Financial Markets This Week

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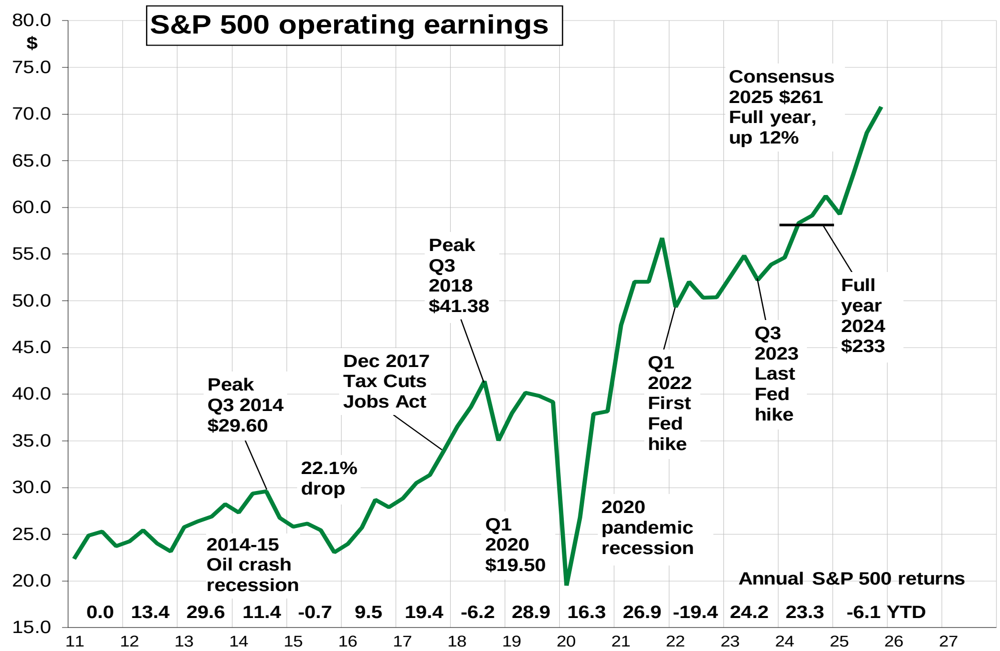
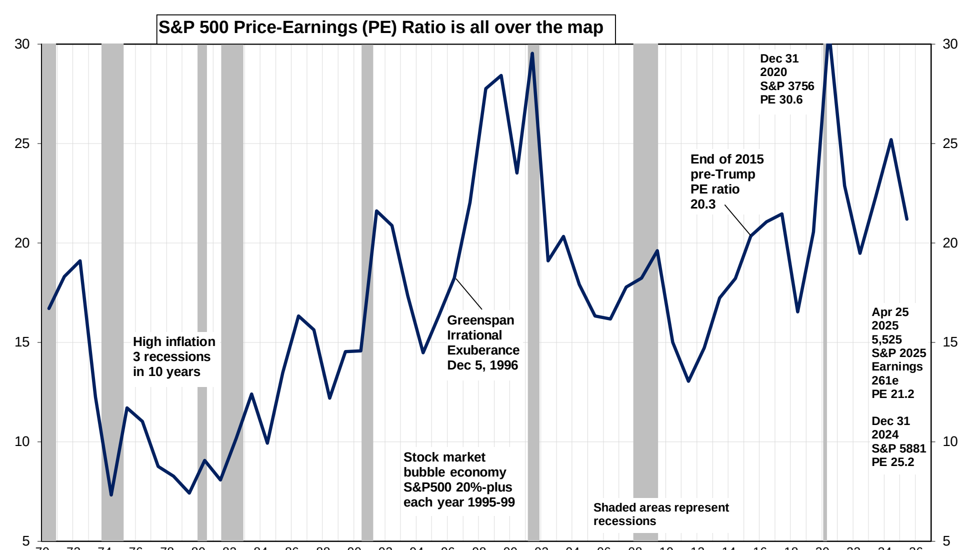
STOCKS HALFWAY BACK

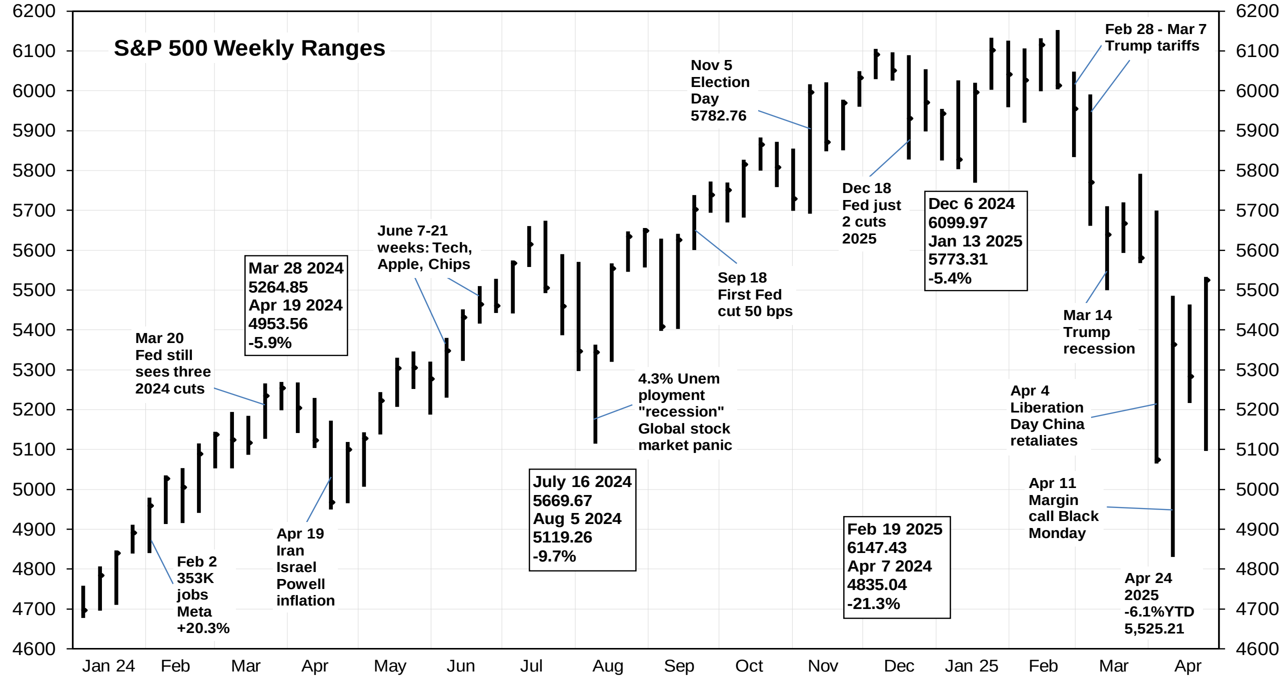


On the charts, the dreaded Death Cross, 50 day falling below the 200 day moving average occurred at 5,405 on April 14 and now the S&P 500 closed at 5,525 on Friday, April 25. Another swing and a miss loss for technical market analysis. Technical indicators come and go but as long as corporations make more money, the equity market will continue to move higher over time, sometimes a very long time to wait it out. S&P 500 operating earnings estimates this year keep getting revised lower, and we have not even seen the effect of import tariffs yet. The assumption ahead for S&P 500 earnings is that “information technology” and health care will drive profits in the second half of 2025 even if discretionary consumer and energy companies’ earnings see drops here and there. The other caveat is that information technology is dominated by Apple, Microsoft and NVIDIA.



At the week’s 5,525 close and assuming $261 2025 earnings, the PE ratio would be 21.2 at the end of the year. This seems high if the goal is really to bring factories back to the U.S. regardless of the costs. This story will play out for many months to come of course. At the market low of 4,835 on April 7, the PE ratio would have been 18.5. Stay tuned. Watch here where the world goes next.

INTEREST RATES

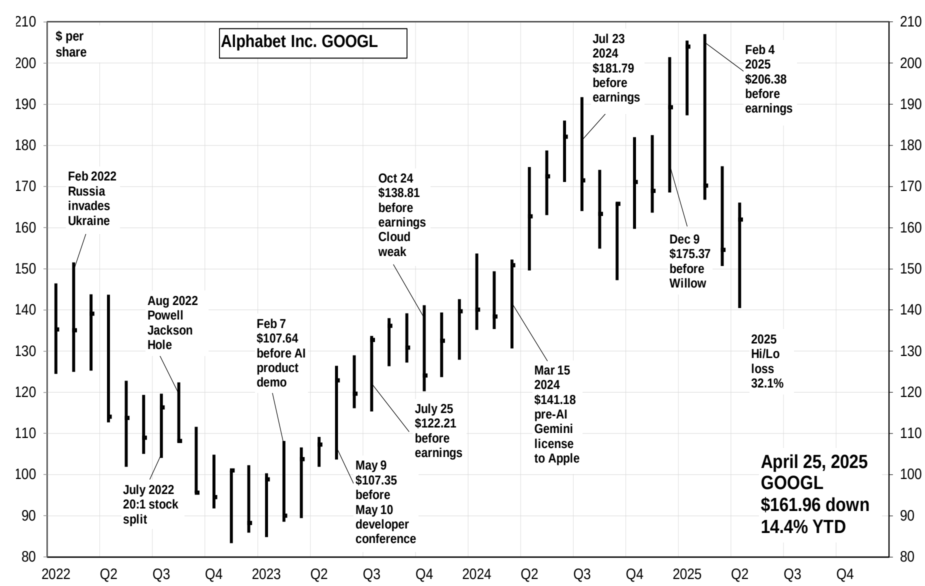


The stock market made it halfway back on Friday from the losses that totaled as much as 21.3% from the year's February 19 high. Year-to-date the S&P 500 was down 6.1% on Friday to 5,525 which is a more comforting figure for the public given the 2024 gain of 23.3%. Still, it looks like a long way to go back to the highs with the weekly chart here. The focus in Friday's trading was the 50% retracement level at 5,491. For bonds, there is continued discussion of what happens if the trade war leads to a drop in trade flows with fewer dollars swirling around the world, will foreigners stop or simply not be coming up with as many dollars to park in those largest, deepest, safest markets in the world which is U.S. Treasury securities. Same story for bonds. Even if the Fed cuts rates from 4.5% to 3.0%, the yield curve steepening should keep 10-yr yields north of 4%. 10-yr yield closed at 4.24% on Friday.

Alphabet, Inc. (GOOGL) down 14.4% YTD

The stock fell 7.3% the next day after earnings in February, and now the stock increased 1.7% Friday after earnings Thursday afternoon. The results pushed up the broader market initially Thursday afternoon about 0.3% with Alphabet Class A and C shares 3.64% of the S&P 500. Advertising falls off in the first quarter every year, but was better than expected. It seems like the trade war effect must have an impact soon.

Calendar Year Mln $	Revenue	Advertising	Cloud	Operating Income
Q1 2025	90,234	66,685	12,260	30,606
Q4 2024	96,469	72,461	11,955	30,972
Q3 2024	88,268	65,854	11,353	28,521
Q2 2024	84,742	64,616	10,347	27,425
Q1 2024	80,539	61,659	9,574	25,472
Q4 2023	86,310	65,517	9,192	23,697
Q3 2023	76,693	59,647	8,411	21,343
Q2 2023	74,604	58,143	8,031	21,838
Q1 2023	69,787	54,548	7,454	17,415
Q4 2022	76,048	59,042	7,315	18,160

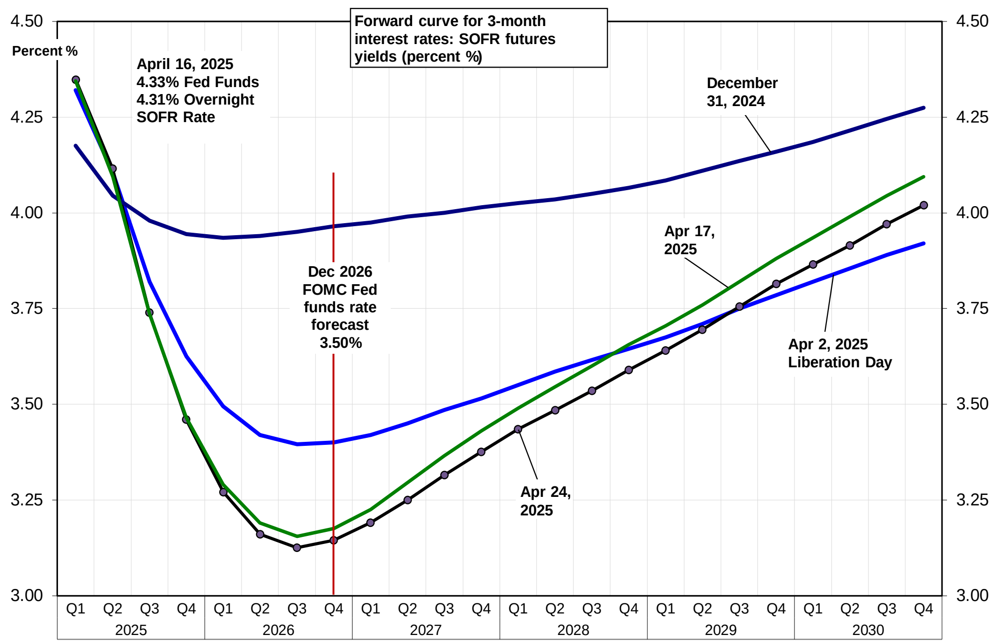


FEDERAL RESERVE POLICY

The Fed meets May 6-7, 2025 to consider its monetary policy. On the outlook there is more uncertainty than normal given the Trump 2.0 economic policies, and Fed officials are not saying much besides ruling out taking action on rates on the May 7 2pm ET decision date. There will not be forecasts at this meeting, but Powell would probably have to give a heads-up, if he was contemplating a rate cut at the June meeting. Trump said he was not going to fire Powell at about 520pm on Tuesday evening. We are not sure how shocking this would be for markets if he were removed early before his time's up in May 2026 as he has not acquired Greenspan's Maestro "national treasure" status despite serving two terms in office. He is a Trump appointee and subject to live by the sword, die by the sword. Powell did unleash the worst inflation outbreak since the 80s, or at least he was there when it happened. Anyway, we are not sure the market would trade on the news of Powell stepping down early for more than 24 hours, and would likely grow to like the idea of lower interest rates that Trump 2.0 wants to see. Stay tuned.

Selected Fed assets and liabilities Fed H.4.1 statistical release billions, Wednesday data	23-Apr	16-Apr	9-Apr	2-Apr	3/11/20*	Change from 3/11/20 to Apr 23
Factors adding reserves						
U.S. Treasury securities	4217.694	4217.259	4219.496	4219.049	2523.031	1694.663
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2185.406	2188.873	2188.999	2188.999	1371.846	813.560
Repurchase agreements	1.000	0.003	0.000	0.000	242.375	-241.375
Primary credit (Discount Window)	3.112	2.713	2.726	2.154	0.011	3.101
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.807	1.821	1.831	1.834		
Main Street Lending Program	7.072	7.063	7.301	7.294		
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	0.073	0.103	0.094	0.095	0.058	0.015
Federal Reserve Total Assets	6778.0	6778.1	6778.4	6774.3	4360.0	2418.003
~~3-month Libor %~~ SOFR %	4.28	4.31	4.42	4.37	1.15	3.130
Factors draining reserves						
Currency in circulation	2379.809	2377.963	2378.330	2376.726	1818.957	560.852
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	576.159	638.783	315.189	301.624	372.337	203.822
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	171.780	54.772	168.115	233.488	1.325	170.455
Federal Reserve Liabilities	3569.114	3497.294	3294.102	3347.276	2580.036	989.078
Reserve Balances (Net Liquidity)	3208.915	3280.845	3484.345	3427.049	1779.990	1428.925
Treasuries within 15 days	59.090	58.916	58.181	62.513	21.427	37.663
Treasuries 16 to 90 days	208.978	210.658	215.022	210.743	221.961	-12.983
Treasuries 91 days to 1 year	420.627	419.053	417.235	417.119	378.403	42.224
Treasuries over 1-yr to 5 years	1434.924	1434.751	1445.551	1445.359	915.101	519.823
Treasuries over 5-yrs to 10 years	537.249	537.198	530.638	530.587	327.906	209.343
Treasuries over 10-years	1556.827	1556.684	1552.870	1552.728	658.232	898.595
Note: QT starts June 1, 2022	Change	4/23/2025	6/1/2022			
U.S. Treasury securities	-1553.085	4217.694	5770.779			
Mortgage-backed securities (MBS)	-522.040	2185.406	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2025	2026	2027	Long 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				



Same as last week. Two 25 bps rate cuts are expected by September.

Fed funds futures call Fed policy		
Current target: April 24 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.315	Jul 2025	May 7, Jun 18*
3.915	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		

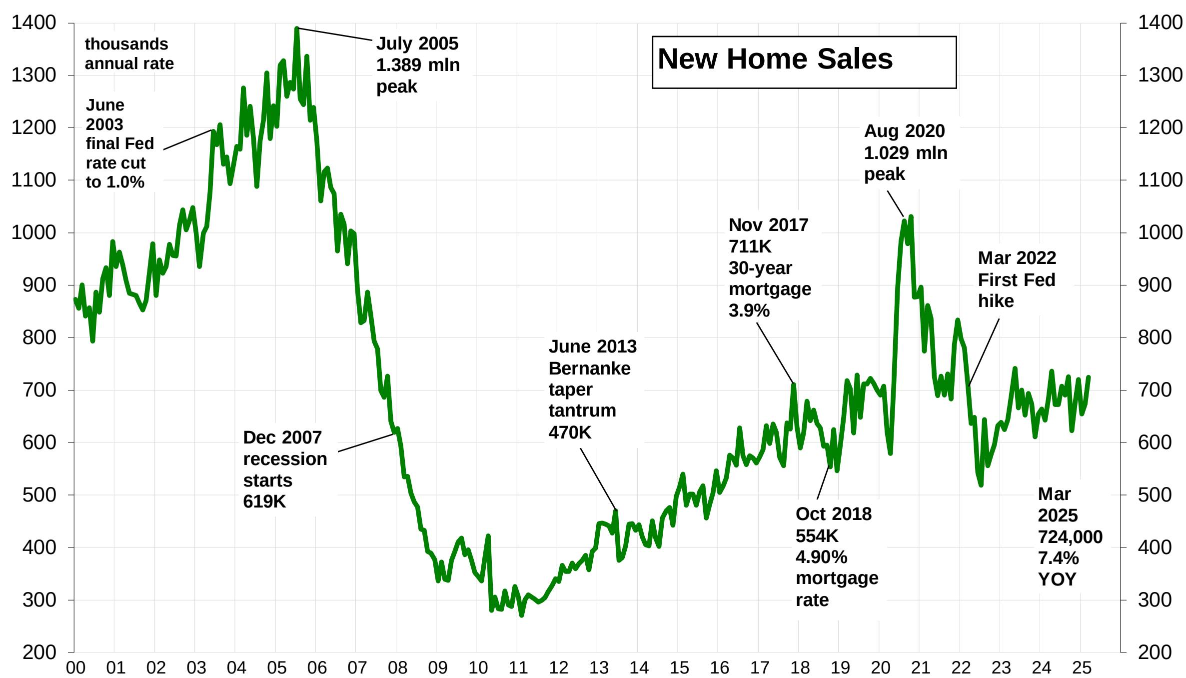
Next up: March PCE inflation report Wednesday, April 30 at 10am ET														
Monthly	2025			2024										2024
% Changes	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
Core CPI inflation	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3	0.4	0.4	0.4
Core PCE inflation		0.4	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5
Core PCE YOY	2.6e	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
Core CPI YOY	2.8	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

OTHER ECONOMIC NEWS

New home sales rebound further (Wednesday)

Breaking economy news. After falling 9.2% in January to 654 thousand at an annual rate during the colder than seasonal winter temps, March new home sales are back to December levels, increasing 7.4% for the month. Overall activity is back to where it was before the 2020 pandemic, but well below the housing bubble peak of 1.389 million in July 2005 nearly twenty years ago. Most of the March increase was in the biggest market in the South which is 66.7% of nationwide sales. Median sales prices for new homes continue to be hard to believe with March prices of $403,600 down from 2023 prices of $428,600.

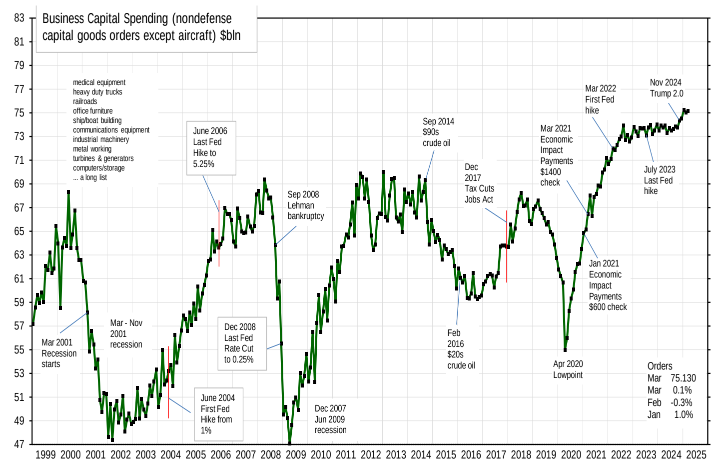
New Home Sales	Total	Northeast	Midwest	South	West	Median Price $
2022 Year	641	33	66	392	150	434,500
2023 Year	666	33	68	412	153	428,600
2024 Year	686	34	80	413	158	420,300
Dec 2024	720	34	82	438	166	423,000
Jan 2025	654	27	62	395	170	431,400
Feb	674	36	67	425	146	411,500
Mar	724	28	69	483	144	403,600
	Thousands at Seasonally Adjusted Annual Rate					

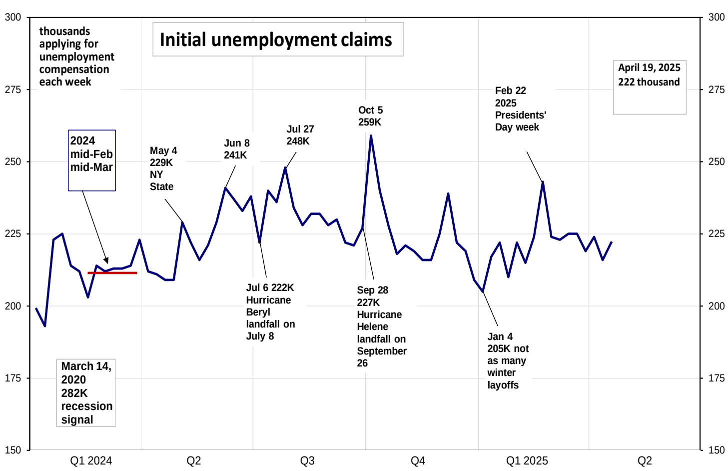


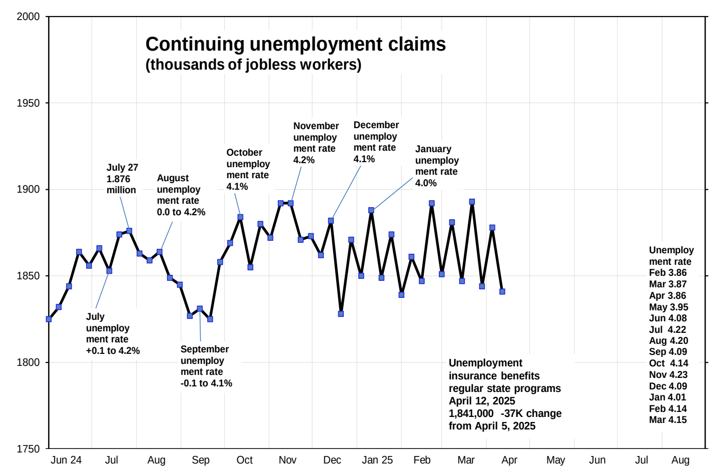
Durable goods report, weekly jobless claims, existing home sales (Thursday)

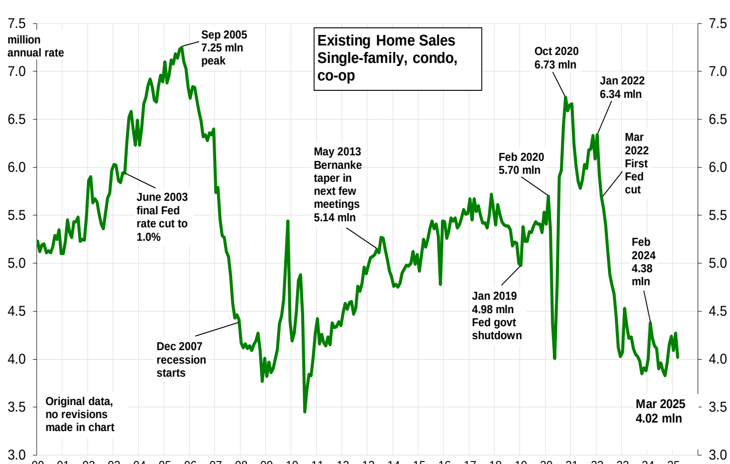
Breaking economy news. Durable goods orders for March. Nondefense capital goods orders ex-aircraft fell rose 0.1% in March after the February 0.3% decline. The January 1.0% jump may have been driven by an attempt to bring the goods in before the import tariffs arrive. The graph does not look very recessionary, and either does weekly jobless claims also released at 830am ET. First-time applications increased 6K to 222K in the April 19 week, and you'd be correct in thinking 222 thousand new people applying for jobless benefits does not mean a recession. The total number of people receiving benefits has been extremely volatile in an up/down sawtooth pattern, falling 37K to 1.841 million in the April 12 week which means the 4.2% March unemployment rate might come back down to 4.1% in April to be reported Friday, May 2; it was barely 4.2% in the first place (4.15%).

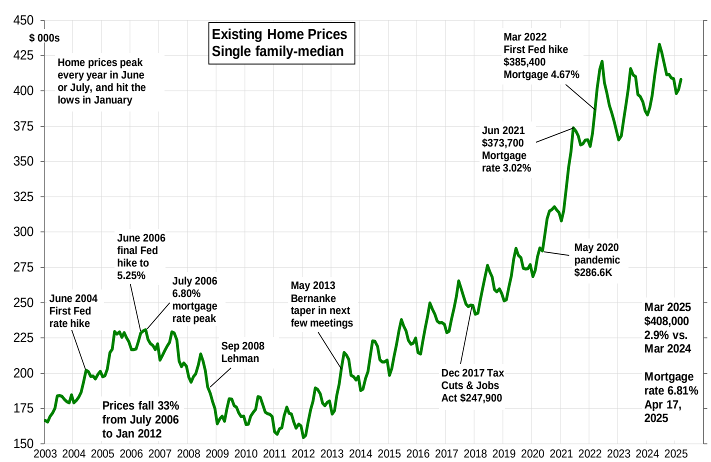
Existing home sales fell back into the gutter at a 4.02 million annual rate in March. Single-family existing home prices are up 2.9% year-on-year in March and getting ready to challenge record highs in the peak summer selling season. We will see if Trump 2.0 economic policies make the public confident enough to bid up the price of a home.





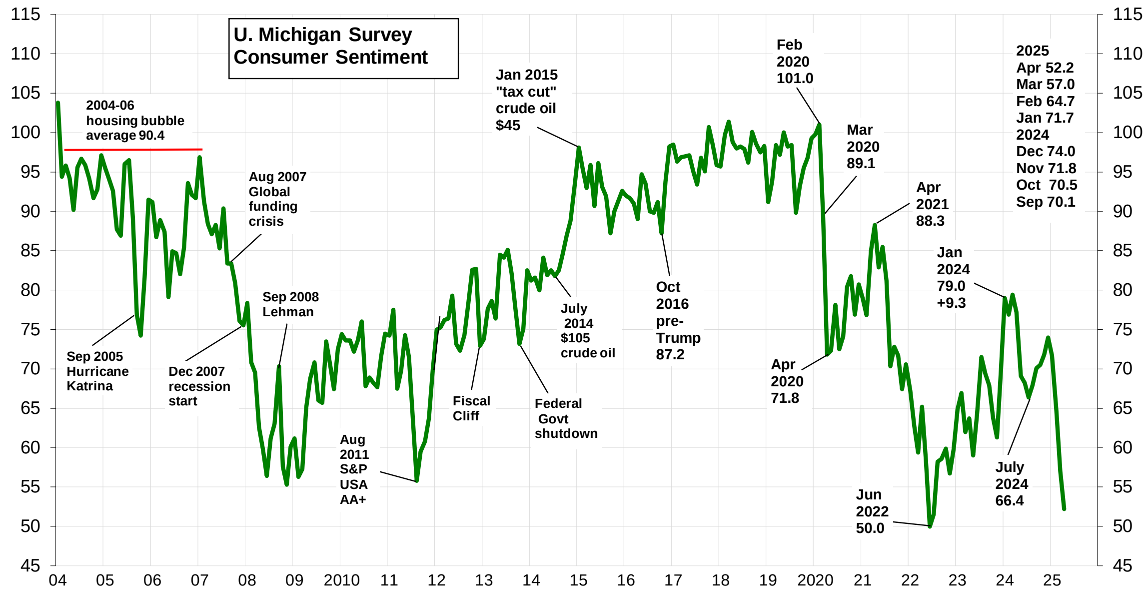


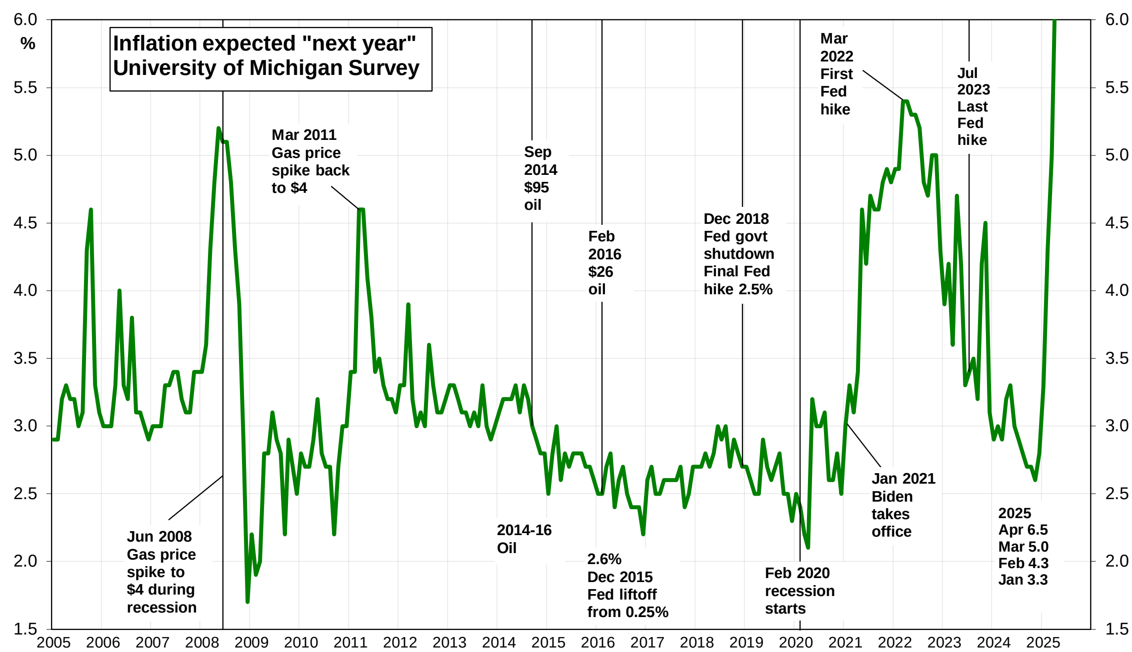




Consumer sentiment revised higher (Friday)

Breaking economy news. Consumers remain about as downbeat as they were as they wait for the factory jobs to return to America. There are 341 million Americans and for March, there were 12.7 million manufacturing payroll jobs. Consumer spirits are down in the dumps, but the preliminary April reading of 50.8 improved slightly to 52.2… which is an 8.4% drop from March if you are counting. The slide from 74.0 in December has been dramatic. Consumers are still buying, but the spending may be pushed forward to beat the tariffs. We don't graph it here, but the report said "the 32% drop in Consumer Expectations since January is the steepest three-month percentage decline seen since the 1990 recession." Inflation expected in the next year came down to 6.5% from the preliminary report finding of 6.7%. Still off the charts.





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