Financial Markets This Week

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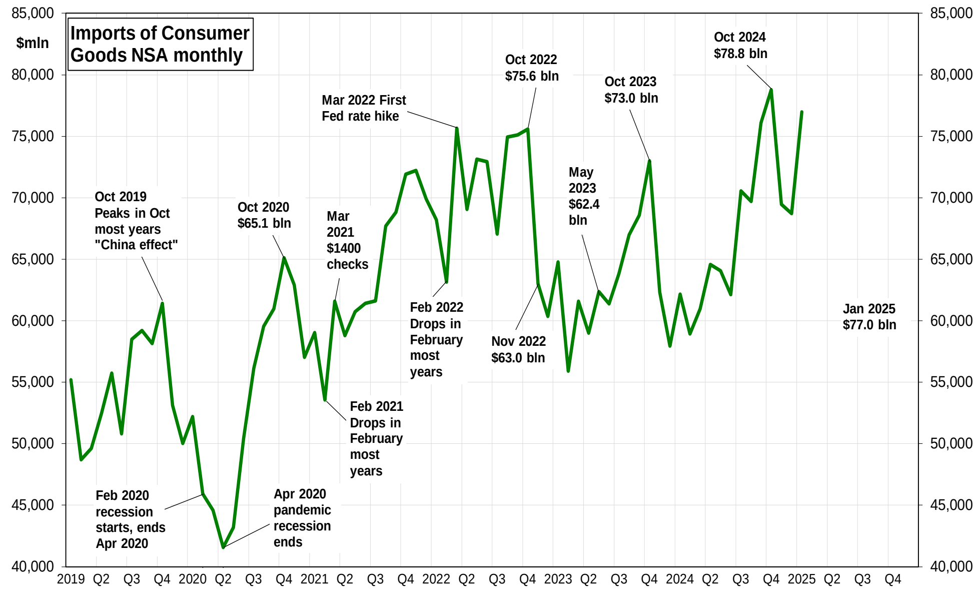
TOO MANY TARIFFS TO COUNT

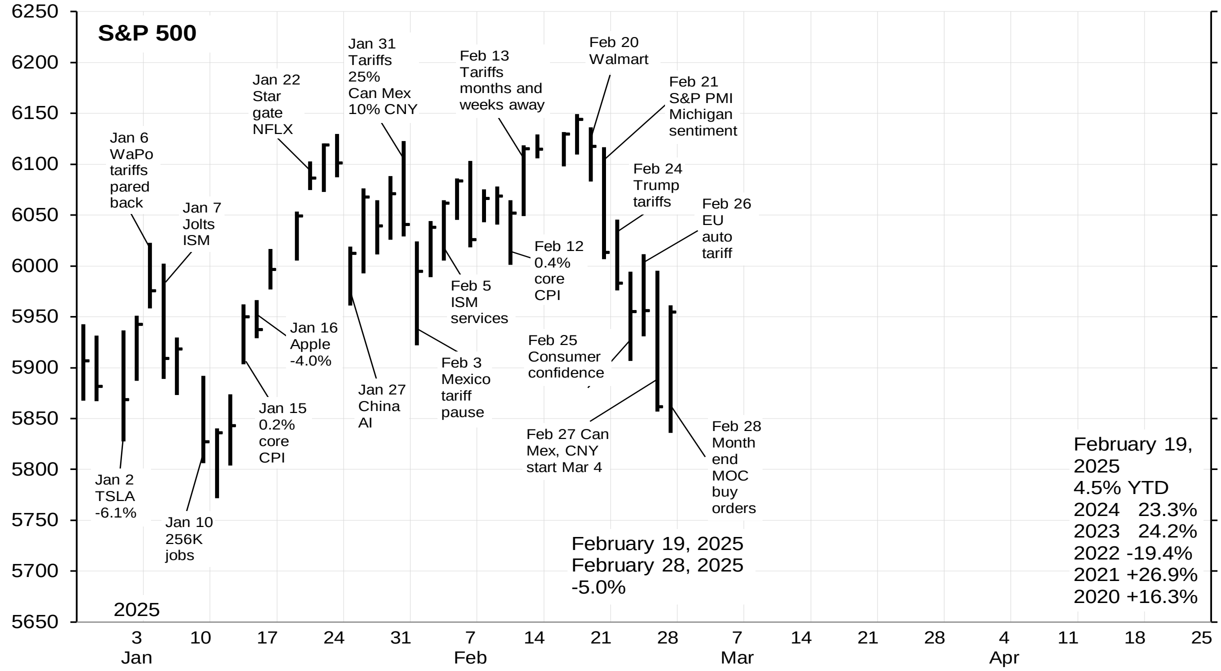


Markets are tired of tariffs just days before more are coming. I guess we still fail to understand these actions from Washington. These consumer goods imports from China are what Americans want to purchase. American companies went to China and asked their factories to produce the goods at a price far cheaper than can be produced in factories stateside. Where are the products going to come from if not from China? Consumer goods imports jumped 12% in January to $77.0 billion from $68.7 billion in December, a greater increase than seasonal, but it is less than $10 billion more if there is some serious attempt to avoid a tariff increase. Imports from China peaked at $536 billion in 2022 and are down to $438 billion in 2024. An extra 20% for tariffs on China would raise $80 billion which will come partly from manufacturer concessions and partly from higher prices consumers will need to pay. The biggest category is Cell phones and other, down to $64.1 billion last year from $78.4 billion in 2022. Other popular items in the press like cotton apparel is down to $5.5 billion in 2024 from $12.4 billion in 2018. Semiconductors were $2.6 billion in 2024 from $8.8 billion in 2018. TVs, well, there are not a lot of TVs coming in from China anymore as production, at least the parts, has moved elsewhere to be assembled. Stay tuned. The economy has never been turned upside down on purpose like this before by new untried Federal government policies. Whether the stock market can survive this change remains to be seen. One way or another, tariffs will be a shock for the economy.

U.S. Imports of goods from China

Billions of dollars	2018	2019	2020	2021	2022	2023	2024
Cell phones and other household goods	71.807	64.353	61.736	75.174	78.364	66.740	64.089
Computers	47.016	42.233	50.581	59.100	52.502	37.411	34.310
Toys, games, and sporting goods	28.154	26.375	27.634	39.492	41.325	32.295	30.807
Electric apparatus	16.021	12.725	11.427	15.626	22.115	23.858	26.407
Apparel, textiles, nonwool or cotton	25.049	24.385	34.392	24.270	24.751	19.604	20.336
Computer accessories	32.494	18.674	16.855	17.717	19.614	15.675	16.173
Other parts and accessories of vehicles	16.335	12.870	10.533	13.379	15.749	14.584	15.496
Household appliances	16.015	14.053	16.085	18.997	17.076	13.787	14.849
Telecommunications equipment	33.858	23.680	17.519	16.907	16.339	12.912	12.953
Furniture, household goods, etc.	22.625	16.809	14.093	17.404	16.760	11.713	12.031
Industrial machines, other	11.773	10.051	9.711	11.317	12.234	10.218	11.288
Cookware, cutlery, tools	7.914	8.326	8.852	10.984	10.926	8.903	10.152
Pharmaceutical preparations	2.960	2.622	3.392	4.812	11.782	7.231	9.211
Industrial supplies, other	9.616	8.157	7.745	8.956	9.589	7.973	8.455
Footwear	11.416	10.894	6.743	9.357	11.380	7.870	8.159
Photo, service industry machinery	10.751	9.513	8.632	9.795	9.807	7.281	7.922
sub-total	363.804	305.722	305.928	353.286	370.312	298.055	302.637
Total	538.514	449.111	432.548	504.246	536.259	426.885	438.947
Apparel, household goods - cotton	12.386	10.261	5.995	7.708	7.555	5.326	5.500
Televisions and video equipment	11.703	9.506	5.374	4.826	3.504	2.612	2.403
Semiconductors	8.834	4.640	3.317	3.573	4.243	2.983	2.617

INTEREST RATES



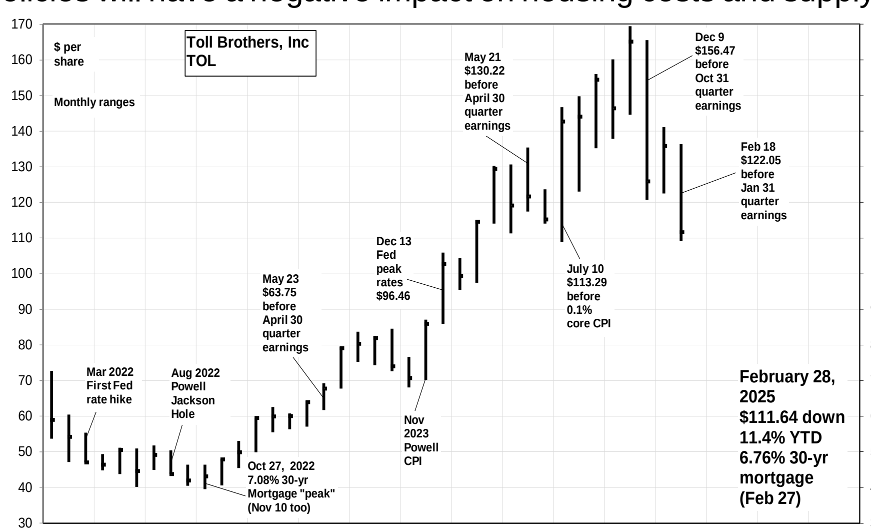
Stocks fell exactly 0.50% on Monday, down hard in the last ten minutes of trading, shortly after Trump said the tariffs on Mexico and Canada were still coming. Hope so. On Tuesday, consumer confidence fell and the S&P 500 eventually fell as much as 1.2% on the day. Bond yields opened lower Tuesday night and were 4.34% around 3am Tuesday when Bitcoin collapsed through $90,000; the reason was probably technical selling when the 4.40% resistance level broke. On Wednesday, around 1230pm Trump said 25% EU tariffs on autos were coming and stocks dropped from gains to losses. More Trump tariff news Thursday (Truth Social) at 847am sank the ship by the end of the day. Incredibly, all was forgotten with the huge moment-of-close buy orders 10 minutes before the closing on the final trading day of the month. S&P 500 down 1.59% Thursday, back up 1.59% Friday. Rigged game.

Toll Brothers, Inc. (TOL) down 34.1% from November 25, 2024 $169.52 peak

The homebuilder has dropped as much as 10.5% from $122.05 on Tuesday, February 18 when earnings were released after the bell. Earnings were less than expected. Higher mortgage rates have hurt, but the stock rallied 3.7% on Tuesday to $114.60 with 10-yr yields down to 4.3%. Home builders in general say tariffs and immigration policies will have a negative impact on housing costs and supply.

Quarter end	Home Sales $bln Revenue	Units	Home Starts	30-yr mortgage	Home Sales
10.31.22	3.580	3,765	872,000	7.08	577,000
1.31.23	1.750	1,826	834,000	6.13	639,000
4.30.23	2.490	2,492	876,000	6.43	687,000
7.31.23	2.670	2,524	999,000	6.81	700,000
10.31.23	2.950	2,755	975,000	7.79	673,000
1.31.24	1.930	1,927	1,011,000	6.69	664,000
4.30.24	2.650	2,641	1,037,000	7.17	736,000
7.31.24	2.720	2,814	861,000	6.78	707,000
10.31.24	3.260	3,431	943,000	6.72	623,000
1.31.25	1.840	1,991	993,000	6.95	657,000

Last month of quarter, 1 unit housing starts, new home sales

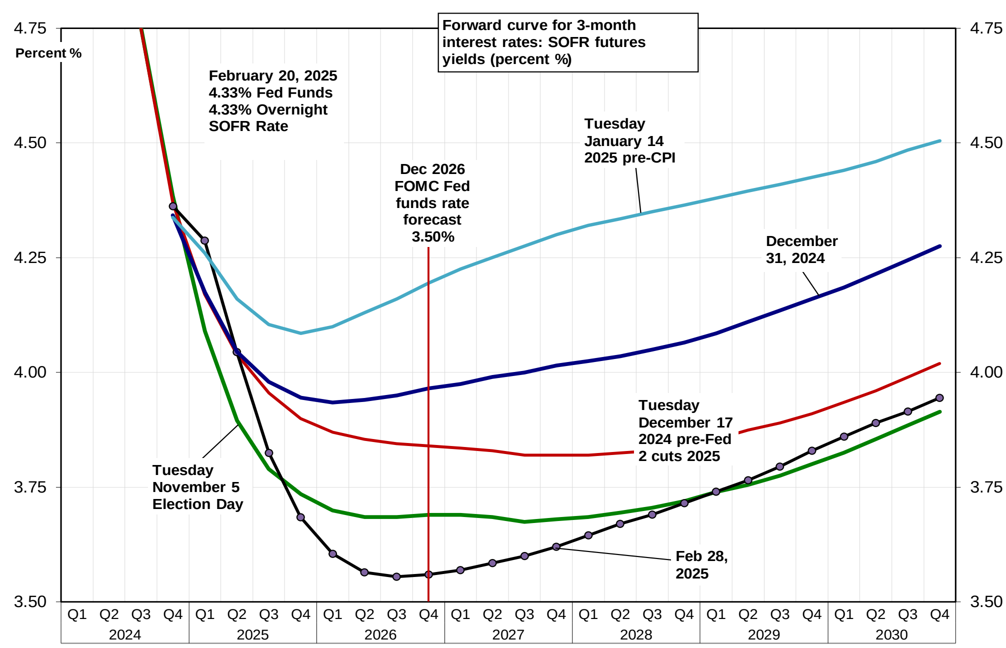


FEDERAL RESERVE POLICY

The Fed meets March 18-19, 2025 to consider its monetary policy. The focus is on the forecasts and whether those two 25 bps rate cuts this year get changed to three cuts maybe. Some slower economic data this week, and heck, the Atlanta Fed GDPNow forecast on Friday, after the morning's eco data, got revised down to -1.5% in the first quarter from a positive 2.3%. The GDP negativity was due mostly to the blowout trade deficit numbers in January after the advance report for goods were released Friday morning at the same time as the personal income report. Throughout it all, a June 25 bps Fed rate cut is fully discounted, a little more than last week when all but 5.5 bps was discounted. No criticism from the President for Fed officials yet perhaps as the Trump 2.0 focus is on 10-year yields rather than the Fed funds rate. The new Treasury secretary and others think more oil drilling and deregulation will bring down headline inflation and thus translate into lower bond yields. There are unlikely to be many Fed officials who see it that way, but they are likely glad to be off the hook for now.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	26-Feb	19-Feb	12-Feb	5-Feb	3/11/20*	3/11/20
Factors adding reserves						to Feb 26
U.S. Treasury securities	4251.338	4251.251	4265.982	4265.944	2523.031	1728.307
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2303.309	2217.572	2217.559	2217.559	1371.846	931.463
Repurchase agreements	0.097	0.000	0.100	0.000	242.375	-242.278
Primary credit (Discount Window)	3.342	3.234	3.033	3.095	0.011	3.331
Bank Term Funding Program	0.106	0.188	0.195	0.197		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.892	1.905	1.910	1.920		
Main Street Lending Program	7.331	7.324	7.402	7.394		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.096	0.091	0.073	0.076	0.058	0.038
Federal Reserve Total Assets	6816.7	6833.4	6864.8	6862.2	4360.0	2456.683
~~3-month Libor %~~ SOFR %	4.33	4.35	4.32	4.33	1.15	3.180
Factors draining reserves						
Currency in circulation	2356.013	2354.017	2350.536	2349.958	1818.957	537.056
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	568.550	738.938	809.154	817.953	372.337	196.213
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	126.058	73.196	67.670	78.788	1.325	124.733
Federal Reserve Liabilities	3435.954	3557.268	3609.347	3628.831	2580.036	855.918
Reserve Balances (Net Liquidity)	3380.755	3276.141	3255.407	3233.328	1779.990	1600.765
Treasuries within 15 days	49.773	62.103	89.286	90.859	21.427	28.346
Treasuries 16 to 90 days	228.750	217.322	187.267	185.553	221.961	6.789
Treasuries 91 days to 1 year	432.720	431.813	448.369	448.505	378.403	54.317
Treasuries over 1-yr to 5 years	1460.319	1460.303	1450.277	1450.261	915.101	545.218
Treasuries over 5-yrs to 10 years	531.262	531.257	549.210	549.206	327.906	203.356
Treasuries over 10-years	1548.514	1548.452	1541.573	1541.561	658.232	890.282
Note: QT starts June 1, 2022	Change	2/26/2025	6/1/2022			
U.S. Treasury securities	-1519.441	4251.338	5770.779			
Mortgage-backed securities (MBS)	-404.137	2303.309	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables					Long
	2024	2025	2026	2027	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					



A 25 bps rate cut is discounted in June 2025.

Fed funds futures call Fed policy		
Current target: February 28 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.480	Apr 2025	Mar 19
4.235	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: February CPI inflation report Wednesday, March 12

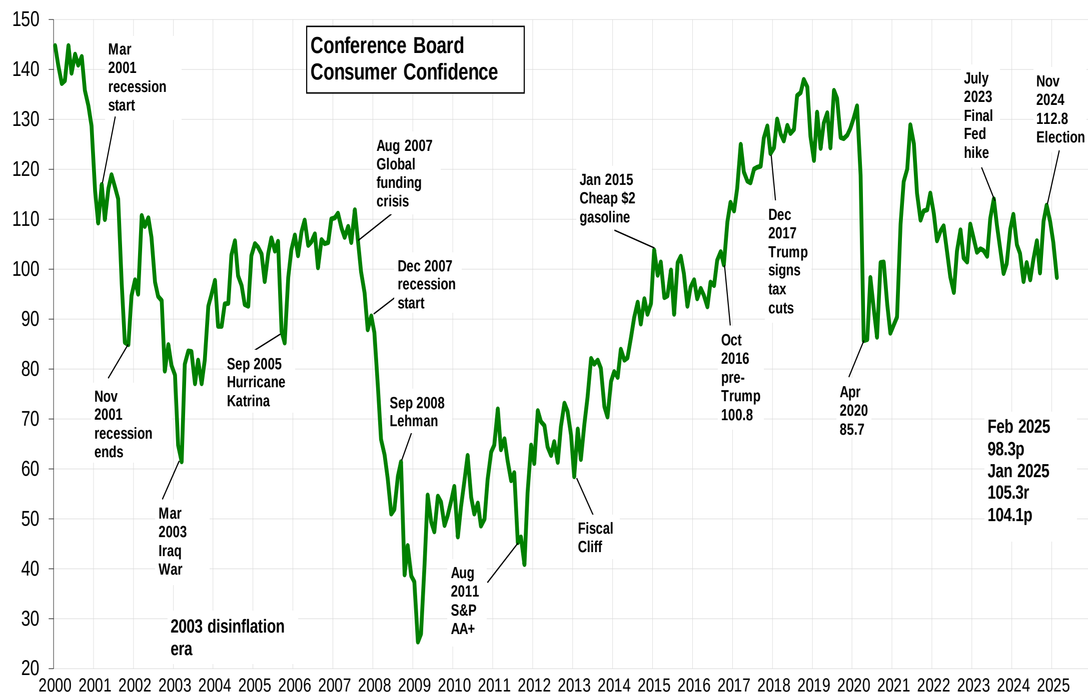
Monthly	2025	2024										2024	2023	2023
% Changes	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov
Core CPI inflation	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3	0.4	0.4	0.4	0.3	0.3
Core PCE inflation	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1
Core PCE YOY	2.6	2.9	2.8	2.8	2.7	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

Consumer confidence crash (Tuesday)

Breaking economy news. Consumer confidence fell 7 points to 98.3 in February. The biggest decline was for those between 35 and 55 years old. You know who you are. The cutoff date for the survey was February 19. Those saying jobs are hard to get moved up to 16.3% from 14.5%, although those saying jobs are plentiful remained little changed at 33.4% of consumers.

Net, net, the economy is about to have the rug pulled out from under it as Washington policies are causing a rapid loss of confidence on the part of consumers. The Administration can talk up tariffs until they are blue in the face, but it is falling on deaf ears apparently as Americans are increasingly pessimistic about the outlook. No Federal government has ever before threatened government workers with mass firings and it is starting to scare the daylights out of consumers. The economy could well ground to a halt in the first quarter of the year as consumers stay home. Yields in the bond market are tumbling as they smell recession in the air. The new Administration continues to misrepresent the good that will come from bringing factories back to American soil. We fail to see how Americans manufacturing T-shirts for Americans at factories here is a benefit if the T-shirts cost one hundred dollars each. Stay tuned. Story developing badly. The economy is coming in for a crash landing this year. Bet on it. The bond market is.



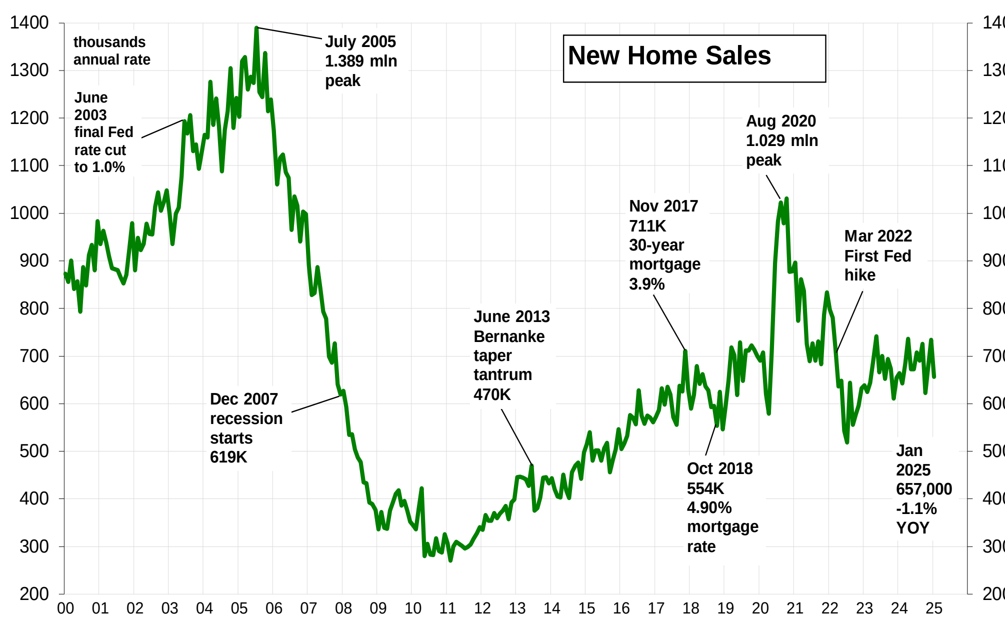
Another plunge for housing (Wednesday)

Breaking economy news. New home sales for January are consistent with the theme of a slowing economy at the start of the year. It does not look so bad on the chart here, the 10.5% drop for January to 657 thousand at an annual rate which is 1.1% lower than a year ago. New home sales were double this amount before the housing crash before the Great Recession when there were more single-family homes being built. Median new home prices jumped to $446,300 in January against the average of $419,700 in 2024. This series on home prices is one of the more erratic and prices in January are not that far above the averages from 2022-2024. The one-month peak was $460,300 in October 2022 for some idiosyncratic reason.

New Home Sales

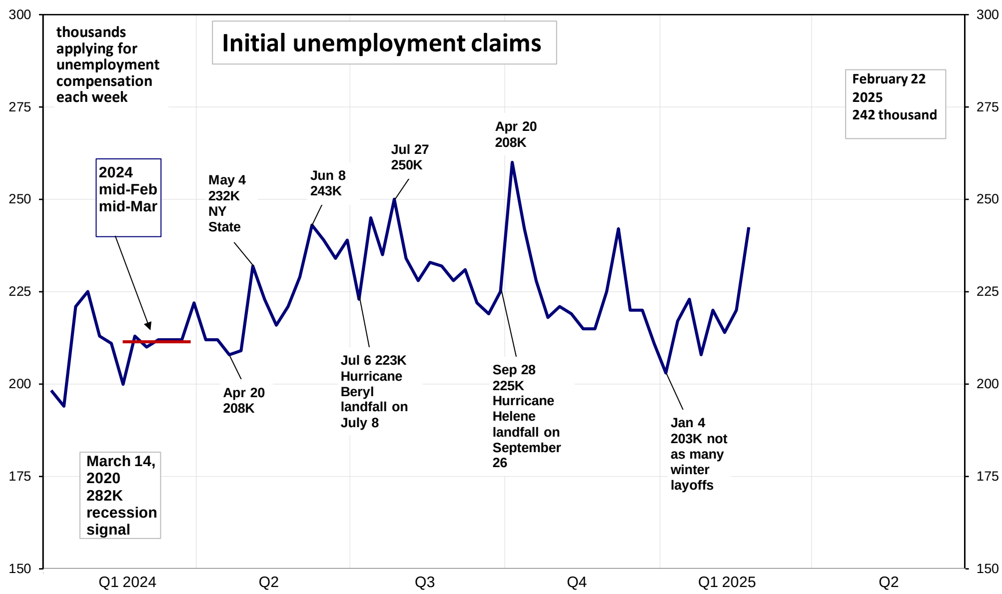
	Total	Northeast	Midwest	South	West	Median Price $
2022 Year	641	33	66	392	150	434,500
2023 Year	666	33	68	412	153	428,600
2024 Year	688	34	80	416	157	419,700
Oct 2024	623	41	75	361	146	426,300
Nov	679	26	89	435	129	396,400
Dec	734	35	84	460	155	415,000
Jan 2025	657	28	70	392	167	446,300
	Thousands at Seasonally Adjusted Annual Rate					

Net, net, the nation's housing sector has taken another warning shot across the bow with new home sales down sharply in January. There is a cold winter weather effect certainly, but markets are wondering if there is some more fundamental economic weakness story here as certainly mortgage rates remain stubbornly high and are not supportive in terms of homebuyer affordibility. The cold weather impact can be seen in the double-digit sales declines in the Northeast, Midwest, and South, while sales out West jumped 7.7% in January. New home sales are more recent than the existing home sales data as new home sales are recorded at the time of the sales contract. Stay tuned. Home builders have a lot of headwinds to consider as they do not regard the Trump 2.0 initiatives on import tariffs and immigration to be very business friendly in terms of the costs of building with raw material prices expected to go higher and the supply of labor for construction expected to go lower. Today's drop in new home sales is just one more piece of the puzzle and it is becoming clearer, the economic activity in the first quarter is off to a slow as molasses start. The stock market is rallying like crazy this morning after being beaten down in recent days, but investors ignore this latest weak economic data at their own peril.



Weekly layoffs jump, growth steady for now (Thursday)

Breaking economy news. Initial unemployment claims rose 22K to 242K in the February 22 week, and Federal employee filings were 614K in the February 15 week little changed from 613K the week before. Real GDP in the fourth quarter was unrevised at 2.3%.



Net, net, economic growth late last year held steady in the latest revision, but for how long is the million-dollar question as it looks like the mass firings in Washington might be infecting the rest of the labor market and leading to caution and belt-tightening at US companies. Job layoffs are up this week, and while there might be technical Presidents Day holiday reasons behind the jump, companies can read the writing on the wall and it looks like Federal government spending that supports many in the private sector is going to get yanked. Washington has warned of short-term pain from its radical moves to change how America does business and now it looks like the pain of joblessness has arrived early. If the Federal government is a business, then this is not how American companies run their businesses unless they are going out of business, running fire sales, shutting down operations and returning any money left to shareholders. Spending both public and private makes the economy go, and if Washington stops spending too quickly, the economy's forward momentum could be lost. Washington's stringent budget and spending policies risk a recession and this is before assessing the inflationary impact from import tariffs that will drive up costs and lead to shortages of goods in the short-run. Consumer confidence has taken a hit and it will only get worse. Stay tuned. Story developing badly.

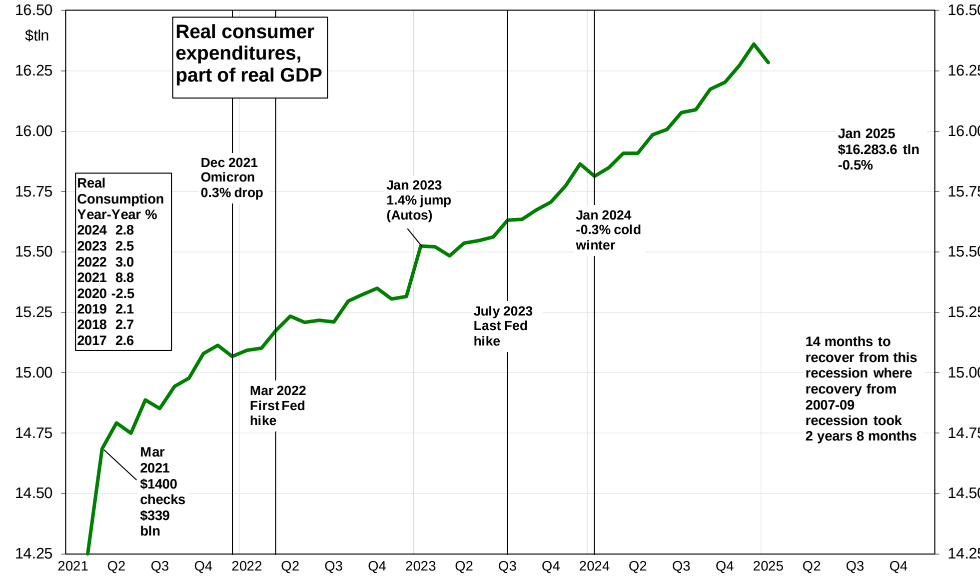
	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24p	Q4 24r
REAL GDP	4.4	3.2	1.6	3.0	3.1	2.3	2.3
REAL CONSUMPTION	2.5	3.5	1.9	2.8	3.7	4.2	4.2
CONSUMPTION	1.7	2.3	1.3	1.9	2.5	2.8	2.8
Durables	0.3	0.2	-0.1	0.4	0.5	0.9	0.9
Nondurables	0.4	0.5	-0.1	0.2	0.6	0.5	0.4
Services	1.0	1.6	1.6	1.3	1.3	1.5	1.5
INVESTMENT	1.8	0.2	0.6	1.5	0.2	-1.0	0.2
Business Plant	0.1	0.2	0.2	0.0	-0.2	0.0	0.0
& Equipment and	-0.1	0.0	0.0	0.5	0.5	-0.4	-0.5
Intellectual Property	0.2	0.3	0.4	0.0	0.2	0.2	0.0
Homes	0.3	0.1	0.5	-0.1	-0.2	0.2	0.2
Inventories	1.3	-0.5	-0.5	1.1	-0.2	-0.9	-0.8
EXPORTS	0.5	0.7	0.2	0.1	1.0	-0.1	-0.1
IMPORTS	-0.6	-0.6	-0.8	-1.0	-1.4	0.1	0.2
GOVERNMENT	0.9	0.6	0.3	0.5	0.9	0.4	0.5
Federal defense	0.2	-0.1	-0.1	0.2	0.5	0.1	0.2
Fed nondefense	0.1	0.0	0.1	0.0	0.1	0.1	0.1
State and local	0.6	0.6	0.3	0.3	0.3	0.2	0.2

Below line: Percentage point contributions to Q4 2024 2.3% real GDP

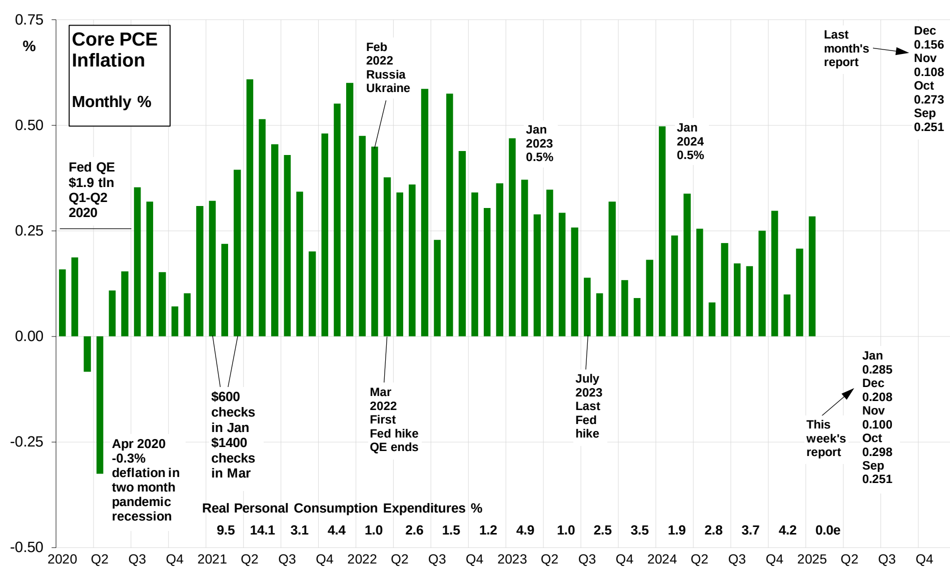
Third estimate for Q4 is Thursday, March 27

Good news, bad news January personal income report (Friday)

Breaking economy news. Personal income report for January. At least inflation was not as bad with core PCE inflation rising 0.3% (0.285) after big jumps to start the year in January 2023 and January 2024. The year-on-year rate fell to 2.6% after the December rate was revised up a tenth to 2.9%. Real consumption expenditures fell 0.5% in January with the weather, and with two more months yet to go, real consumer spending is running just 0.1% in Q1 2025 after Q4 2024's huge 4.2% jump.



Net, net, the good news is consumer inflation broke the curse of the January effect where the last two Januarys saw a big 0.5% jump in core PCE inflation that unnerved both markets and Fed officials. The bad news is consumers are scrambling to process the winds of change coming out of Washington and have apparently decided to sit it out and wait, as real consumption expenditures are running flat in the first quarter, and we mean not flat out, but simply flat, no change or zero. Trump 2.0's introduction of tariffs has accelerated in February and with the announcement of new tariffs coming in March for America's biggest trading partners of China, Mexico, and Canada, there is likely to be no economic growth at all in the first quarter. There is literally nowhere for consumers to hide and most will be collateral damage in the Trump 2.0 trade wars. Wealthier consumers have been carrying the load for economic growth, but how long this will continue remains to be seen as now the Administration is coming for their Audis, BMWs, and Mercedes vehicles many of which are exported from Europe and with 25% tariffs coming, it will be a much more expensive proposition. It took three decades for US imports of foreign goods to reach these heights, and if the Administration tries to suddenly shut it all down, the US economy could be facing a collapse of historic proportions. This is the first Administration to risk recession and joblessness for a feckless, untried economic idea ever. No good will come of bringing factory jobs back for American workers if higher inflation means they cannot afford to buy anything.



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