Financial Markets This Week

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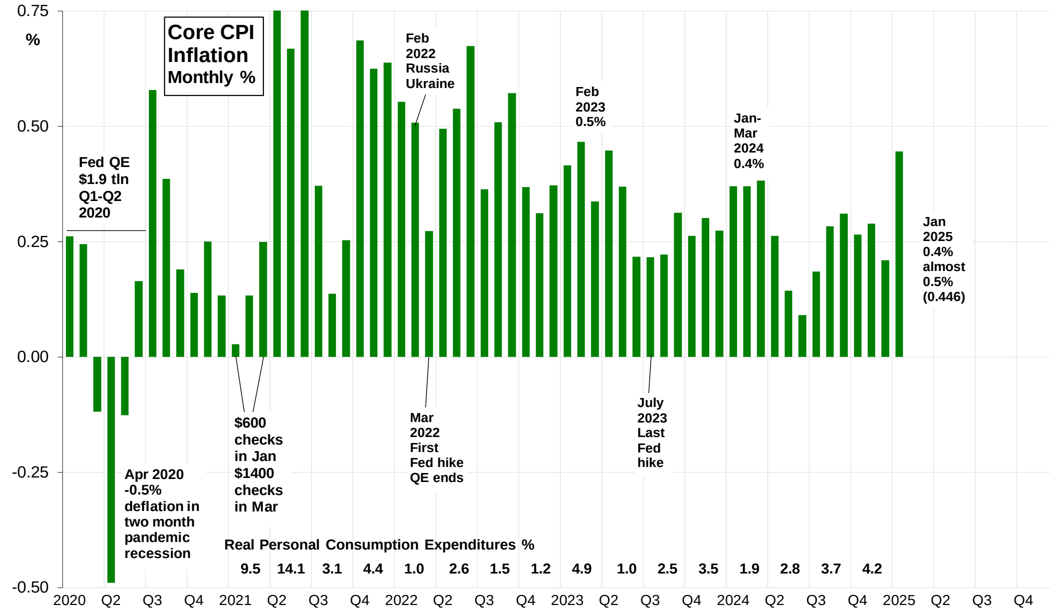
INFLATION HOT PRINT

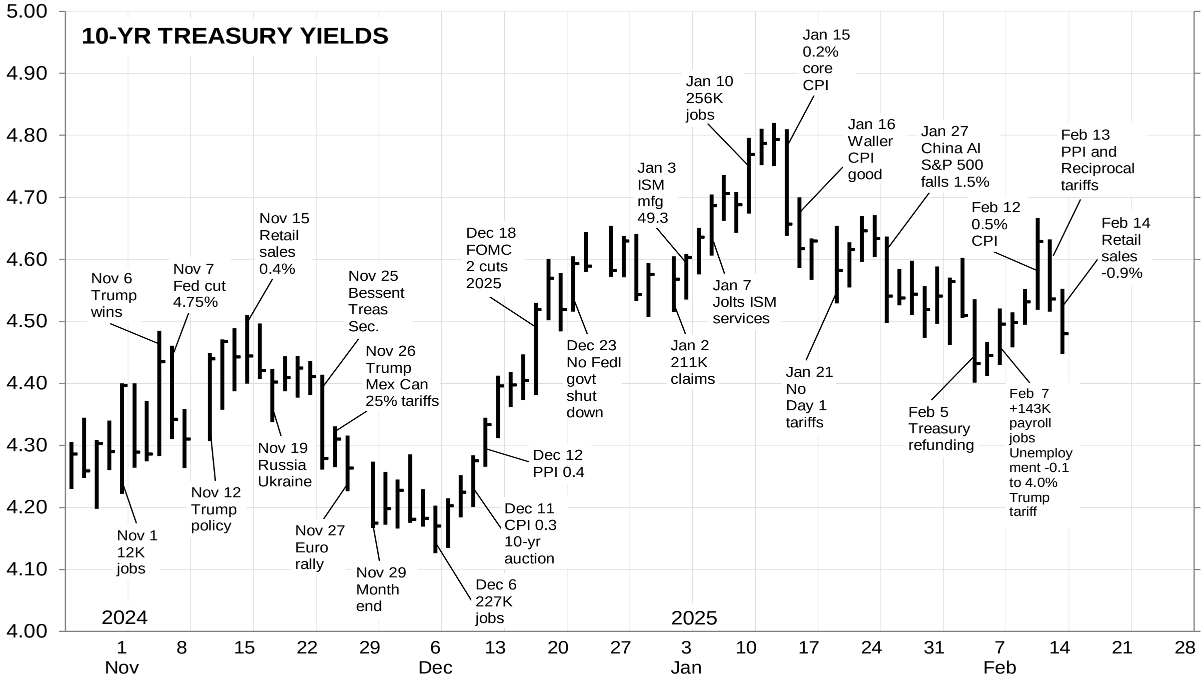


The inflation shock heard in markets round the world… at least for a few hours stealing people's attention away from too much government spending and import tariffs. 0.4% core CPI stands out on the chart here for January as it was almost 0.5% (0.446). There does seem to be a tendency for higher inflation in the first quarter; last year's Jan-Mar inflation outbreak was 0.4% each month. If you think Washington causes inflation this graph is for you. Fed QE was $1.9 trillion in the first half of 2020, and the $2,000 of Federal government stimulus checks in January and March 2021 that was all spent apparently with real consumer expenditures in GDP off the charts at 14.1% in Q2 2021.

Dec 24		Monthly Percent Changes			YOY %
Weight	CPI inflation	Nov 2024	Dec 2024	Jan 2025	Jan 2025
100.0	Total	0.3	0.4	0.5	3.0
13.691	Food	0.3	0.3	0.4	2.5
5.648	Food away from home	0.3	0.3	0.2	3.4
6.216	Energy	0.1	2.4	1.1	1.0
80.094	Ex-food & energy	0.3	0.2	0.4	3.3
4.393	New vehicles	0.5	0.4	0.0	-0.3
2.391	Used cars/trucks	1.3	0.8	2.2	1.0
2.480	Clothing	0.1	0.1	-1.4	0.4
1.527	Medical care goods	-0.1	0.0	1.2	2.3
35.483	Shelter	0.3	0.3	0.4	4.4
26.282	Owner equiv. rent	0.3	0.3	0.3	4.6
6.305	Transportation	0.1	0.5	1.8	8.0
6.747	Medical care services	0.3	0.2	0.0	2.7
	Special: Where inflation might come back down to				
60.705	Services ex-energy	0.3	0.3	0.5	4.3
19.388	Commodities (core)	0.2	0.0	0.3	-0.1

Here are our colorful comments written upon hearing the CPI news on Tuesday. Net, net, headline inflation is too hot to touch for a second month in a row and this has sent bond and stock prices tumbling. The long national nightmare of inflation isn't over yet for consumers, businesses, and investors, but it sure looks like Federal Reserve interest rate cuts are over for now. Stay tuned. There could be some seasonality that pushes prices up at a faster clip in January, but today the news for Fed officials is all bad. Inflation is not cooling as they had hoped and Fed Chair Powell will be grilled on this in Congress later on Wednesday. The 100 bps of Fed rate cuts last year is starting to look like a colossal mistake at least in terms of magnitude. Rates are likely to be higher for longer. Bet on it. Inflation is hot and the President's pro-growth policies are only going to make it grow hotter. Fed Chair Powell can't seem to get out of his own way. First inflation was temporary and now the inflation slowdown is looking transient too.

INTEREST RATES

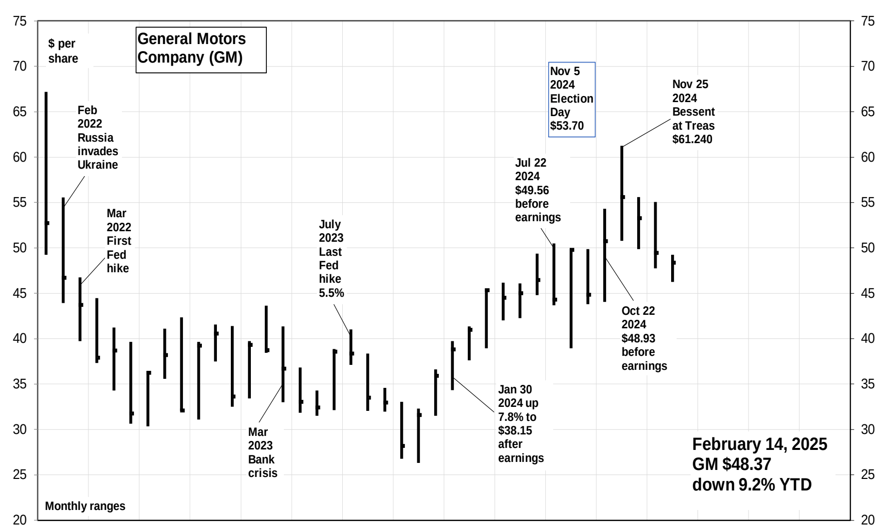


Investors were mostly bewildered by the long-awaited reciprocal tariffs announcement by the President Thursday which at least are "weeks and months away." These tariffs might be slightly inflationary in the short run, but in the long run the country will be better off producing the $3.3 trillion of imported goods right here in the USA, if hundreds of new factories can be built in a timely manner and any affordable, skilled workers can be found to run the factories given the slowing native-born population trend. We made up part of that last sentence, but the stock market went to a new high after Trump 2.0's remarks on Thursday perhaps on the weeks-months delay. The S&P 500 approached the January 24, 2025 record high of 6,128.18 on Friday, after -0.9% retail sales brought 10-yr yields as low as 4.45%, getting up to 6,127.47 at one point. Friday close S&P 500 +4.0% YTD, 10-yr 4.48%.

General Motors Company (GM) down 9.2% YTD

The stock dropped 8.9% to $50.04 on Tuesday, January 28 after earnings before the open. Net income hit by China JV restructuring. Last year the stock jumped to $61.24 on Monday, November 25 after Trump finalized Bessent as Treasury Secretary with the market hoping he would slow-walk the President-elect's tariffs, and prices fell 9.0% the next day Tuesday after Trump announced 25% tariffs on Mexico and Canada and 10% on China on Monday evening.

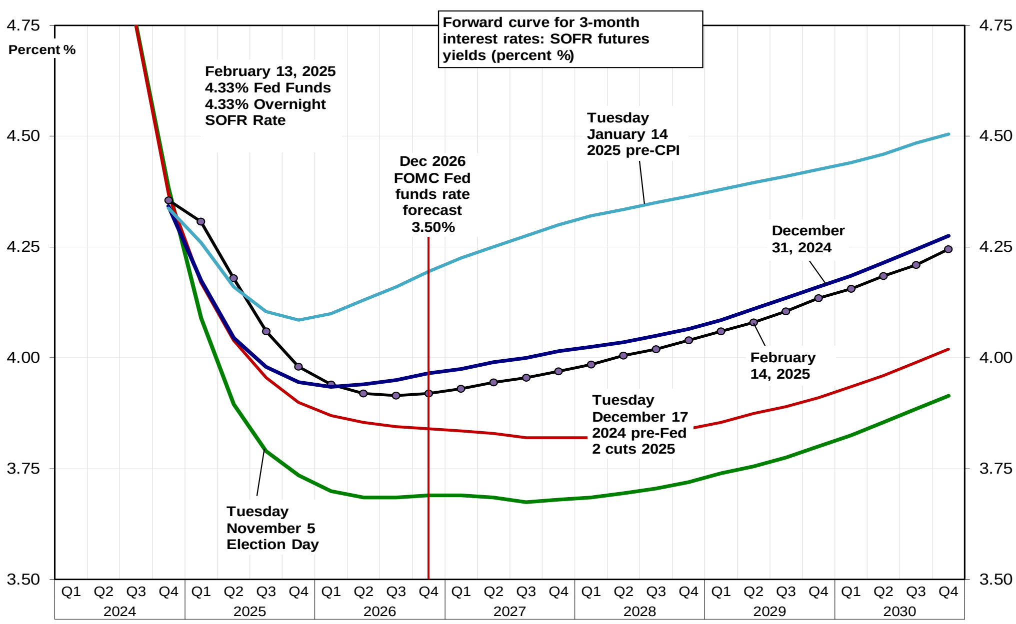
	Sales and	Net	US Vehicle Sales		
Mln $	Revenue	Income	US	Total	Share
Q4 2024	47,702	(2,961)	755	4323	17.5%
Q3 2024	48,757	3,056	660	3993	16.5%
Q2 2024	47,969	2,933	696	4195	16.6%
Q1 2024	43,014	2,980	594	3860	15.4%
Q4 2023	42,980	2,102	625	4021	15.5%
Q3 2023	44,131	3,064	674	4091	16.5%
Q2 2023	44,746	2,566	692	4227	16.4%
Q1 2023	39,985	2,395	603	3682	16.4%
			Vehicle sales 000s		



FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	12-Feb	5-Feb	29-Jan	22-Jan	3/11/20*	3/11/20
Factors adding reserves						to Feb 12
U.S. Treasury securities	4265.982	4265.944	4274.511	4274.563	2523.031	1742.951
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2217.559	2217.559	2217.559	2229.838	1371.846	845.713
Repurchase agreements	0.100	0.000	0.003	0.001	242.375	-242.275
Primary credit (Discount Window)	3.033	3.095	3.200	3.092	0.011	3.022
Bank Term Funding Program	0.195	0.197	0.213	0.247		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.910	1.920	1.925	1.940		
Main Street Lending Program	7.402	7.394	7.648	7.641		
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	0.073	0.076	0.078	0.105	0.058	0.015
Federal Reserve Total Assets	6864.8	6862.2	6868.7	6882.9	4360.0	2504.728
~~3-month Libor %~~ SOFR %	4.32	4.33	4.35	4.30	1.15	3.170
Factors draining reserves						
Currency in circulation	2350.536	2349.958	2349.125	2352.459	1818.957	531.579
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	809.154	817.953	811.549	665.485	372.337	436.817
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	67.670	78.788	121.842	123.981	1.325	66.345
Federal Reserve Liabilities	3609.347	3628.831	3668.047	3551.694	2580.036	1029.311
Reserve Balances (Net Liquidity)	3255.407	3233.328	3200.654	3331.196	1779.990	1475.417
Treasuries within 15 days	89.286	90.859	64.908	62.262	21.427	67.859
Treasuries 16 to 90 days	187.267	185.553	214.028	219.145	221.961	-34.694
Treasuries 91 days to 1 year	448.369	448.505	452.293	449.828	378.403	69.966
Treasuries over 1-yr to 5 years	1450.277	1450.261	1456.789	1456.811	915.101	535.176
Treasuries over 5-yrs to 10 years	549.210	549.206	545.659	545.665	327.906	221.304
Treasuries over 10-years	1541.573	1541.561	1540.835	1540.851	658.232	883.341
Note: QT starts June 1, 2022	Change	2/12/2025	6/1/2022			
U.S. Treasury securities	-1504.797	4265.982	5770.779			
Mortgage-backed securities (MBS)	-489.887	2217.559	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets March 18-19, 2025 to consider its monetary policy. With so much else going on, it was easy to forget Powell's Monetary Policy Report testimony, Tuesday at the Senate, Wednesday before the House. Easy to forget the questioning on are we in a recession, and as an American would you trade places with Germany in terms of the economy, or China or France? Powell was asked if he still believed his 2018 testimony where he said countries with free trade are more prosperous, and yes he replied, though noting that one very large country does not really play by the rules. One Senator was concerned about the Fed's balance sheet size which he implied had something to do with the inflation outbreak. Okay, was there anything in here that means something for 10-yr yields? Not much. On Day 2 at the House, there was one curious exchange where Powell said directly the reason they did not raise rates earlier was because they thought inflation was transitory. In terms of now, Powell also said he can't say what they might be doing in the fairly uncertain environment. He was asked what level of CPI would make them cut interest rates. [Core CPI at 830am Day 2 was 0.4%] He said they look at PCE inflation and would wait for PPI on Thursday to firm up their estimate for PCE inflation. This exchange made the market more sensitive to PPI this month, and part of the bond rally Thursday was thinking core PCE inflation would be just 0.2%, not the core CPI 0.4%, bringing down the year-on-year rate to 2.5% from where it is stuck now at 2.8%. Stay tuned.



Closer to coin-toss on a 25 bps rate cut is forecast in June 2025 with all but 10 bps of a rate cut discounted.

Fed funds futures call Fed policy		
Current target: February 14 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.495	Apr 2025	Mar 19
4.350	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: January PCE inflation report Friday, February 28														
Monthly	2025	2024										2024	2023	2023
% Changes	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov
Core CPI inflation	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3	0.4	0.4	0.4	0.3	0.3
Core PCE inflation		0.2	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
Core PCE YOY		2.8	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
Core CPI YOY	3.3	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

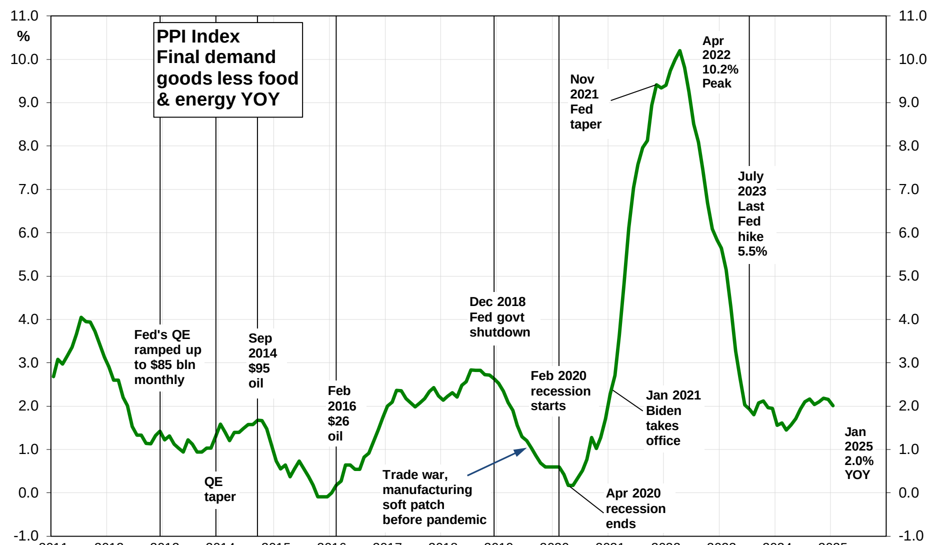
OTHER ECONOMIC NEWS

PPI inflation 0.4% too (Thursday)

Breaking economy news. January core CPI 0.4% yesterday, and 0.4% for PPI today. The two reports could indicate a January too-high 0.3% core PCE inflation reading on Friday, February 28. Core PCE monthly changes need to run 0.1 or 0.2 percent to bring inflation down to 2% target, which may be a lot to ask as this series runs in peculiar ways at times like when there was no core PCE inflation to speak of despite the roaring 5% GDP economy ahead of the 2000 stock market bubble. Anyway, old-fashioned PPI based on commodities rose just 0.1% for a second straight month and it remains quite low at a 2.0% year-on-year rate.

	PPI Final demand goods less foods/energy-- Monthly Percent Changes SA											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2024	0.3	0.3	0.0	0.3	0.3	0.1	0.2	0.2	0.1	0.2	0.2	0.1
2025	0.1											
	PPI Final demand goods less foods/energy-- Year/Year Percent Changes NSA											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2024	1.6	1.6	1.4	1.6	1.7	1.9	2.1	2.2	2.0	2.1	2.2	2.2
2025	2.0											

Net, net, another big jump this month for producer prices although most of the increase comes from food and energy prices. Consumers and businesses have to purchase food and energy goods so we cannot simply subtract these figures from inflation, but food and energy prices are more volatile and can go down as well as up. Moreover, it appears that a double-digit increase in diesel fuel was a reason for the rise of goods inflation this month. Old-fashioned PPI prices rose just 0.1%. On the other hand, final demand services prices increased due to a 5.7% rise in traveler services prices that consumers may eventually have to pay, but overall final services rose 0.3%. Stay tuned. Producer prices posted a moderate rise in January, but the outlook is worrisome if trade war import tariffs lead to shortages or higher prices for the goods that go into production in the months to come. Industries sent their factories overseas decades ago, and trying to bring them back in a hurry will be difficult if not impossible. America has changed in the last twenty years and roadblocks to bringing factories back to the U.S. quickly including worker availability and the higher costs of building a new manufacturing plant could prove to be insurmountable in the near term. If product shortages are on the way, the way for inflation is going to be higher and higher. Bet on it.



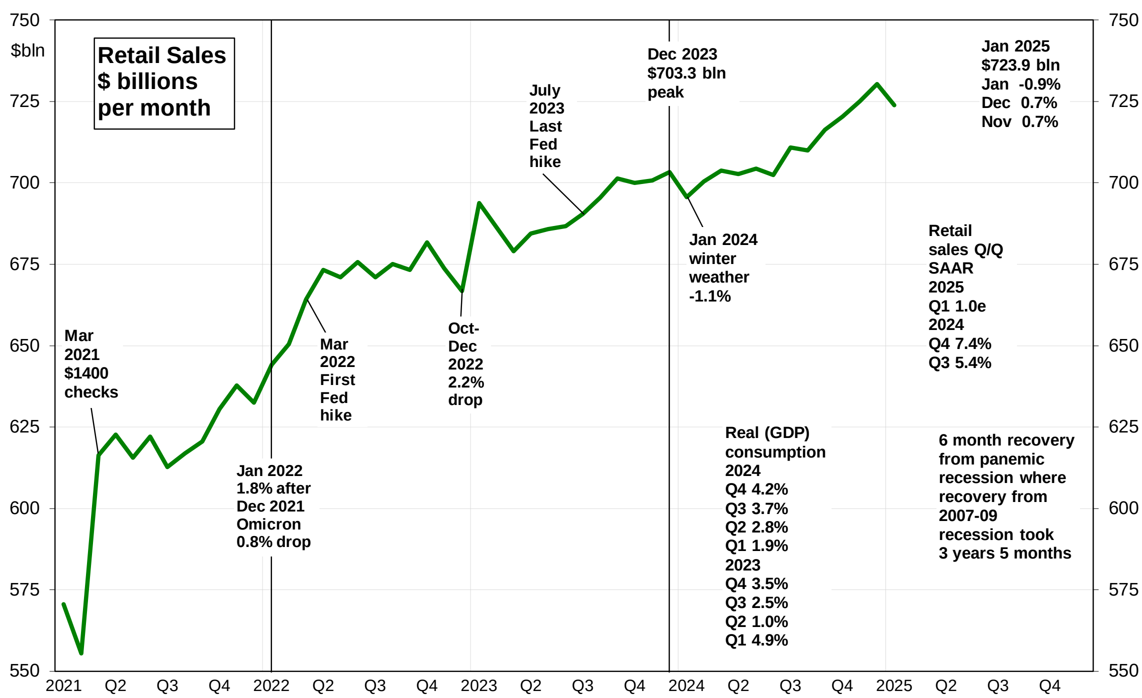
Retail sales take a cold plunge (Friday)

Breaking economy news. Retail sales tumbled 0.9% in January, similar to a 1.1% drop in January 2023 which also had colder than seasonal temperatures. Motor vehicles fell back a sharp 2.8% as had been roughly expected after the number of cars sold were released earlier this month. At least people are out enjoying themselves at bars and restaurants which increased 0.9%. Stay tuned. What follows are our more colorful real-time comments at the 830am release time which sent bond yields down and stocks just sat there.

Retail spending, actual dollars, each month

	$million Jan	% to Total	Percent Changes % Jan	Dec	Year/year
Total Retail Sales	723,853	100.0	-0.9	0.7	4.2
Motor vehicles/parts	139,262	19.2	-2.8	0.9	6.4
Furniture/furnishings	11,570	1.6	-1.7	1.9	3.7
Electronics/appliances	7,638	1.1	-0.7	0.1	0.0
Building materials/garden	40,133	5.5	-1.3	-1.6	0.7
Food & beverage	84,876	11.7	-0.1	1.0	3.8
Health/personal care	38,122	5.3	-0.3	0.2	4.9
Gasoline stations	53,207	7.4	0.9	2.1	2.0
Clothing/accessories	26,351	3.6	-1.2	1.1	1.4
Sporting goods, books	8,044	1.1	-4.6	3.2	-4.1
General merchandise	76,915	10.6	0.5	0.3	3.7
Department stores	10,911	1.5	0.8	0.2	-1.4
Miscellaneous retailers	15,598	2.2	0.2	4.2	5.8
Nonstore retailers (internet)	123,564	17.1	-1.9	0.6	4.7
Eating & drinking places	98,573	13.6	0.9	0.1	5.4
[Total ex-autos/gas]	531,384	73.4	-0.5	0.5	3.9

Net, net, the consumer is digging a big hole for the economy in the first quarter with retail spending plummeting. For the moment, workers look like they are caught in the crosshairs of the trade war and if any attempt was made to purchase goods before the looming tariff hikes it is hard to see it in today's retail sales report for January. Trade uncertainty or the colder than seasonal temperatures in January has literally frozen consumers in their tracks. The consumer put down their credit cards in the first quarter with retail sales falling 0.8% through January after over-the-top spending of 5.4% in Q3 2024 and 7.4% in Q4 2024. Too many big changes down in Washington has set consumers back on their heels. We will see if consumers reengage later on this year when the uncertainty lifts about the future direction of the economy.

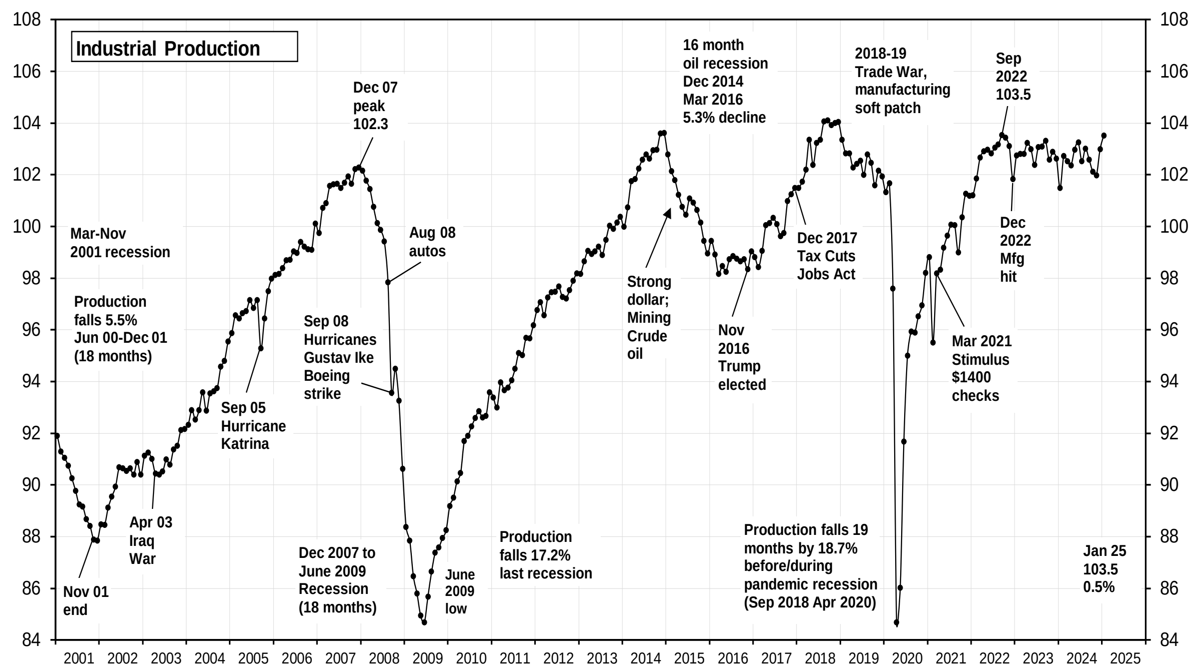


Industrial production up in cold weather (Friday)

Percent changes			Industrial Production January 2025		
Nov	Dec	Jan	YOY		Weight
-0.1	1.0	0.5	2.0	Total Index	100.0
0.2	0.5	-0.1	1.0	Manufacturing	75.1
-0.7	2.0	-1.2	3.4	Mining	14.2
-1.8	2.9	7.2	6.9	Utilities	10.7
			Manufacturing payroll jobs 12.8 million -105K YOY 9.4% of Private Payroll Jobs		

Breaking economy news. Industrial production rose 0.5% in January, but it was in positive territory thanks to the surge in utilities of 7.2% to heat homes in the cold winter conditions which is more than seasonal of course as these data are seasonally adjusted. Manufacturing industrial production fell 0.1% and is 1.0% higher than a year ago. The report said the aftermath of the Boeing strike still added 0.2 percentage point to total industrial production this month. Manufacturing was held back by the 5.2% drop in motor vehicles. Anyway, the two-month jump in total industrial production almost broke the pandemic recovery high back in September 2022.

Net, net, the modest decline in January shows manufacturing output isn’t rejoicing yet over the changes being proposed down in Washington and production won’t be going anywhere soon if the trade war leads our trading partners to fight fire-with-fire by putting up their own tariffs that limit the ability of U.S. manufacuturers to export their products overseas. Trade agreements are negotiatied and when one side pulls out, it is inviting retaliation by the other side. Trade tariffs are one reason a recession became the Great Depression back in the 1930s, and the reciprocal tariffs proposed by Washington may yet turn perfect 3% economic growth at the turnover of Administrations in January into negative growth later on this year. We worry over the direction the economy is heading as manufacturers are already complaining they cannot find skilled labor. The dream of returning to what American manufacturing was in the 1960s and bringing more factories back to the U.S. won’t work if companies cannot find the help they need to produce products for sale. As it stands in January 2025, there are 12.8 million manufacturing jobs in the country, down 101K from last year, and 9.4% of private nonfarm payroll jobs.



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