Financial Markets This Week

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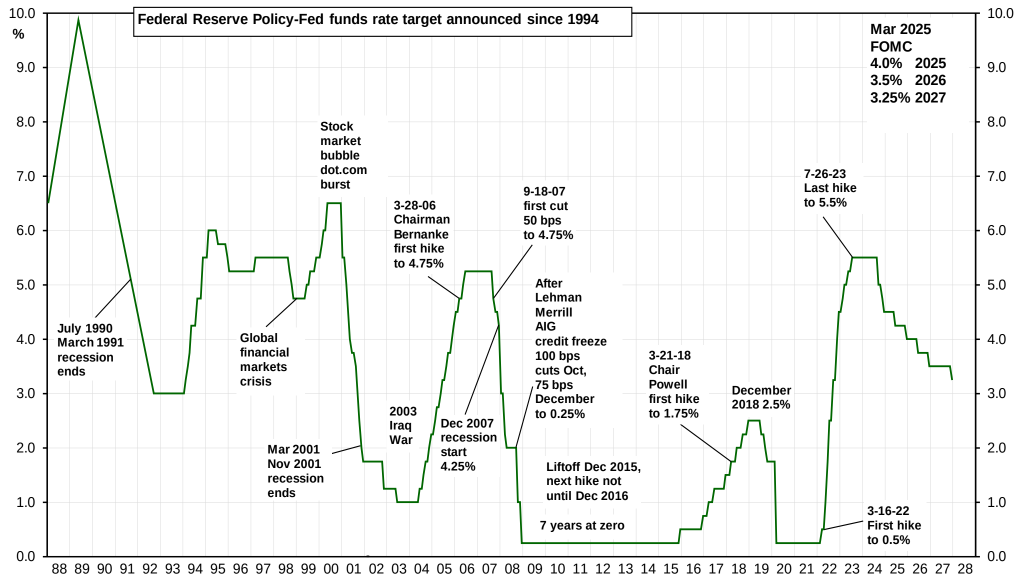
MARCH FED MADNESS



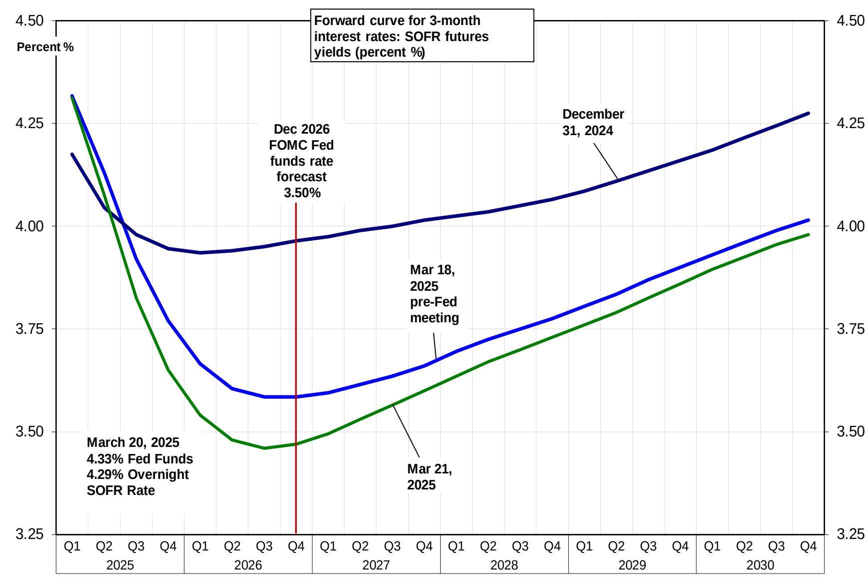
We don't know if it was March madness exactly, but if there are risks of upsets and uncertainty ahead for the economy, maybe the best thing is to do nothing. Fed officials left the interest rate forecast unchanged over the next few years at this week's meeting. Powell told the world all about it at the Wednesday, March 19, 2025 2:30pm [press conference](). The incoming Administration's policies, now lumped together by Powell as "trade, immigration, fiscal policy, regulation" has created uncertainty and it may be months before the final results of these actions and changes show up in actual hard data (GDPNow -1.8% Q1 2025 forecast notwithstanding). Asked why the Fed still sees two rate cuts this year, Powell more or less implied policymakers just did not make a change because they did not know the road ahead. Pressed on this again, he said the weaker growth risks canceled out the chance for higher inflation. (And thanks again to Powell for giving the Fed's forecast for February core PCE inflation on Friday, March 28, after using CPI "and other data;" it is back to 2.8% year-on-year from 2.6% year-on-year in January.) The Fed forecasts for GDP this year came down to 1.7% from 2.1% in the December forecast. Offsetting policywise is core PCE inflation moving up to 2.8% by the end of 2025 from the December FOMC forecast of 2.5%. Small changes of a few tenths or so. Basically they do not have a lot of confidence, but reading between the lines Fed officials worry that Trump 2.0 could mean slower growth and more inflation. No one else does certainly. They're the only ones.

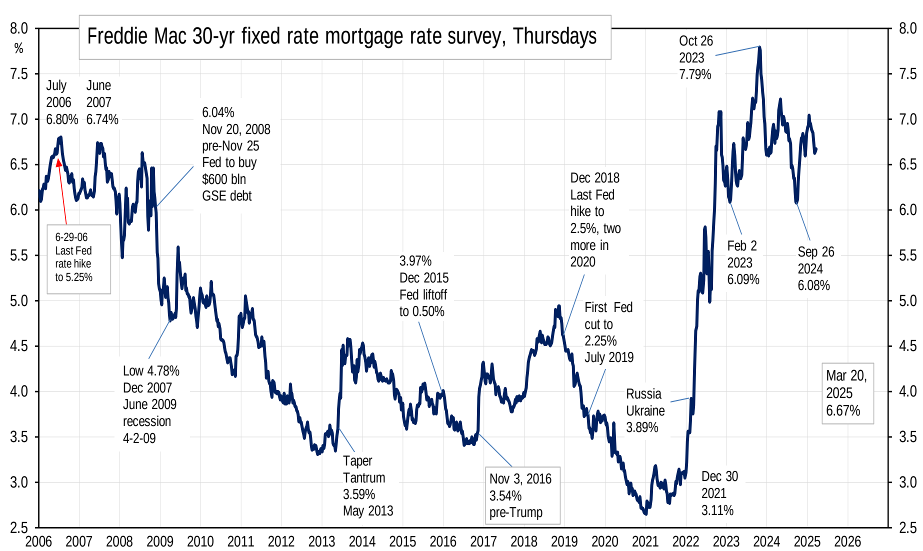
Meeting	Fed Policy-key variables	2025	2026	2027	Long Term
Mar	PCE inflation	2.7	2.2	2.0	2.0
Dec	PCE inflation	2.5	2.1	2.0	2.0
Mar	Core inflation	2.8	2.2	2.0	
Dec	Core inflation	2.5	2.2	2.0	
Mar	Unemployed	4.4	4.3	4.3	4.2
Dec	Unemployed	4.3	4.3	4.3	4.2
Mar	GDP	1.7	1.8	1.8	1.8
Dec	GDP	2.1	2.0	1.9	1.8

Fed Individual Forecasts				
Fed funds rate at year-end				Longer
Votes	2025 End	2026 End	2027 End	run
1	3.625	2.875	2.625	2.500
2	3.625	2.875	2.625	2.500
3	3.875	2.875	2.875	2.625
4	3.875	3.125	2.875	2.625
5	3.875	3.375	2.875	2.875
6	3.875	3.375	3.125	2.875
7	3.875	3.375	3.125	2.875
8	3.875	3.375	3.125	2.875
9	3.875	3.375	3.125	3.000
10	3.875	3.375	3.125	3.000
11	3.875	3.375	3.125	3.000
12	4.125	3.375	3.375	3.125
13	4.125	3.375	3.375	3.375
14	4.125	3.625	3.625	3.500
15	4.125	3.625	3.625	3.500
16	4.375	3.875	3.625	3.625
17	4.375	4.125	3.625	3.625
18	4.375	4.125	3.875	3.750
19	4.375	4.125	3.875	3.875
Median	3.875	3.375	3.125	3.000
Meeting	Mar 25	Mar 25	Mar 25	Mar 25

In summary, Fed policymakers are like deer frozen in the blaring headlines of policy announcements by the incoming Administration that is hellbent on turning the world upside down in terms of altering long-established patterns of trade with America's allies, along with a virtual halt to immigration that will affect labor supply and potential GDP growth negatively, reducing Federal government regulations and red-tape, and radical budget-busting fiscal policy changes still to be determined. There is no need to change the forecast for interest rates until the uncertainty cloud lifts. The first 60-odd days (sic) of the Trump administration have confused everyone and have turned the all-knowing experts in monetary policy down in Washington into all-guessing central bankers.

The only change in monetary policy this week was dropping the QT wind down of Treasury securities from $25 billion to just $5 billion per month. One thing this will do is make it easier to finance the Federal budget deficit as QT adds to the billions of red ink from outlays greater than tax receipts. At the worst point, Fed QT was $720 billion per year which is significant as it would add to the burden of financing in the markets given the FY 2024 Federal budget deficit of $1.832 trillion for example. The Fed cut the annual rate of QT previously to $300 billion starting June 1, 2024, and now this week, they dropped QT to a nominal $60 billion per year. Maybe DODGE had some input on this week's decision. We are already hearing DOGE wants to combine the Minneapolis and Chicago Federal Reserve regional districts to save taxpayer dollars and pay down the [$36 trillion national debt.](#) Stay tuned.

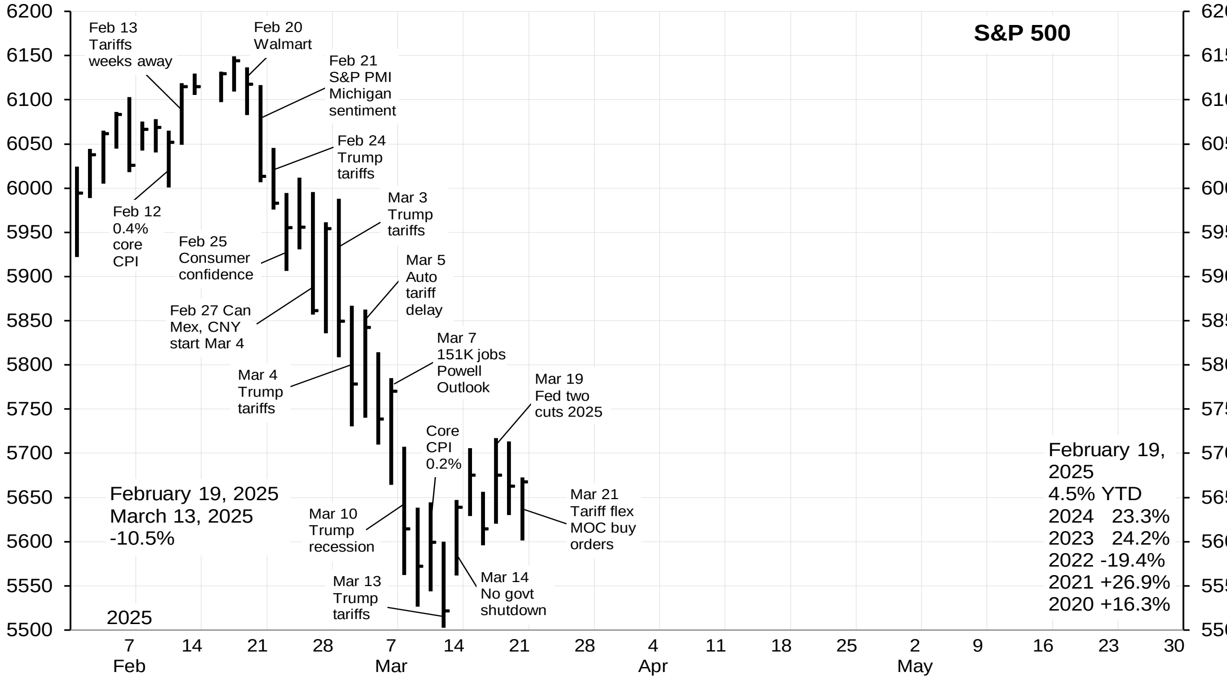




It did not take long. President could not resist taking aim at the Fed with a post after the meeting. Does make one wonder who Trump 2.0 will choose to replace Trump 1.0 pick Powell.

"The Fed would be MUCH better off CUTTING RATES as U.S. Tariffs start to transition (ease!) their way into the economy," Trump wrote. "Do the right thing. April 2nd is Liberation Day in America!!!"

INTEREST RATES

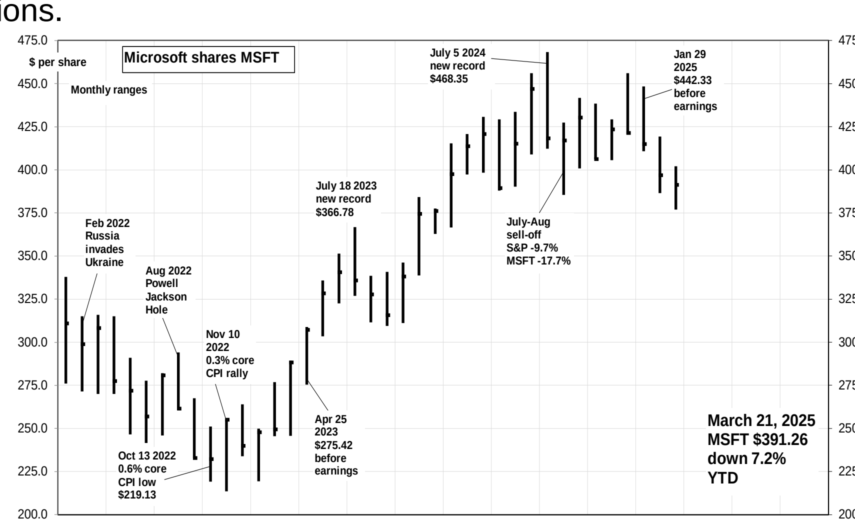


We would like to go back to a bond chart, but nothing is happening. No change in Fed rate forecasts: they still see a neutral rate of 3% which means when the curve normalizes to a positive slope, then the 10-yr yield will still be 4.25% if they drop rates 150 bps to 3.0%. No recession, then no chance for even lower Fed rates than 3%; 10-yr yields were 3.6% last September on market recession fears. No new recession fears despite the early Trump 2.0 policies, but it is early days yet. Stocks rallied on retail sales on Monday (0.2% Feb, -1.2% Jan) unclear why. High for week was during Powell press conference. Consumers/businesses report tariffs are the reason behind their higher inflation fears, but the market heard Powell say it could be the case that the tariff inflation effect will be only temporary. At the end of the week, markets heard Trump say the word flexibility about tariffs. 10-yr closes 4.26%

Microsoft (MSFT) down 7.2% YTD

The stock has fallen by about 6% the day after the last two quarterly earnings reports. Microsoft is dropping with the overall Trump 2.0 market sell-off on tariffs and massive government layoffs, but the original decline started with calendar Q4 earnings. The company said Cloud and AI drove the results, but investors did not like the growth in Azure cloud computing services and the guidance for the Q1 2025 calendar quarter missed expectations.

Calendar Year Mln $	Revenue	Productivity Business Processes	Intelligent Cloud	More Personal Computing
Q4 2024	69,632	29,437	25,544	14,651
Q3 2024	65,585	28,317	24,092	13,176
Q2 2024	64,727	28,627	23,785	12,315
Q1 2024	61,858	27,113	22,141	12,604
Q4 2023	62,020	25,854	21,525	14,641
	Income	Processes	Cloud	Computing
Q4 2024	31,653	16,885	10,851	3,917
Q3 2024	30,552	16,516	10,503	3,533
Q2 2024	27,925	15,706	9,835	2,384
Q1 2024	27,581	15,143	9,515	2,923
Q4 2023	27,032	14,515	9,555	2,962



OTHER ECONOMIC NEWS

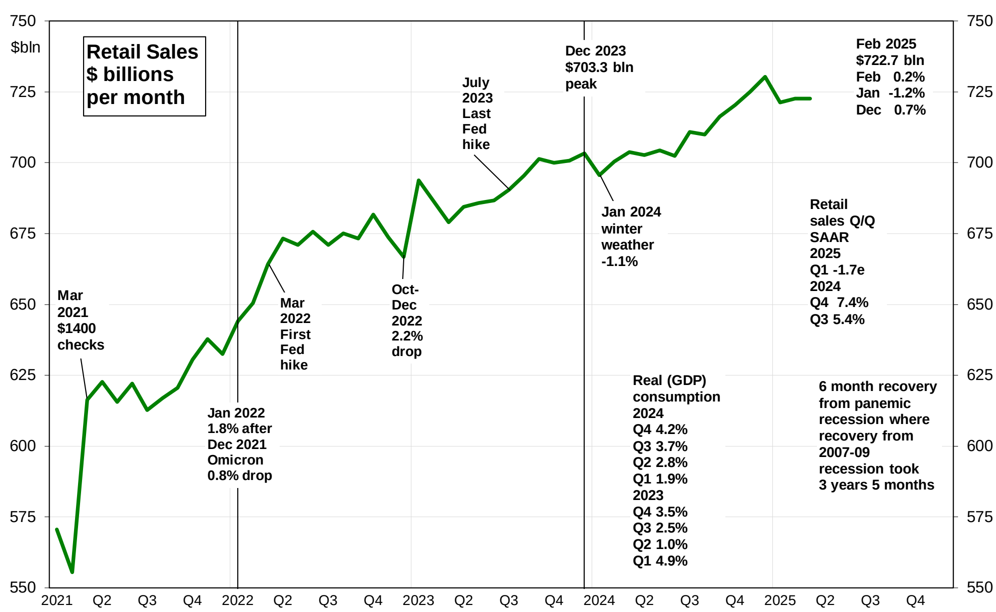
Consumer cautious (Monday)

Breaking economy news. February retail sales rebounded less than expected from a cold January plunge. The January 0.9% drop is now down 1.2% and sales increased just 0.2% in February. After the handover from the Biden economy in Q4 2024 with quarterly SAAR growth of 7.4%, retail sales are falling 1.7% on the same basis in the first quarter of 2025 with one more month of data to go. There is a cold weather effect still for February with bars and restaurant sales down, but if this keeps up it will be the weakest quarter for consumption since Q3 2021.

Retail spending, actual dollars, each month

	$million	% to	Percent Changes %		
	Feb	Total	Feb	Jan	Year/year
Total Retail Sales	722,708	100.0	0.2	-1.2	3.1
Motor vehicles/parts	138,041	19.1	-0.4	-3.7	3.1
Furniture/furnishings	11,655	1.6	0.0	-1.2	5.5
Electronics/appliances	7,544	1.0	-0.3	-1.1	-5.3
Building materials/garden	40,106	5.5	0.2	-1.9	-0.7
Food & beverage	85,123	11.8	0.4	-0.1	3.9
Health/personal care	38,627	5.3	1.7	-1.1	6.7
Gasoline stations	52,845	7.3	-1.0	1.3	-0.3
Clothing/accessories	26,368	3.6	-0.6	-0.7	1.0
Sporting goods, books	8,138	1.1	-0.4	-3.1	-3.0
General merchandise	77,303	10.7	0.2	0.5	3.4
Department stores	10,702	1.5	-1.7	0.8	-3.9
Miscellaneous retailers	15,765	2.2	-0.3	0.8	5.0
Nonstore retailers (internet)	125,702	17.4	2.4	-2.4	6.5
Eating & drinking places	95,491	13.2	-1.5	0.0	1.5
[Total ex-autos/gas]	531,384	73.5	0.5	-0.8	3.5

Net, net, retail spending barely had a heartbeat in February as the Washington chaos from unprecedented firings to uncertainty over the on-again, off-again trade tariffs kept the consumer at home too afraid to venture out into a world that has been single-handedly turned upside down. The consumer is in retreat and that is never a good thing for the economy as their expenditures count for two-thirds of GDP. Federal government spending is being slashed and with the consumer sitting at home, real economic growth is slowing to the stall speed and in fact could go negative in the first quarter. President Bush started off his term in office with a recession over two decades ago and the way this is going, Trump 2.0 economic policies could also be the final nail in the coffin that sends the economy over the ledge. The only thing good about this weak economy report is that it means the Federal Reserve may need to spring into action with rate cuts to save a sinking ship earlier than markets had anticipated. The consumer is cautious and for good reason. For the economy, the worst may be yet to come. Bet on it.



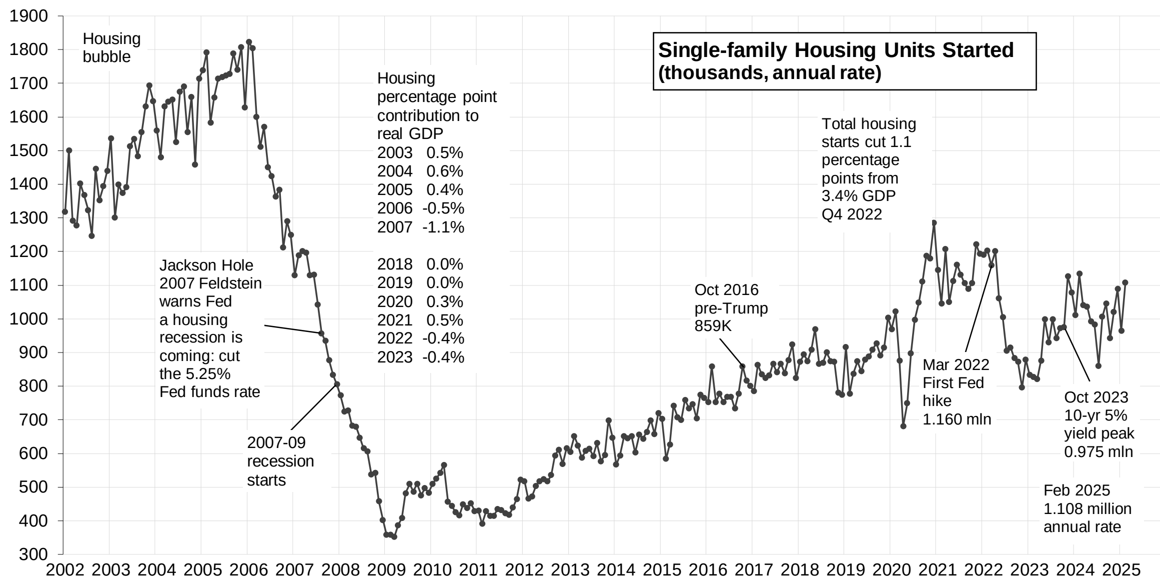
Housing starts soar for now, production too (Tuesday)

Breaking economy news. February housing starts rebounded 11.2% following the January cold weather drop. Permits have been more stable. Single family homes started in February are the highest since early 2024 if the numbers can be believed. The calm before the tariff storm like most of the economy perhaps.

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
Feb 2025	1501	1108	370	143	84	133	99	815	647	410	278
Jan 2025	1350	995	330	97	48	177	133	689	541	387	273
Feb 2024	1546	1134	396	119	82	239	152	863	669	325	231
% Chgs											
Feb/Jan	11.2	11.4	…	47.4	75.0	-24.9	-25.6	18.3	19.6	5.9	1.8
Feb/Feb	-2.9	-2.3	…	20.2	2.4	-44.4	-34.9	-5.6	-3.3	26.2	20.3

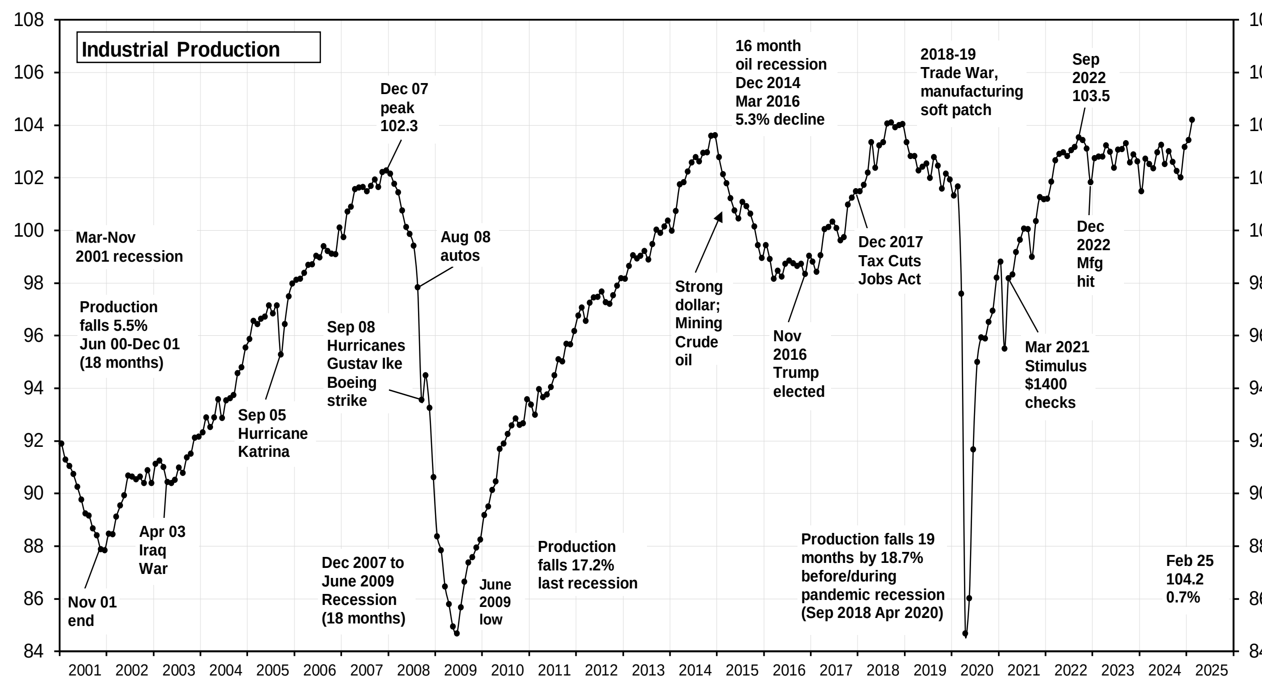
Net, net, new residential housing construction soared in February for single-family units as the rebound from the severe winter weather combined with the uncertain economic outlook ahead made builders move their plans forward to beat the higher costs coming from import tariffs and the restricted supply of labor given the Administration's policy on migration. Homebuilder sentiment is tumbling and today's jump in starts could be the highwater mark for the year for new home starts. The midwest seemed to be battered by a second month of adverse winter weather with one unit starts tumbling 25.6% in February, where many of the increases in other regions across the country look to be



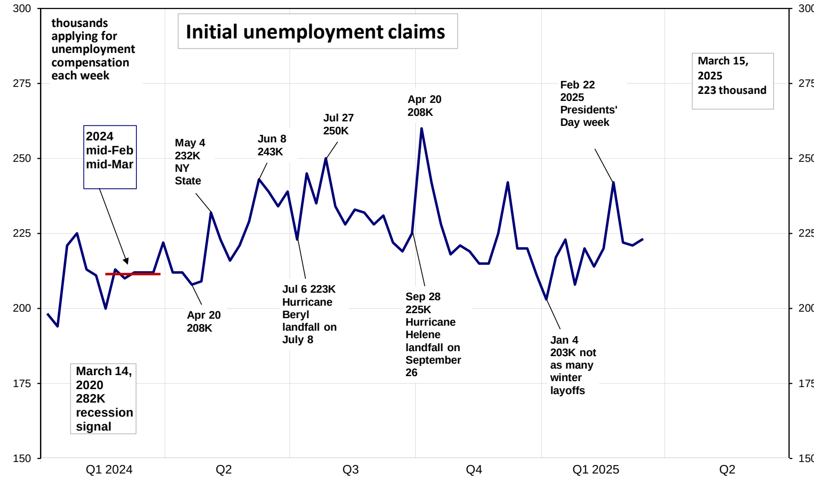
unsustainable given the unfavorable business climate for builders from looming tariffs that will boost the cost of construction materials such as lumber and metal brackets. Single-family starts jumped 19.6% in the South and 75.0% in the Northeast. Stay tuned. Home builders are normally upbeat as a whole, but higher costs from labor shortages, mortgage rates, and cost of building materials is making them cautious about breaking ground on new projects in the future. Consumer sentiment is plummeting and so too will be the willingness to make the biggest purchase of their lives which is a new home.

Percent changes			Industrial Production February 2025		
Dec	Jan	Feb	YOY		Weight
1.1	0.3	0.7	<u>1.4</u>	<u>Total Index</u>	<u>100.0</u>
0.5	0.1	0.9	0.7	Manufacturing	74.8
1.9	-3.2	2.8	0.0	Mining	14.4
4.6	6.1	-2.5	8.7	Utilities	10.9
			Manufacturing payroll jobs 12.8 million -88K YOY 9.4% of Private Payroll Jobs		

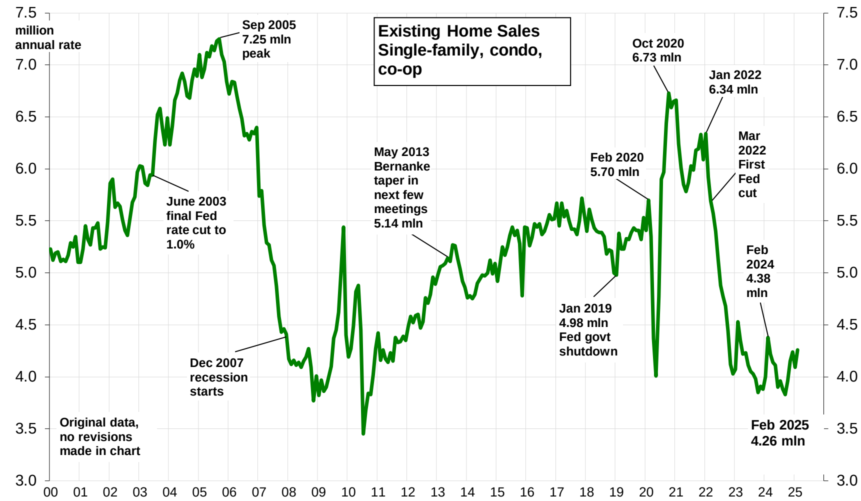
At 915am we received the Fed's industrial production index which looks like it has picked up after Trump's election in November, almost like it did in Trump 1.0 in November 2016. The problem is that December and January were energy production related due to the weather; utilities are up 8.7% year-over-year in February which is unusual and should revert. Manufacturing production did rise in February but a lot of this was auto related, and with car sales down from the fourth quarter, it does not look like automakers are ramping up to meet stronger consumer demand for their products. Stay tuned. Industrial production soared in February, but don't get used to it. The economy is not taking off on bullish sentiment on the part of corporate CEOs. None of the economic reports today are tariff-free, in fact, avoidance of the imminent tariff threat to the costs of production and building is the common theme. Build cars and houses while you can today because tomorrow, the cost of raw materials is going to skyrocket assuming that looming shortages mean you cannot even buy what you need. The economy is swiftly losing momentum here and if Washington does not change course on many of its business-unfriendly proposals and initiatives, the odds of an economic recession could shift from a risk to a reality in a hurry.



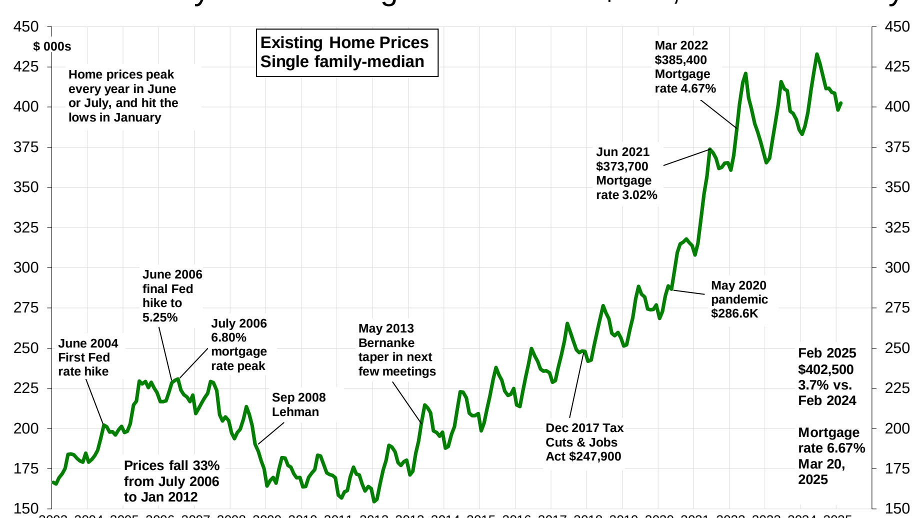
Jobless claims existing home sales (Thursday)



Job layoffs were steady this week despite the unsteady daily headlines of major economic changes emanating from Washington. Plenty of unnerving headlines of cost-cut job eliminations for Federal government workers, but Federal worker filings actually eased off slightly to 1,066 in the March 8 week from 1,580 the week before and 365 in the same week a year ago. No sign of Washington worker woes spreading to private sector workers in nearby locales either, thinking of Maryland, Virginia, and of course the District of Columbia. Stay tuned. There is talk in the markets of recession lurking around every corner as the tariff threats continue to ramp up, but it is all smoke and no fire for now as there has not been any spike in job layoffs yet with weekly jobless claims barely changed at a low, non-recession level of 223K for the March 15 week. The jump in initial unemployment claims to the 280 thousand level in March 2020 was the signal of recession during the pandemic. The news headlines are very unsteady but the labor market remains solid as a rock for now.



At 10am, existing home sales were released for February. The troubles emanating from Washington did not seem to keep existing home sales down in February. Sales rebounded in February from a sharp fall-off in January down in the South from the colder winter temps, and a large decline in the West possibly related to the LA fires. Single-family home prices have begun their seasonal move higher into the spring/summer after hitting the winter doldrums nadir point of $398,100 in January and climbing back 1.1% to $402,500 in February.



The housing price bubble shows no sign of deflating anytime soon, and if the Trump 2.0 policy goals of debt reduction and the lowering of oil prices lead to lower mortgage rates, then the property market could improve strongly later this year. The latest wrinkle is that the President is back to calling on the Federal Reserve to cut interest rates to help offset the temporary harmful effects from higher import tariffs. Policymakers betting the President would stop his pattern of criticism from the Trump 1.0 days, are likely to be disappointed as Fed officials are back on the firing line. Stay tuned.

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