 28-29, 2025 to consider its monetary policy. Fed governor Waller was on TV around 10am Thursday morning: CPI was good, a rate cut before midyear, oh and he maybe sees 3-4 rate cuts in 2025 showing he is trying to get the Trump administration to notice him. He even said a March meeting rate cut could not be ruled out. Anyway, it seems likely the President-elect will start calling loudly for rate cuts sometime this year. Soon perhaps. And it is a good thing no one shows him the Forward curve for 3-month interest rates: SOFR futures yields graph here with short-term borrowing costs for corporations soaring since the election. Doesn't matter, companies are not borrowing from banks lately. Back to the task at hand. In the Fed December 2024 meeting forecasts there were only 5 out of 19 participants that looked for rates to go lower than 50 bps to 4.0% by the end of this year. Maybe Waller is one of them. It is unclear what a 3.5 percent Fed rate could do more than a 4.5 percent Fed rate could do for or against the economy or inflation. Neither the 4.5 nor 3.5 percent Fed rates are likely to bring the 10-year Treasury yield down from a 4.5% center of gravity. Not unless recession fears come back.

Fed Policy-key variables	2024	2025	2026	2027	Long Term
Fed funds	4.4	3.9	3.4	3.1	3.0
PCE inflation	2.4	2.5	2.1	2.0	2.0
Core inflation	2.8	2.5	2.2	2.0	
Unemployed	4.2	4.3	4.3	4.3	4.2
GDP	2.5	2.1	2.0	1.9	1.8
December 2024 median Fed forecasts					



All but 2.5 bps of a 25 bps rate cut is forecast in June 2025.

Fed funds futures call Fed policy		
Current target: January 17 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.495	Feb 2025	Jan 29
4.425	Apr 2025	Adds Mar 19
4.275	Jul 2025	Adds May 7, Jun 18*
Last trade, not settlement price		
* Not strictly true, Jul 2025 has Jul 30 Fed date, so 1 day could be a new interest rate		

Next up: December PCE inflation report Friday, January 31

Monthly % Changes	2024 Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	2024 Jan	2023 Dec	Nov	2023 Oct
Core CPI inflation	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2
Core PCE inflation	0.2e	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1
Core PCE YOY	2.8e	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4
Core CPI YOY	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0

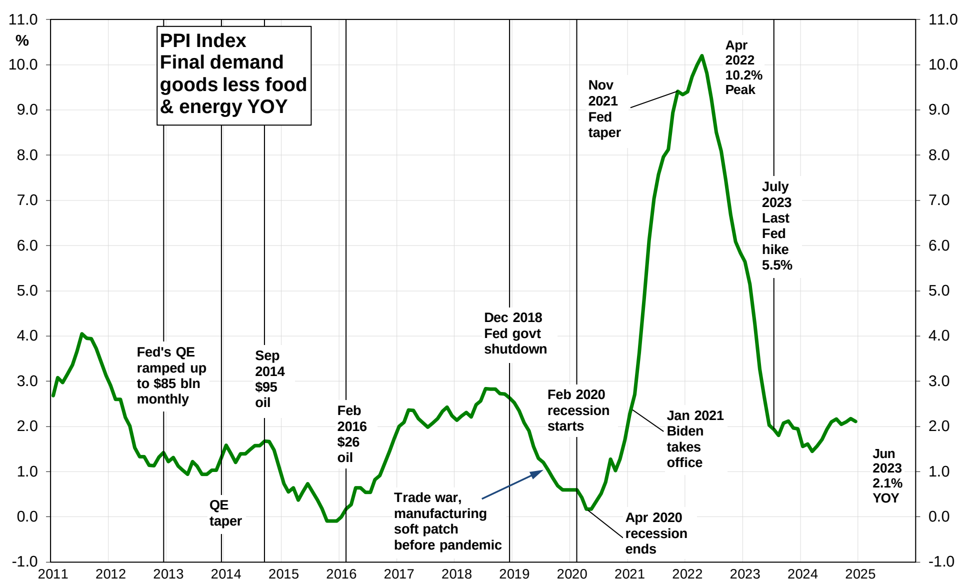
OTHER ECONOMIC NEWS

PPI unch (Tuesday)

Breaking economy news. The Producer Price Index for final demand increased 0.2% in December versus the 0.3% consensus forecast which popped stock futures higher for a time. Guess someone was short. The index is split between Final demand goods and Final demand services. Old-fashioned commodity-based PPI (once one of the biggest market-moving economic numbers in the world) rose 0.6% largely due to the 3.5% increase in energy prices this month. Final demand goods less foods and energy were unchanged in December and 2.1% higher than a year ago. This core goods inflation has been under control for a long time now, since about July 2023, the month of the Fed's final rate hike to 5.5%.

	PPI Final demand goods less foods/energy-- Monthly Percent Changes SA											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2023	0.6	0.3	0.2	0.1	0.1	-0.1	0.0	0.1	0.3	0.1	0.1	0.1
2024	0.3	0.3	0.0	0.3	0.2	0.1	0.2	0.2	0.1	0.1	0.2	0.0
	PPI Final demand goods less foods/energy-- Year/Year Percent Changes NSA											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2023	5.6	5.1	4.3	3.3	2.7	2.0	1.9	1.8	2.1	2.1	2.0	1.9
2024	1.6	1.6	1.4	1.6	1.7	1.9	2.1	2.2	2.0	2.1	2.2	2.1

Net, net, good news on factory prices may be the calm before the storm of import tariffs coming with Trump 2.0, whether gradual or not, but nevertheless Fed officials are making progress on their long inflation fight with both PPI core goods prices and services prices as well showing no change this month. No change as in zero. Zero inflation. If it were not for the 3.5% jump in energy, the biggest since 3.9% in February 2024, there would have been no inflation at the producer level for companies to pass along to consumers. A small victory today on the inflation front and it is the incoming president-elect's policies that can either continue the progress on inflation or worsen it. Economic theory says tariff hikes are a one-off event that pushes prices higher this year perhaps, but the price level does not move higher in future years unless companies continue to ratchet up prices even higher. Powell and crew found out the hard way that the inflation from supply chain disruptions coming out of the pandemic was not transitory and everyone paid the price. Stay tuned. The stock market is never wrong and the jump in share prices this morning means investors see that inflation at the factory level was contained at the end of last year and that price pressures are still moving in the direction Fed officials are looking for in order to see their two interest rate cut forecasts in 2025 become a reality.

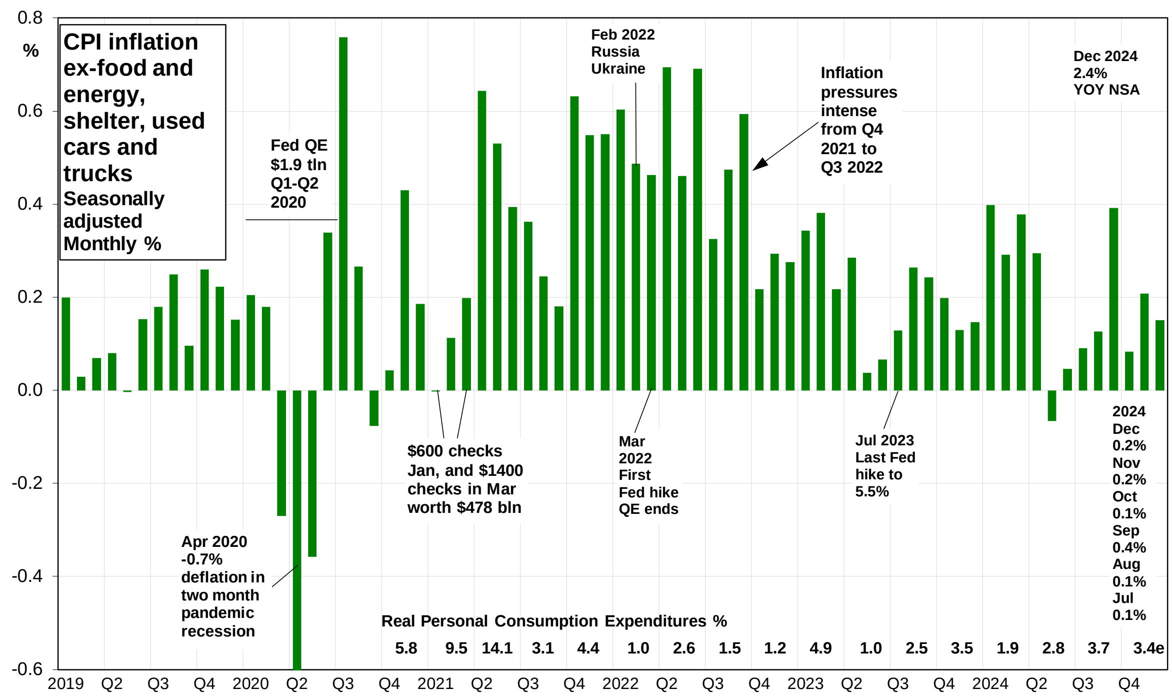


CPI 0.2 for incoming Trump 2.0 (Wednesday)

Breaking economy news. Core CPI rose 0.2% in December, and the market reacted like the Federal Reserve had won a great victory in its battle against inflation. 10-year Treasury yields forgot about the Trump 2.0 pro-growth agenda (real GDP growth is running 3.0% in Q4 2024 to be reported Thursday, January 30, how much growth does the nation need?) and bond yields dropped to 4.66% by the close Wednesday from 4.79% Tuesday.

Dec 23 Weight	CPI inflation	Monthly Percent Changes Oct 2024	Nov 2024	Dec 2024	YOY % Dec 2024
100.0	Total	0.2	0.3	0.4	2.9
13.555	Food	0.2	0.4	0.3	2.5
5.388	Food away from home	0.2	0.3	0.3	3.6
6.655	Energy	-1.0	0.5	4.3	-3.9
79.790	Ex-food & energy	0.3	0.3	0.2	3.2
3.684	New vehicles	0.0	0.6	0.5	-0.4
2.012	Used cars/trucks	2.7	2.0	1.2	-3.3
2.512	Clothing	-1.5	0.2	0.1	1.2
1.489	Medical care goods	-0.2	-0.1	0.0	0.5
36.191	Shelter	0.4	0.3	0.3	4.6
26.769	Owner equiv. rent	0.4	0.2	0.3	4.8
6.294	Transportation	0.4	0.0	0.5	7.3
6.515	Medical care services	0.4	0.4	0.2	3.4
	Special: Where inflation might come back down to				
60.899	Services ex-energy	0.3	0.3	0.3	4.4
18.891	Commodities (core)	0.0	0.3	0.1	-0.5

Net, net, inflation is less hot to the touch this month, but that does not mean Fed officials can set their concerns on the back burner. Housing prices are stubbornly resistant to supply and demand pressures that do not look to be alleviated anytime soon. There is a housing shortage. That being said, core consumer prices moderated this month and would have been even better if not for a flare up in volatile prices like air fares and used cars and trucks. Time will tell if the pro-growth agenda in Trump 2.0 turns the inflation trend around 180 degrees and starts to push prices back up at an accelerating pace. It is Economics 101 that someone will have to pay for the tariff hikes on a massive $3.0 trillion in imported goods coming into the country and our bet is it will be the consumer. Bet on it. The inflation kettle is off the boil, but for how long is the question. Bonds and stocks want to know because more inflation means fewer Fed rate cuts in 2025. Core CPI is 0.2 for the incoming Trump 2.0 administration, but for how long is the million dollar question. Stay tuned.



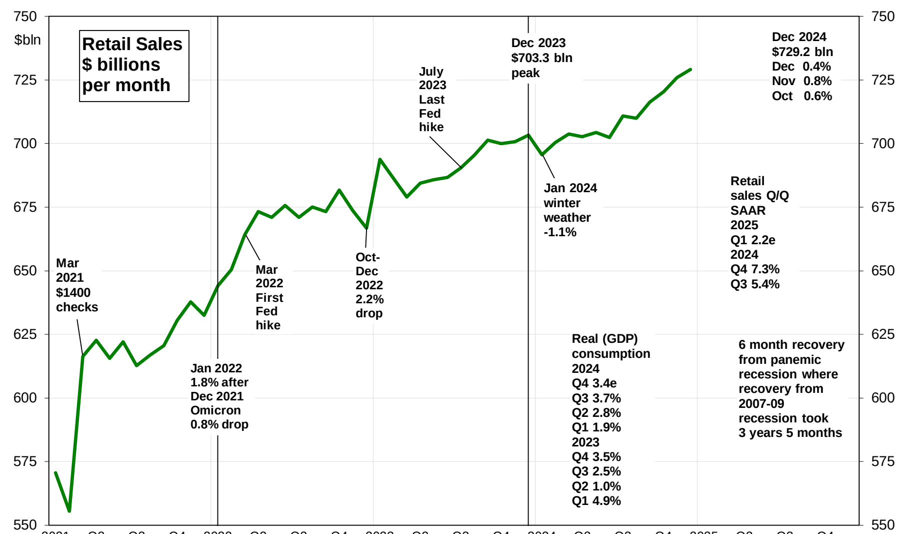
Consumer solid for now (Thursday)

Breaking economy news. Jobless claims and retail sales at 830am ET. Initial unemployment claims rose 14K to 217K in the January 11 week. It is hard for seasonal factors to tame the seasonal winter layoffs, but there is no sign that companies are laying off workers. Retail sales rose 0.4% in December and with revisions to October/November, economists raised their forecasts for real GDP and real consumption expenditures. Retail sales are 7.3% in Q4 2024 SAAR and the spillover to Q1 2025 has retail sales rising 2.2% already without January, February, March data.

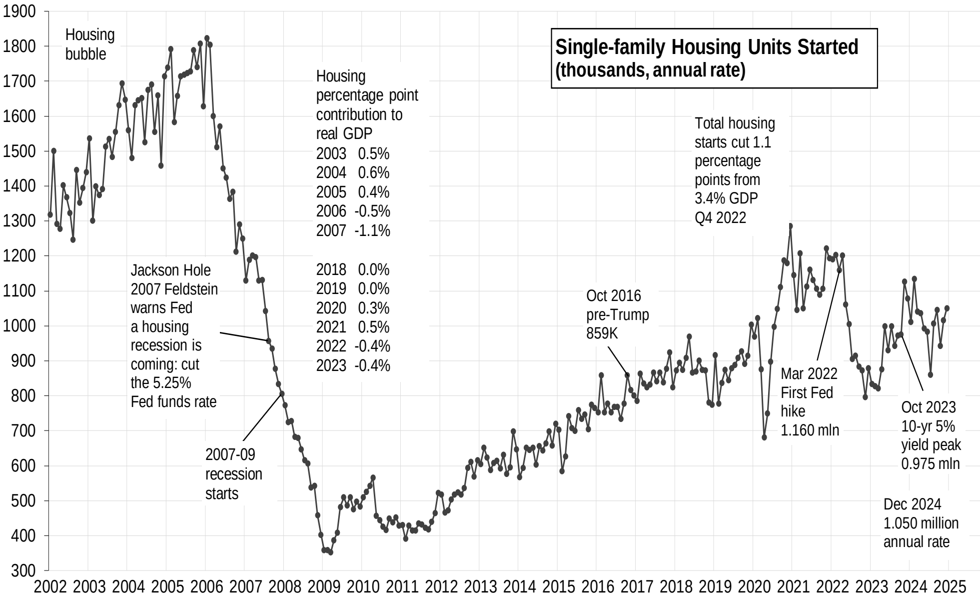
Retail spending, actual dollars, each month

	$million	% to	Percent Changes %		
	Dec	Total	Dec	Nov	Year/year
Total Retail Sales	729,191	100.0	0.4	0.8	3.9
Motor vehicles/parts	142,917	19.6	0.7	3.1	8.4
Furniture/furnishings	11,864	1.6	2.3	1.3	8.4
Electronics/appliances	7,745	1.1	0.4	0.9	5.8
Building materials/garden	40,451	5.5	-2.0	-0.8	-1.8
Food & beverage	84,708	11.6	0.8	-0.2	3.1
Health/personal care	38,062	5.2	-0.2	0.3	3.4
Gasoline stations	52,380	7.2	1.5	0.2	-1.2
Clothing/accessories	26,741	3.7	1.5	-0.8	2.4
Sporting goods, books	8,426	1.2	2.6	-0.3	1.8
General merchandise	76,530	10.5	0.3	0.0	2.6
Department stores	10,811	1.5	0.1	-0.4	-1.8
Miscellaneous retailers	15,462	2.1	4.3	-3.9	3.7
Nonstore retailers (internet)	126,963	17.4	0.2	1.7	6.0
Eating & drinking places	96,942	13.3	-0.3	0.1	2.4
[Total ex-autos/gas]	533,894	73.2	0.3	0.2	3.3

Net, net, consumers are still spending it, but they had less to celebrate last quarter with fewer trips to bars and restaurants that were offset by downpayments on a new car apparently. Motor vehicle sales were in the driver's seat for the economy which leads to questions over whether the sales are temporary as the purchases may have been brought forward to get ahead of expected rising prices for vehicles and auto parts if the import tariffs actually get put on as threatened by the incoming administration. Overall consumption will keep economic growth strong in the final quarter of 2024, but 2025 is a different story if the pro-growth agenda of Trump 2.0 backfires and actually slows growth by its aggressive fiscal policies that push bond yields higher and if the more costly tariff-hike prices for the imported consumer goods that Americans favor lead to reduced demand. It isn't easy to turn the economy around so dramatically as the bigger the changes coming out of Washington, the greater the uncertainty and increasing danger that consumers simply stand back and watch, saving their money for a rainy day. Stay tuned. The consumer continues to spend at a solid pace for now, but time will tell as the dramatic winds of change coming to Washington could have unforeseen consequences that sends the economy off its growth track.



Multifamily housing starts snap back, factory output too (Friday)



Breaking economy news. Residential housing construction at 830am ET. Single-family starts rose 3.3% to 1.05 million in December, the highest for the year after February's 1.134 million. The overall increase in starts of 15.8% to 1.499 million was driven by multifamily construction.

Net, net, housing starts soared at the end of the year, but this does not mean the country is out of the woods when it comes to the problems in the residential housing sector. There still is not enough housing in the country and the construction of residential homes remains historically depressed. Most of the increase this month in starts was for units of 5 or more, although single-family homes did rise marginally as well. The 15.8% jump in total housing starts to 1.499 million in December now matches the level of permits issued for construction the last few months. There is little evidence that homebuilders are taking out more permits to break ground on more construction later on this year. Instead, home builders are likely flabbergasted that mortgage rates have gone back above 7% which will take a toll on the ability of home buyers to finance a new home. The fact that the 7% mortgage rate comes despite the Fed slashing rates 100 bps from 5.5 to 4.5 percent last year is a head-scratcher for many in the industry.

Housing Starts Total, Single-Family, Multi-Family

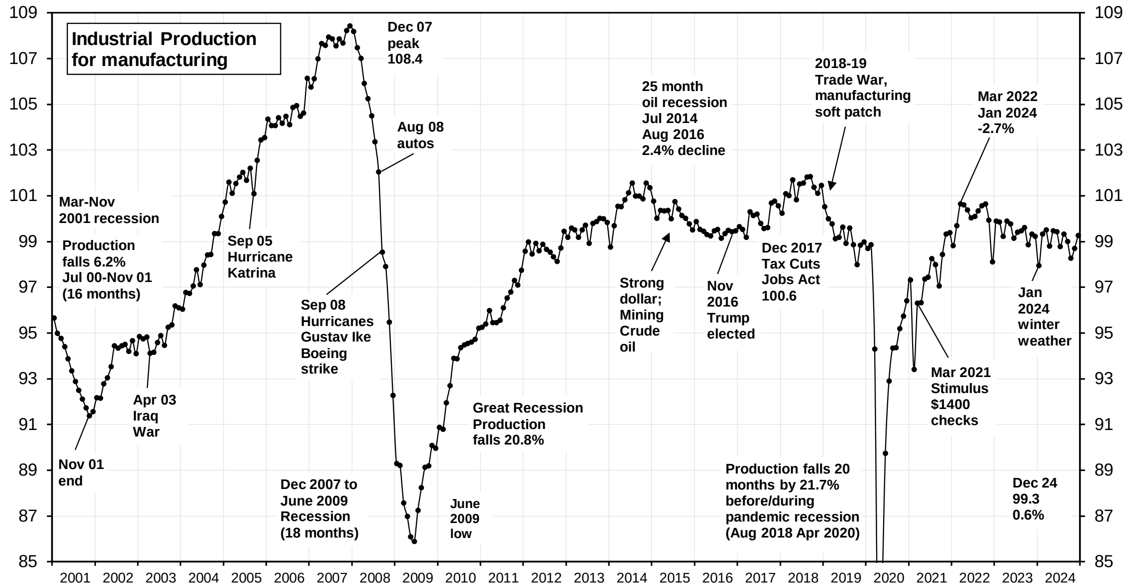
	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Dec 2024	1499	1050	418	157	64	204	144	853	617	285	225
Nov 2024	1294	1016	263	112	56	170	133	725	617	287	210
Dec 2023	1568	1078	471	128	59	202	126	852	628	386	265
% Chgs											
Dec/Nov	15.8	3.3	…	40.2	14.3	20.0	8.3	17.7	0.0	-0.7	7.1
Dec/Dec	-4.4	-2.6	…	22.7	8.5	1.0	14.3	0.1	-1.8	-26.2	-15.1

More data at 915am ET from the Federal Reserve. Factories have not come back to the USA yet, but industrial production did increase 0.9% in December, even if output is only 0.5% higher than a year ago. There are 12.9 million manufacturing jobs, 87K less than last year. After the Boeing strike, aircraft and parts were a 0.2 contribution to the 0.9% increase in total production.

Percent changes			Industrial Production December 2024		
Oct	Nov	Dec	YOY		Weight
-0.5	0.2	0.9	0.5	Total Index	100.0
-0.7	0.4	0.6	0.0	Manufacturing	75.1
0.1	-0.5	1.8	0.3	Mining	14.2
0.3	0.7	2.1	4.3	Utilities	10.7
			Manufacturing payroll jobs 12.9 million -87K YOY 9.5% of Private Payroll Jobs		

Net, net, the nation's factory output bounced back in the last two months of the year after the downturn caused by hurricanes and the Boeing strike in September and October. Production is in a holding pattern waiting for the incoming Trump administration to take the measures needed to bring the factories back from overseas. Rome wasn't built in a day, and new American factories won't be either.

The biggest problem for more plant construction is the shortage of US workers as the baby boom generation retires along with the fact that companies have to pay their employees much more than the labor that is working shop floors overseas. Stay tuned. Factories left the US starting over thirty years ago and they won't be coming back anytime soon just because Washington snaps their fingers.



Analyst Certification

The views expressed in this report accurately reflect the personal views of the research staff at FWDBONDS LLC, the primary analysts responsible for this report, about the subject securities or issuers referred to herein, and no part of such analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.