Financial Markets This Week

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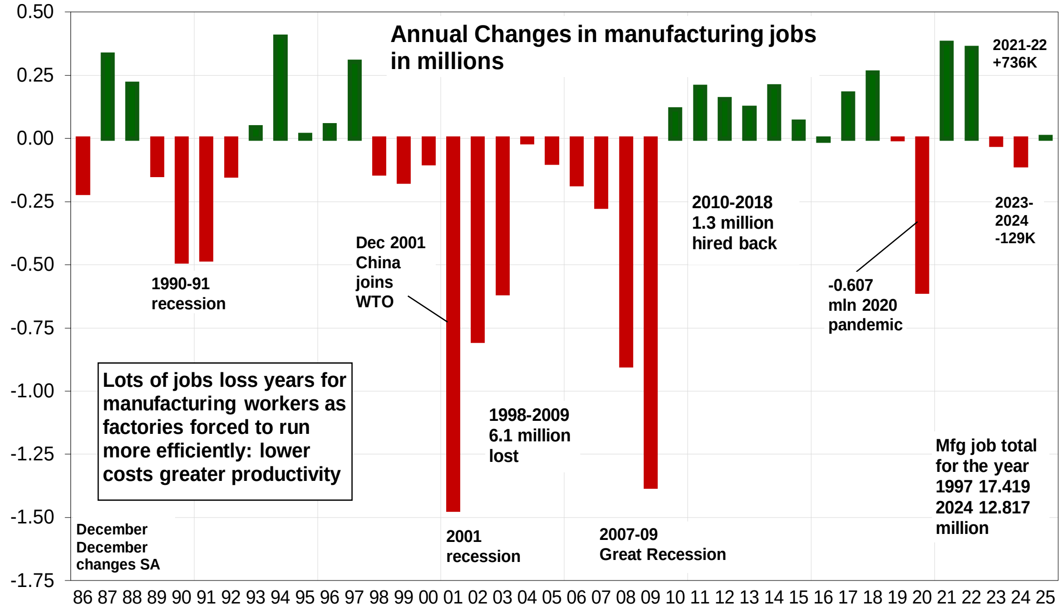
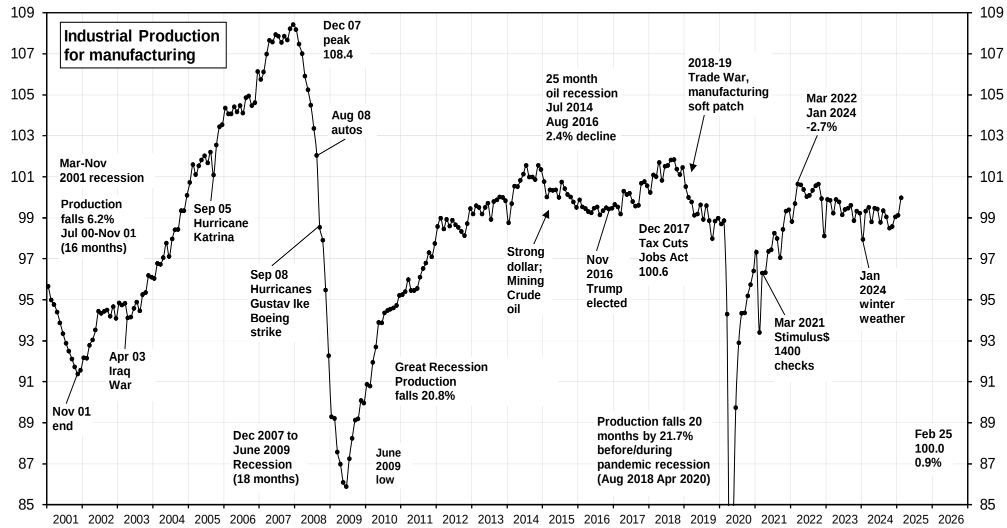
FACTORY JOBS ARE BACK

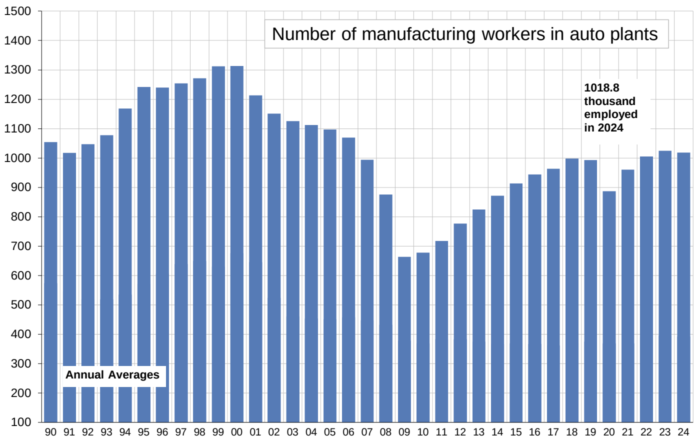


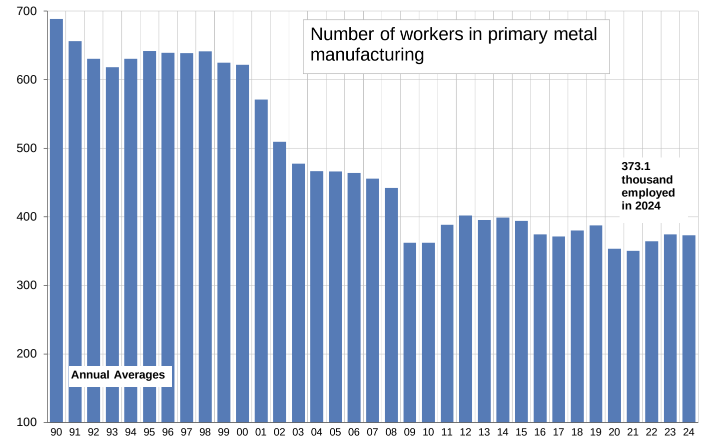
Every journey begins with a first step, but this seems to be a very long road to head down. It is unclear why it is important to bring manufacturing jobs back to the USA at this point following decades of losses. (Mfg jobs were 19.4% of private nonfarm payroll jobs in 1990 and 9.5% in 2024.) Bringing back manufacturing jobs has been talked about often in presidential campaigns over the years when the focus is usually on jobs for Americans, “good jobs” as President Clinton used to say, and manufacturing jobs were higher paying for years. Of course, the biggest problem is factories cannot make goods here anymore and sell them at a profit, i.e if they can find the workers, after many were made redundant in recessions and otherwise left-the-building due to “automation” over the last twenty-five years. There were two major recessions in the 2000s and 6.1 million manufacturing workers lost their jobs. Only 1.3 million were hired back in 2010-2018. Maybe China joining the World Trade Organization was part of the problem back in December 2001, but factory automation and productivity-enabling machines are also a big part of the story. So looking at manufacturing industrial production, “factory output,” the Federal Reserve’s data going back to 1919, output peaked in December 2007 the month of the start of the Great Recession, and it has never made it back anywhere near those heights. And it is unlikely to get back there with the return of some semiconductor factories or some reopening of some auto factories to avoid tariff levies. But this is America where great things can happen, so we will be monitoring manufacturing activity closely like a hawk or at least check in every month. The next page shows the long-term employment trend for selected industries.

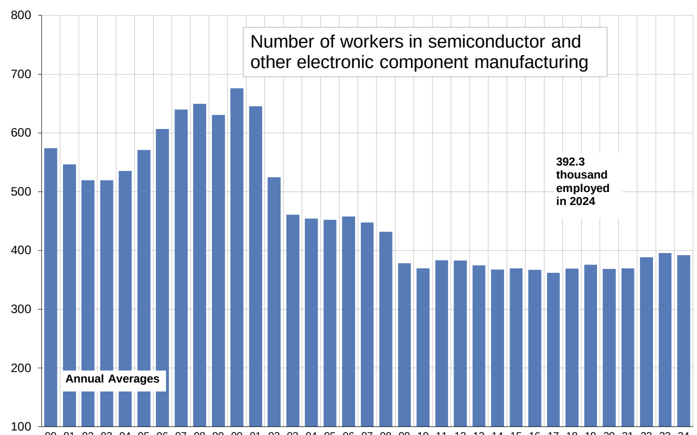
Making It in America Average Hourly Earnings
<u>$30.89 Total February 2025</u>
$46.28 Utilities
$42.23 Information
$37.11 Mining logging
$36.76 Financial jobs
$36.64 Professional/business
$36.55 Construction
$32.35 Education and health
$28.64 Manufacturing
$21.28 Retail trade
$20.02 Hotels/restaurants
$10.00 Economists
Wages of Production and nonsupervisory workers

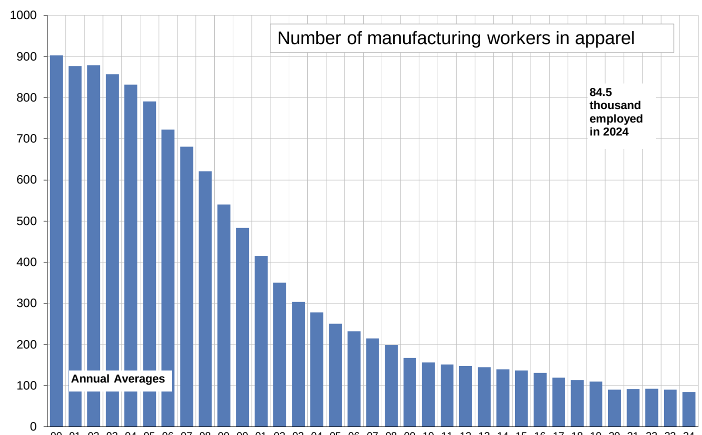
It seems odd semiconductor workers are not moving up after the CHIPS Act. The White House will be watching auto workers certainly. Primary metal manufacturing includes steel and aluminum. Apparel manufacturing is down. Can't wait to buy $100 T-shirts. Watch here where the world goes next.

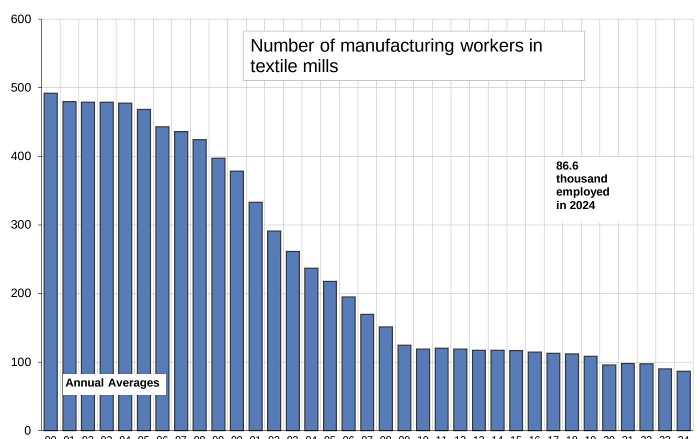


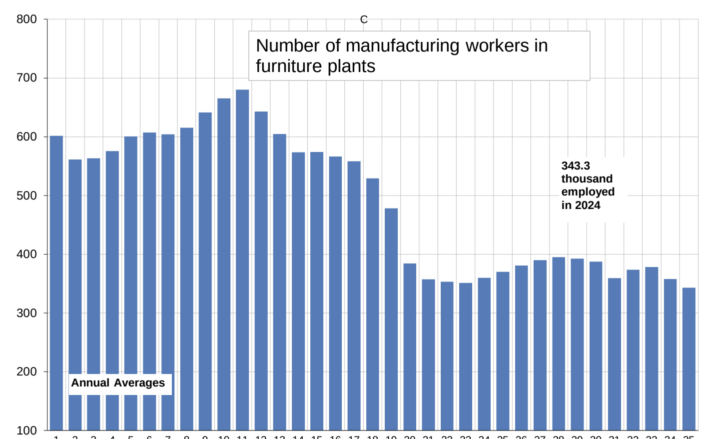




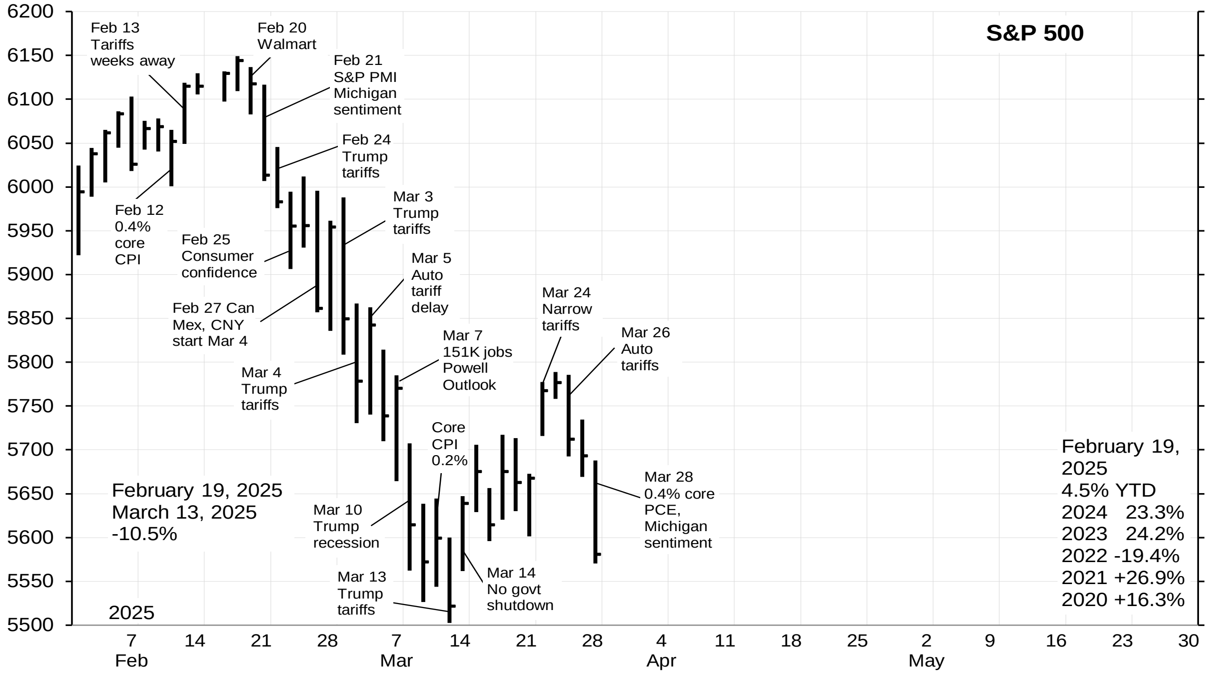








INTEREST RATES



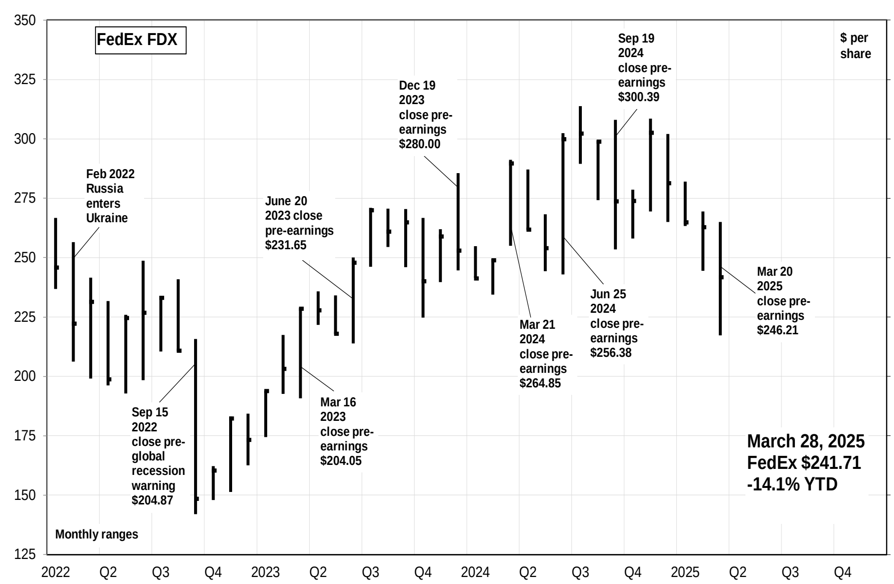
We had flex tariffs last Friday, narrow tariffs on Monday, then finally the auto tariffs on Wednesday which rained on the parade and brought stock prices back down. The S&P 500 rally from the March 13 lows of the Trump recession sell-off is big, but it has not made it back through the 50% retracement level of 5,826. Bond yields went their own way at times, lifting with the narrow tariffs initially, but seizing on the S&P PMI “stronger economy” data at least for services at 945am ET on Monday to move even higher. Some of the yield rally to 4.37% on Tuesday was retraced with the weaker consumer confidence reading at 10am ET on Tuesday. Skip to Friday where the economic reports brought bond yields and stocks down. The S&P 500 dropped 2.0% Friday, and 10-year yields fell 13 bps to 4.24%.

FedEx (FDX) warns on outlook for industrial economy

The stock fell as much as 11.8% the next day after earnings reported for the February 2025 quarter on Thursday, March 20. The company lowered its annual forecast (Feb 25 is Q3 fiscal quarter) on the weakness seen in demand for their business-to-business services. Tariff uncertainty was undoubtedly part of it, “international trade-related developments,” but the company also cited severe weather events.

Operating Income $bln

Quarter	Total	Federal Express	FedEx Freight	Other; layoffs
2.28.25	1.292	1.294	0.261	-0.263
11.30.24	1.052	1.052	0.312	-0.312
8.31.24	1.080	0.953	0.439	-0.312
5.31.24	1.555	1.305	0.507	-0.257
2.29.24	1.243	1.173	0.341	-0.271
11.30.23	1.276	1.035	0.491	-0.250
8.31.23	1.485	1.306	0.482	-0.303

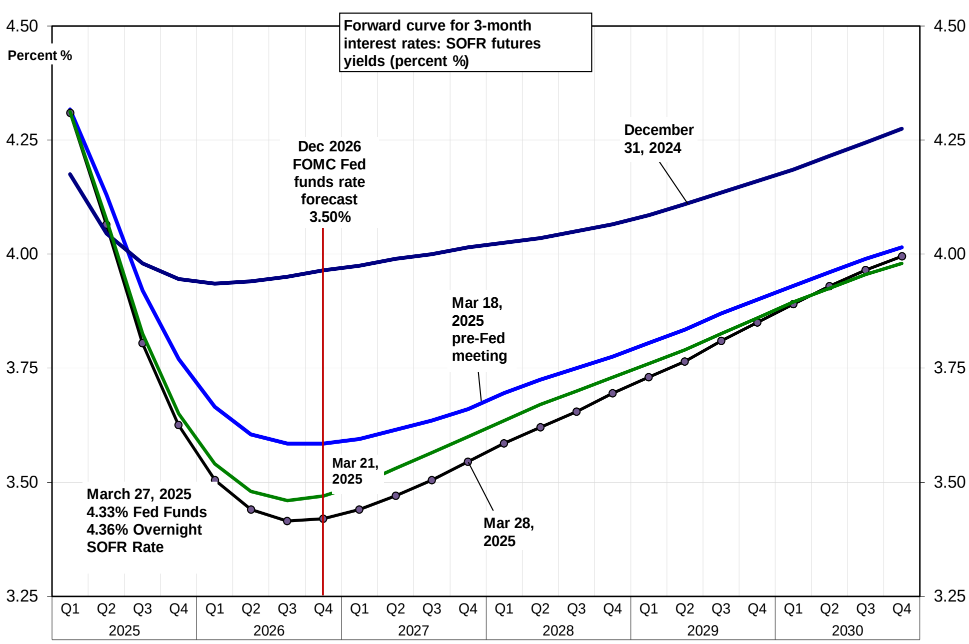


FEDERAL RESERVE POLICY

The Fed meets May 6-7, 2025 to consider its monetary policy. The US economy is burning or at least the Atlanta Fed GDPNow says Q1 2025 growth to be released Wednesday, April 30, if there are no more DODGE cuts to the Commerce Department's data collectors, is negative 2.8% (hey, use it when it fits your view), and yet the Fed speakers this week look wide of the mark on discussing what is truly happening out there in the country. Of course, this is the same group that politely called the market/economic turmoil in 2019 when they cut rates three times in the face of some Fed governor dissents as "trade uncertainty." This week Fed Governor Barr spoke on small business lending on Monday. Fed Governor Kugler spoke on the economic landscape and entrepreneurship (great time to start a business) on Tuesday. The Minneapolis Fed President hosted a "Fed Listens" and cares event in Detroit Lakes, MN wherever that is (sorry) on Wednesday. Throughout it all, the market looks for a 25 bps rate cut in June, 25 bps in September. The move was aided on Friday by weak data and -2.0% S&P 500.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	26-Mar	19-Mar	12-Mar	5-Mar	3/11/20*	3/11/20
Factors adding reserves						to Mar 26
U.S. Treasury securities	4237.419	4236.787	4242.202	4241.570	2523.031	1714.388
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2188.999	2203.257	2203.309	2203.309	1371.846	817.153
Repurchase agreements	0.000	0.001	0.001	0.084	242.375	-242.375
Primary credit (Discount Window)	2.234	2.136	2.417	3.092	0.011	2.223
Bank Term Funding Program	0.000	0.000	0.000	0.079		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.853	1.858	1.870	1.881		
Main Street Lending Program	7.285	7.276	7.346	7.339		
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	0.086	0.113	0.142	0.133	0.058	0.028
Federal Reserve Total Assets	6791.2	6807.0	6810.8	6807.4	4360.0	2431.213
~~3-month Libor %~~ SOFR %	4.35	4.29	4.31	4.34	1.15	3.200
Factors draining reserves						
Currency in circulation	2373.074	2368.395	2366.425	2363.066	1818.957	554.117
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	315.970	415.799	450.713	522.818	372.337	-56.367
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	241.371	193.378	131.055	139.493	1.325	240.046
Federal Reserve Liabilities	3340.689	3381.331	3351.095	3426.269	2580.036	760.653
Reserve Balances (Net Liquidity)	3450.550	3425.713	3459.687	3381.174	1779.990	1670.560
Treasuries within 15 days	54.915	43.578	14.872	14.074	21.427	33.488
Treasuries 16 to 90 days	216.641	228.023	260.757	261.313	221.961	-5.320
Treasuries 91 days to 1 year	421.797	421.666	425.586	425.742	378.403	43.394
Treasuries over 1-yr to 5 years	1463.220	1462.947	1461.721	1461.448	915.101	548.119
Treasuries over 5-yrs to 10 years	528.686	528.615	527.883	527.811	327.906	200.780
Treasuries over 10-years	1552.159	1551.958	1551.383	1551.182	658.232	893.927

Fed Policy-key variables				Long
	2025	2026	2027	Term
Fed funds	3.9	3.4	3.1	3.0
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.8	2.2	2.0	
Unemployed	4.4	4.3	4.3	4.2
GDP	1.7	1.8	1.8	1.8
March 2025 median Fed forecasts				



A 25 bps rate cut is discounted in June 2025, 25 bps more in September.

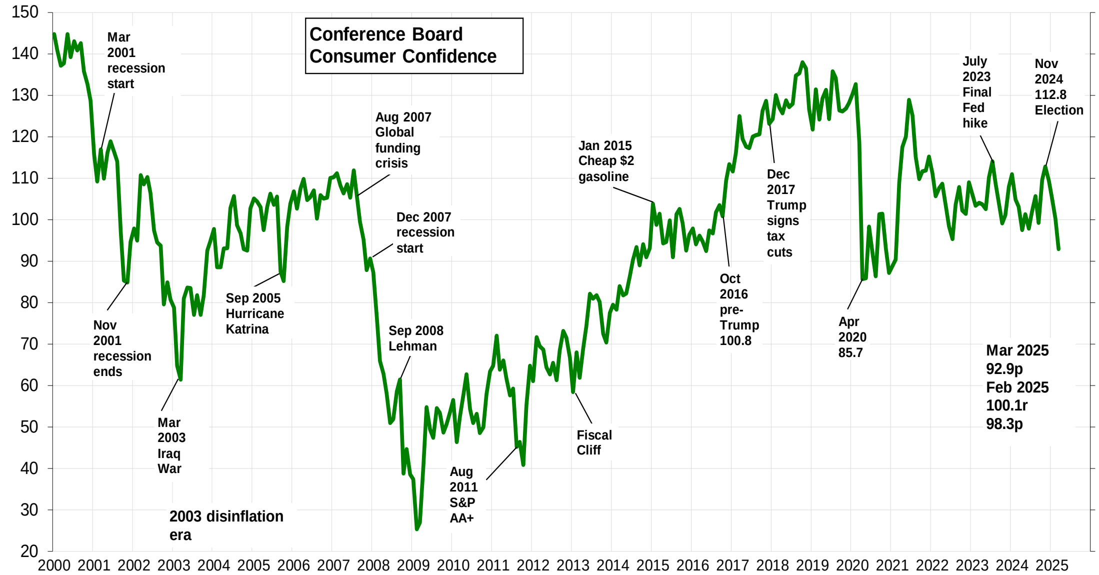
Fed funds futures call Fed policy	
Current target: March 28 -- 4.50%	
Rate+0.17 Contract	Fed decision dates
4.270 Jul 2025	May 7, Jun 18*
3.970 Oct 2025	Adds Jul 30, Sep 17*
Last trade, not settlement price	
*Not strictly true, Jul 2025 could be 1 day at a new rate; 2 days new rate for Oct 2025	

Next up: March CPI inflation report Thursday, April 10														
Monthly	2025		2024										2024	2023
% Changes	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec
Core CPI inflation	0.2	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
Core PCE inflation	0.4	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
Core PCE YOY	2.8	2.7	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
Core CPI YOY	3.1	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

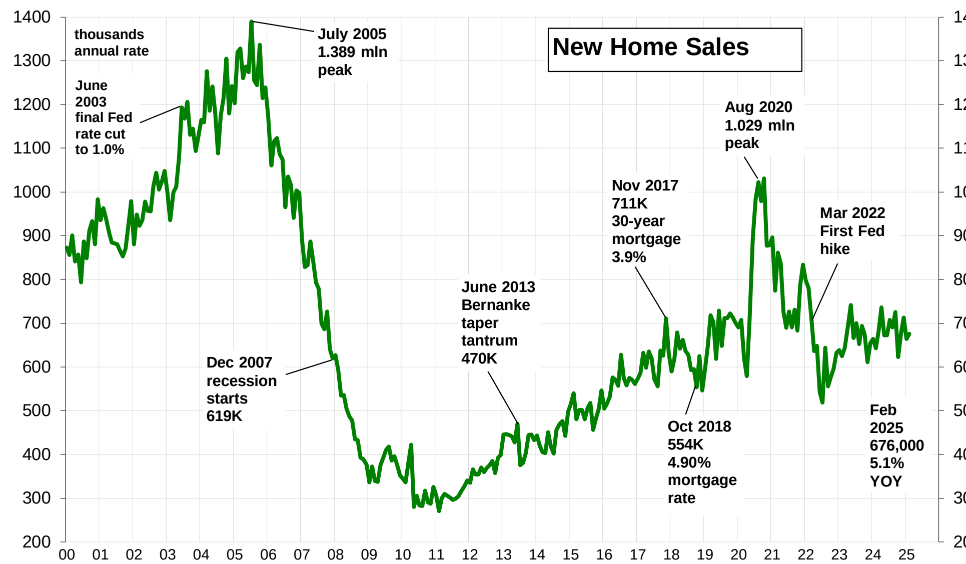
OTHER ECONOMIC NEWS

Consumer cautious (Tuesday)

Breaking economy news. Consumer confidence fell again in keeping with other surveys. February was revised up to 100.1 from the preliminary reading of 98.3, but fell 7.2 points to 92.9 in March. The cutoff date for the survey was March 19 which is before the President's "Liberation Day in America" tariff announcement on April 2nd. Also at 10am ET, new home sales show they are going nowhere with mortgage rates still high and rose 1.8% in February to 676 thousand.



Net, net, consumer confidence has taken another blow and is now trending downward as it does when the economy is near to the cliffs of recession. There is no spring in the consumer's step this March and the change in weather has done nothing to shore up American's expectations for the future. Half the country did not vote for the radical changes coming out of Washington and it is no surprise that consumers are pulling back and losing heart. It isn't just uncertainty that weighs on the consumer's outlook, it is the reality where the unprecedented mass firings of Federal government workers and the Administration's attempts rewrite history and turn back the clock to try and bring back factories to the US with import tariffs that is worrying the public and may yet prompt a buyer's strike if consumer goods prices see another inflation outbreak. It is just a few days into Spring and yet, consumers are acting like it is the dead of winter where all they want to do is hibernate. For the consumer, the fear is that the worst is still to come. Chaos in Washington may yet shut down the entire US economy.

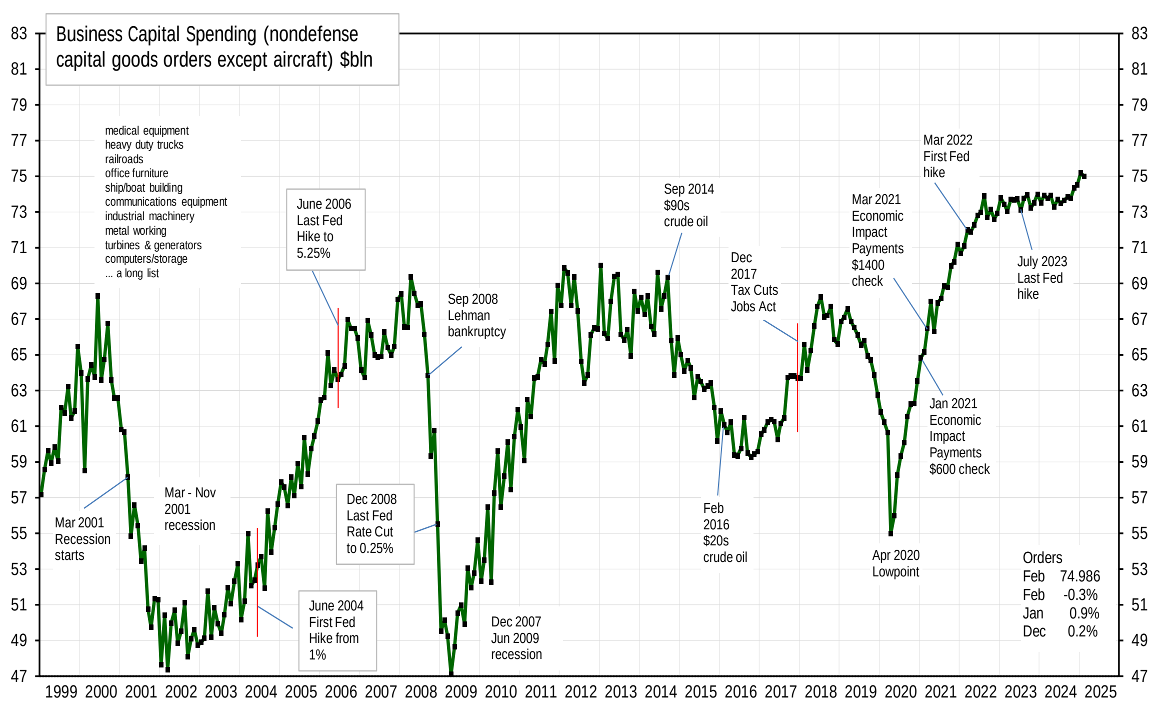


Key durable orders hold near record (Wednesday)

Breaking economy news. Core capital goods orders fell back slightly from record highs in February. Nondefense capital goods orders ex-aircraft fell 0.3% in February after January's 0.9% jump to record levels. No weather effect here. Several categories of goods orders apparently rebounded from the winter cold weather in January. Fabricated metal products fell 1.4% in January and rose 0.9% in February. Electrical equipment fell 1.2% in January and rose 2.0% in February. Tariffs are expected in primary metals like steel and aluminum, and primary metals orders increased 1.9% in February and 1.2% in January.

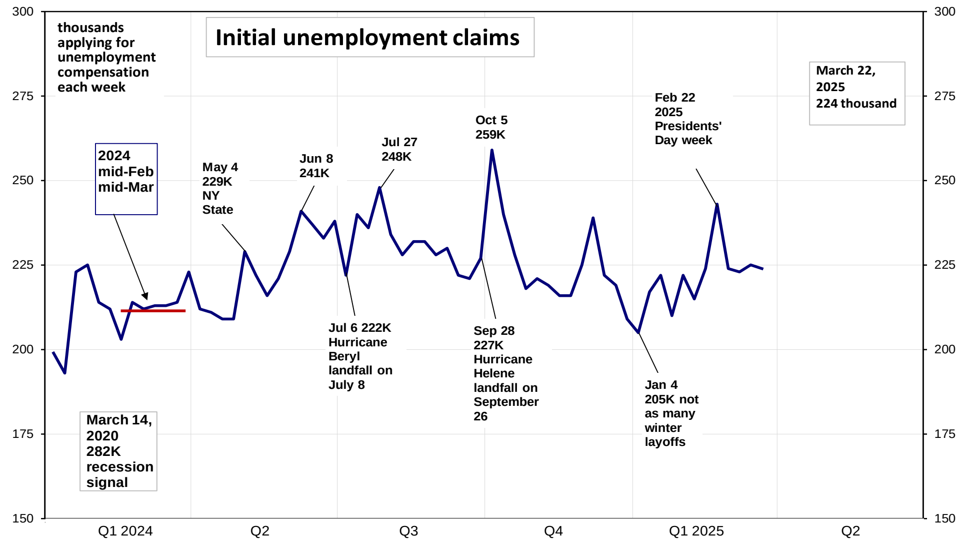
Net, net, there is tremendous uncertainty coming from Washington, but companies are not just holding their breaths waiting for the other tariff shoe to drop, they are actively ordering up more equipment to beat the price increases once the trade war sanctions jack up the cost of the goods and materials they need to even higher levels. The danger ahead for the economy is that manufacturers will see a price shock that they have never witnessed before. American factories export much of what they produce, and if they cannot, that hurts economic growth.

Supply chains bring in the lowest cost materials for US manufacturers from overseas, and changing the hard reality of what has taken place over the last twenty years cannot be done in a day if ever. Economists caution that trade tariffs will hurt more Americans than they can possibly help, but even if the Administration disagrees, we won't see the benefits from bringing plants back to the US for years if not decades. There will likely be a new President in place who might overturn the current Administration's trade policies by the time companies take the risk and try to rebuild factories here. This is the dilema corporate CEOs struggle with as they make the costly decisions to spend the dollars to bring factories back to America.



GDP okay for now (Thursday)

Breaking economy news. Ancient history now but Q4 2024 real GDP was reported at 2.4% in the final estimate up from the first and second estimates earlier of 2.3%. Interestingly both exports and imports of goods were down significantly, -4.6% and -4.9%, respectively. Real consumption was very strong at 4.0% (revised from 4.2%), Business investment spending on equipment and intellectual property products (software) was down. In other data, job layoffs remain low at 224K in the March 22 week after the annual revisions to the seasonal factors, this year back to 2020. This year's adjustment looks relatively minor, after some big changes in some years after the pandemic distortions.



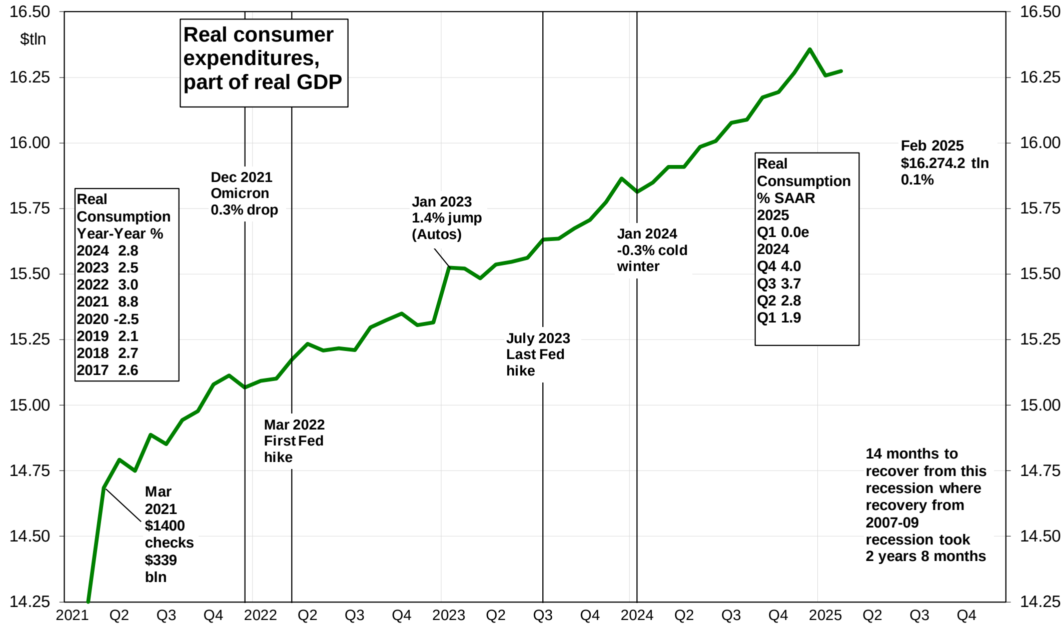
Net, net, the final revision to economic growth in the last quarter of the Biden years finds the economy picked up a tenth to 2.4%, and it may well need it as the tariff hikes and Federal government spending cuts are likely to lead to a dramatic slowdown in 2025. Bringing factories back with trade sanctions will take years, but the fallout to economic growth in 2025 will be substantial in the near term. The narrow focus of the Administration on the imports side of the foreign trade ledger ignores the retaliation by America's trading partners which will hurt US exports and cost US manufacturing jobs in the near-term. Instead of the world wanting to buy American, overseas markets may freeze up as the rest of the world stops buying American products.

The only good news is that weekly job layoffs remain low as companies remain frozen in place with the current uncertainty. Even for Federal workers, the layoffs were slightly lower at 821 in the March 15 week versus 1066 in the March 8 week and 362 in the week a year ago. Stay tuned.The economy continues to move forward today, but the storm clouds of trade tariffs and sanctions may yet send the economy off course in the second quarter. The Administration's Liberation Day for trade initiatives starts in a few days. Maybe America will be better off some day, but the immediate effect will be to brake the economy sharply.

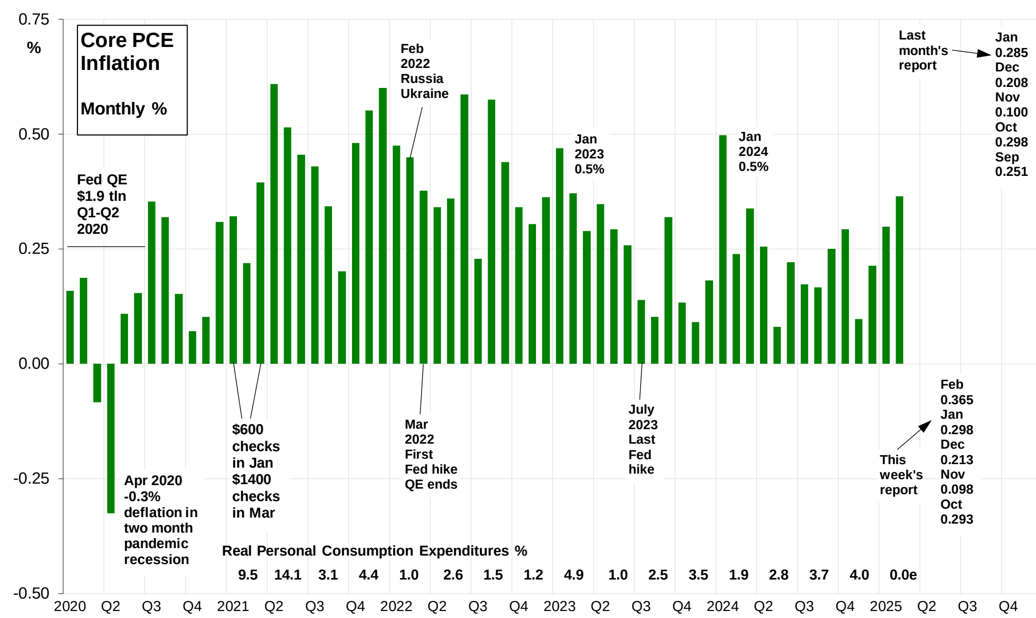
	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24p	Q4 24r	Q4 24f
REAL GDP	4.4	3.2	1.6	3.0	3.1	2.3	2.3	2.4
REAL CONSUMPTION	2.5	3.5	1.9	2.8	3.7	4.2	4.2	4.0
CONSUMPTION	1.7	2.3	1.3	1.9	2.5	2.8	2.8	2.7
Durables	0.3	0.2	-0.1	0.4	0.5	0.9	0.9	0.9
Nondurables	0.4	0.5	-0.1	0.2	0.6	0.5	0.4	0.4
Services	1.0	1.6	1.6	1.3	1.3	1.5	1.5	1.4
INVESTMENT	1.8	0.2	0.6	1.5	0.2	-1.0	-1.1	-1.0
Business Plant	0.1	0.2	0.2	0.0	-0.2	0.0	0.0	0.1
& Equipment and	-0.1	0.0	0.0	0.5	0.5	-0.4	-0.5	-0.5
Intellectual Property	0.2	0.3	0.4	0.0	0.2	0.2	0.0	0.0
Homes	0.3	0.1	0.5	-0.1	-0.2	0.2	0.2	0.2
Inventories	1.3	-0.5	-0.5	1.1	-0.2	-0.9	-0.8	-0.8
EXPORTS	0.5	0.7	0.2	0.1	1.0	-0.1	-0.1	0.0
IMPORTS	-0.6	-0.6	-0.8	-1.0	-1.4	0.1	0.2	0.3
GOVERNMENT	0.9	0.6	0.3	0.5	0.9	0.4	0.5	0.5
Federal defense	0.2	-0.1	-0.1	0.2	0.5	0.1	0.2	0.2
Fed nondefense	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1
State and local	0.6	0.6	0.3	0.3	0.3	0.2	0.2	0.3
Below line: Percentage point contributions to Q4 2024 2.4% real GDP								
First estimate for Q1 is Wednesday, April 30								

Personal income report: inflation up, spending down (Friday)

Breaking economy news. The personal income report for February showed less bounce in consumer spending from the cold winter weather drop in January, where consumers have spent exactly zero on services over the first two months of 2025. Services are less impacted by import tariffs, it is sometimes believed. Real consumer spending went from a strong 4.0% in the fourth quarter to -0.1% in the first quarter of 2025 using just the January/February results. Meanwhile inflation heated up with core PCE inflation of 0.365% in February versus 0.298% in January. Consumer goods ex-food and energy have risen 0.4% in both January and February showing a clear import tariff effect. These prices rose 0.1% in October, fell 0.1% in November, and dropped 0.3% in December. The inflation wave is coming. Bet on it.



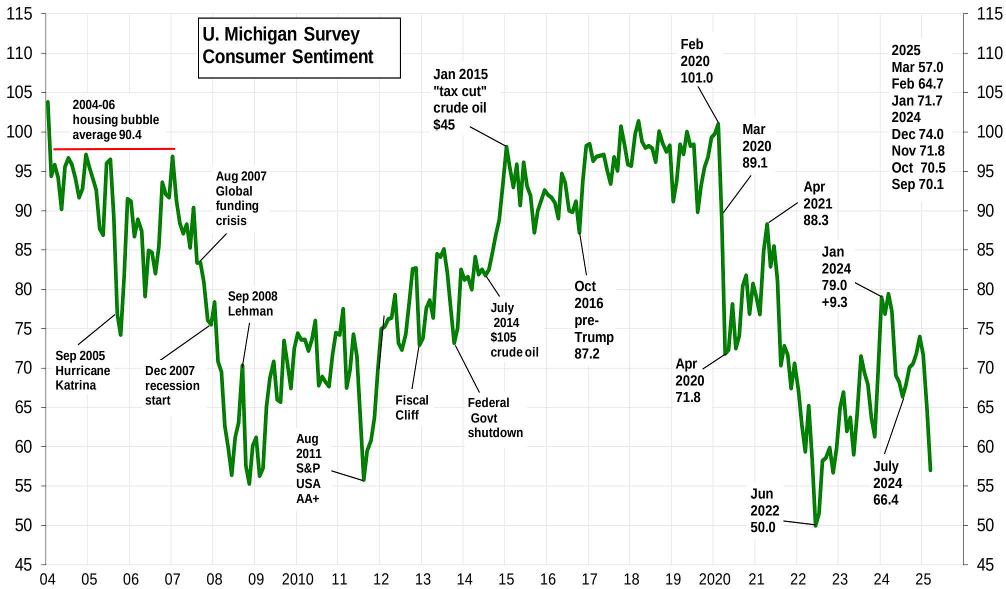
Net, net, the personal income report shows the consumer is exhibiting a degree of caution over the outlook by saving more for a rainy day and halting all real spending on services over the first two months of 2025. There are some cold winter weather effects dampening expenditures in January but the feeble increase in February with more saving suggests the uncertainty from Washington is causing deleterious effects on the US economy. The jump in real consumer spending in November and December of 0.4% and 0.6%, respectively, has been followed by negative 0.6% in January and modest 0.1% rise in February. There is no other conclusion possible other than the Trump 2.0 economic policies are frightening consumers as much as they do corporations. The economy is going to stall out if not something worse if Washington policymakers are not careful. Fed officials are in a quandary on

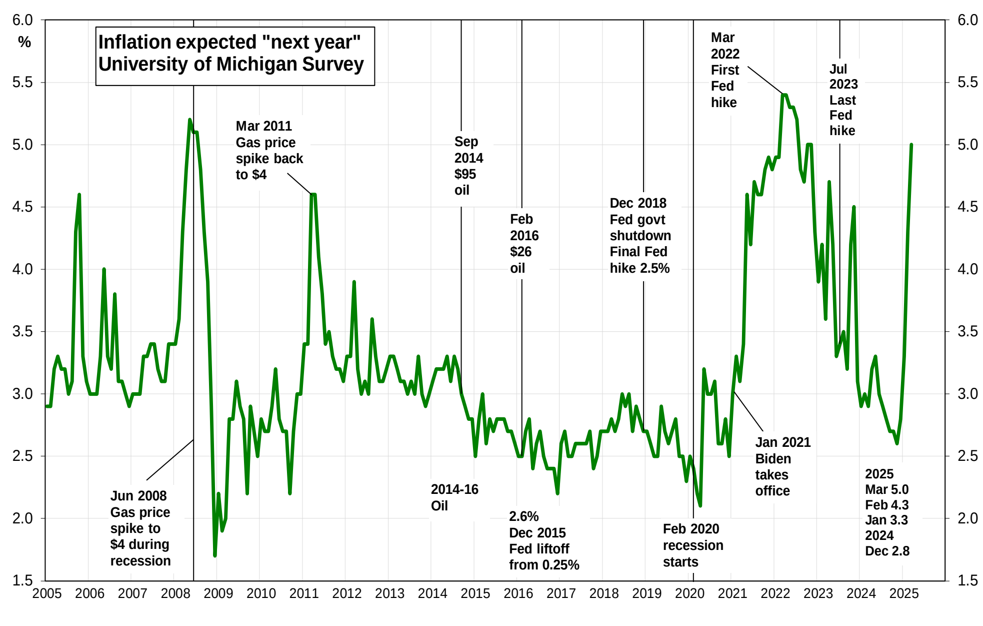


whether to soften the blow with easier rates or to hold firm to fight the inflation surge from more costly imported goods.

Meanwhile the Fed's progress on bringing down core consumer prices has stalled out. In February there was one of those rare times that core PCE inflation rose 0.4% which is more than the 0.2% increase in core CPI inflation. Powell was right in his prediction at the press conference last week that core PCE inflation would rise back to 2.8%, and that better reading of 2.6% in January was revised up to 2.7%. Fed funds futures still see a good chance of a rate cut at the June meeting, but you have to wonder why. Inflation is elevated now with more inflation coming once import tariffs jack up the price of consumer goods even higher. Stay tuned. Consumers have lost confidence and are sitting on their wallets until there is clarity on the outlook. The scary thing is that consumers know with more certainty than they let on that the changes down in Washington mean their personal finances are going to suffer as it suddenly becomes more unaffordable to put food on the table and buy the basic goods they need for their families.

Powell says ignore Michigan sentiment (Friday)

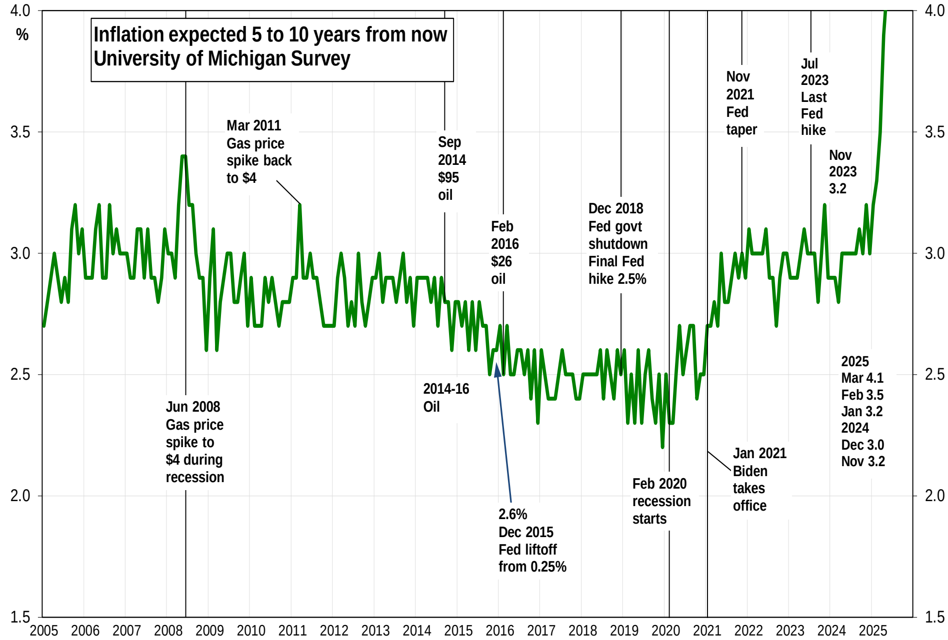




Breaking economy news. March consumer sentiment in the preliminary reading two Fridays ago was 57.9 and now in the revised report for the month the index is lower at 57.0. Inflation expected next year was 4.9 and now it is higher at 5.0 from 4.3 in February. March long term inflation expectations were 3.9 and are now higher at 4.1; February was 3.5.

Net, net, it is a good thing that Fed Chair Powell publicly dissed the findings of the University of Michigan's survey of consumers because the consumer doubled down on the bearish outlook in terms of their confidence in the future and for the inflation they see ahead from the imposition of import tariffs. Consumer spending was weak in

February, and now consumers say it will get even worse in March. Companies are warning that the cost of their products are going to have to go up, and the consumer is all ears. Interest rates remain high, the Administration is cutting Federal government spending, it would be irrational for consumers not to think the economy is going to take a turn for the worse from these actions of Washington policy officials, many of which are not properly considered. Stay tuned. The consumer sees darkening clouds for the economy ahead, and while they may not always be right, if they do not start spending again, this latest negative reading on confidence will become a reality. A downturn is coming. Bet on it. The stock market is and the stock market is a leading indicator.



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