Financial Markets This Week

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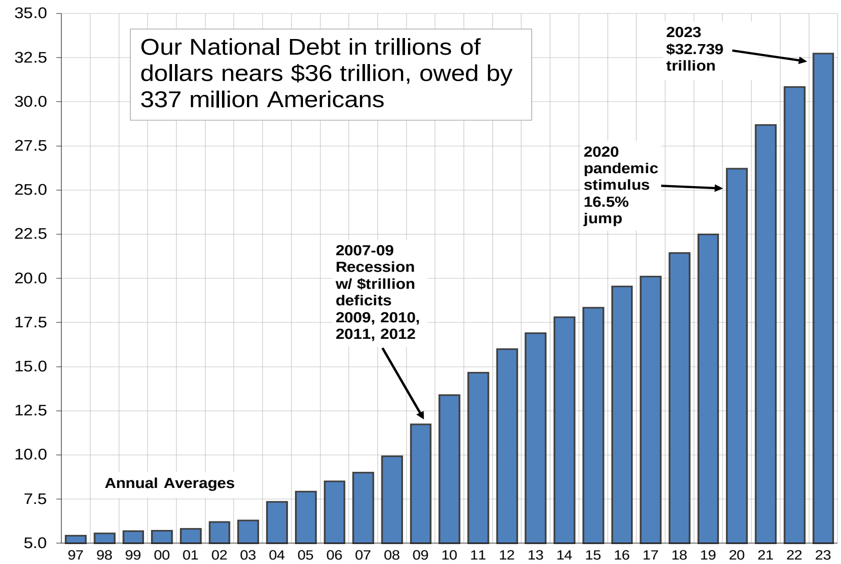
SOCIAL INSECURITY



To repeat: Social security collects taxes from workers, but is paying out more in benefits than they take in. The difference is made up by auctioning Treasury securities to the public for cash, just like other expenditures the Federal government makes when it does its "deficit spending." There is no real money in the Social Security Trust Fund. The "money" that went in there is an accounting, place-older entry, nonmarketable securities, and the actual cash was used at the time it was collected to fund other Federal government spending, like Army tanks, food stamps, border security, etc. It isn't running out of money. There was never any money in the trust fund.

This year's annual report from the trustees of Social Security and Medicare said the Social Security Trust Fund will run out of money in 2033. The baby boom generation born from 1946 to 1964 are 60 to 78 years old in 2024 and will have used up all the money the government saved for them by the time they are 69 to 87 years old in 2033. Eight years years from now. The nation will be bankrupt if we are not already with the national debt over $30 trillion.

Sounds bad. To repeat. We are happy to report, this is not true. We are unsure of the 2033 date. It is our understanding there is no real money in the trust fund right now. Those reserves are nonmarketable debt. When social security needs to pay more to beneficiaries than it is collecting in taxes from workers, it gives the nonmarketable piece of paper to the U.S. Treasury who then gives them cash. Treasury doesn't have any cash so it sells bonds to the public and then gives the proceeds to social security. The trust fund runs out of money in 2033, but the reality is the payment of social security benefits to retirees "boosts" the Federal budget deficit right now.

The table here shows the social security contributions over 45 years of a worker's lifetime. The government takes the money, says it is investing it for us for retirement, even if the tax collections are used to fund current outlays of the Federal government, spending on food stamps, Army tanks, fixing

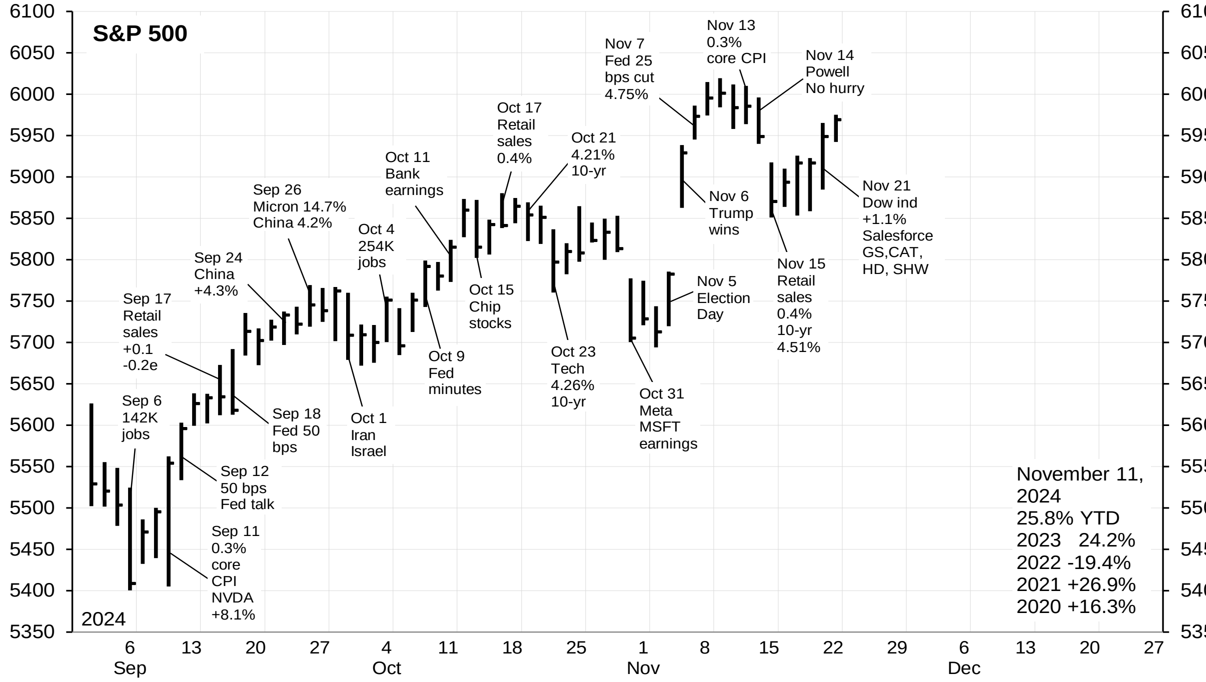
fixing rotten bridges, homeland security. Every so often, a politician wants to allow some privatization of the social security system which would never work as the amounts are too large for everyone to find a place to invest their nest egg. But it is still intriguing to think about what if you had saved all the social security contributions you made for yourself over the years. Would you be better off today if you invested your retirement savings on your own?

45 YEARS OF SOCIAL SECURITY CONTRIBUTIONS						
WHAT IF YOU INVESTED IT YOURSELF?						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Years On the Job	Year	SS Earnings Base $	OASI Tax Rate %	Max Contri-bution	Future Value at 5%	Future Value at 10%
1	1981	29,700	4.7	1396	25084	203496
2	1982	32,400	4.575	1482	25369	196446
3	1983	35,700	4.775	1705	27785	205379
4	1984	37,800	5.2	1966	30512	215287
5	1985	39,600	5.2	2059	30443	205035
6	1986	42,000	5.2	2184	30751	197692
7	1987	43,800	5.2	2278	30541	187423
8	1988	45,000	5.53	2489	31781	186161
9	1989	48,000	5.53	2654	32285	180520
10	1990	51,300	5.6	2873	33277	177612
11	1991	53,400	5.6	2990	32990	168075
12	1992	55,500	5.6	3108	32655	158804
13	1993	57,600	5.6	3226	32277	149830
14	1994	60,600	5.26	3188	30377	134603
15	1995	61,200	5.26	3219	29217	123578
16	1996	62,700	5.26	3298	28508	115097
17	1997	65,400	5.35	3499	28804	111007
18	1998	68,400	5.35	3659	28691	105544
19	1999	72,600	5.35	3884	29002	101841
20	2000	76,200	5.3	4039	28720	96265
21	2001	80,400	5.3	4261	28860	92338
22	2002	84,900	5.3	4500	29024	88642
23	2003	87,000	5.3	4611	28326	82577
24	2004	87,900	5.3	4659	27256	75846
25	2005	90,000	5.3	4770	26578	70598
26	2006	94,200	5.3	4993	26494	67175
27	2007	97,500	5.3	5168	26116	63208
28	2008	102,000	5.3	5406	26020	60114
29	2009	106,800	5.3	5660	25947	57221
30	2010	106,800	5.3	5660	24712	52019
31	2011	106,800	5.3	5660	23535	47290
32	2012	110,100	5.3	5835	23107	44319
33	2013	113,700	5.3	6026	22726	41607
34	2014	117,000	5.3	6201	22272	38923
35	2015	118,500	5.3	6281	21484	35838
36	2016	118,500	5.3	6281	20461	32580
37	2017	127,200	5.3	6742	20917	31793
38	2018	128,400	5.3	6805	20109	29175
39	2019	132,900	5.3	7044	19822	27452
40	2020	137,700	5.3	7298	19560	25858
41	2021	142,800	5.3	7568	19319	24378
42	2022	147,000	5.3	7791	18940	22814
43	2023	160,200	5.3	8491	19658	22602
44	2024	168,600	5.3	8936	19703	21625
45	2025	176,100	5.3	9333	19600	20533
			Total	$211,174	$1,179,614	$4,396,221

Assuming you made the maximum social security earnings base level of income each year along the way, your first social security tax contribution of 4.7% on your earnings of $29,700 in 1981 was $1,396. Your last contribution 45 years later in 2025 is a 5.3% OASI tax on $176,100 of taxable earnings or $9,333 saved for your retirement. Add up all 45 years and you accumulated $211,174. Double that amount if you had convinced your employer to match your annual contributions like the Federal government does for you under the current social security plan. You are really saving 10.6% of your income in 2025 up to a maximum of $176,100.

Over 45 years, whether it is $211,174 or double that, $422,348, which includes your employer contribution, it isn't enough to match the maximum benefit social security will pay you at full retirement age in 2025 which is $4,018 per month… for life, and indexed to inflation each year. (Normal retirement age is 67 years for those born in 1960 or later.) Social security would pay you $48,216 per year and if you had to pay that out of your own savings here, you would have exhausted that retirement money after 10 years. If you had been able to invest the money you contributed yourself, the table above shows a big difference between investment returns averaging 5% per year or 10% per year. With a 5% return in the table above (assumes 5.3% contributed by you and 5.3% from your employer), you would have $1,179,614 after 45 years, and $4,396,221 if you had investment returns of 10%. It is intriguing to think whether social security could be privatized, but doing so would distort private markets, and take away money the Federal government is using to pay current expenses. And investing prudently with a mix of bonds and stocks, it will be more difficult to achieve a 5% average annual rate of return on your investment than it was the past 45 years. Actually, we are not confident what the next 45 years will hold. And it depends partly on how low Fed Chair Powell will lower rates in the next few years. The FOMC forecasts for a 3.0% Fed funds rate at the end of 2026 will take a lot of risk free return money out of the pockets of the elderly with savings in the bank, or rather, savings stashed in money market funds.

INTEREST RATES

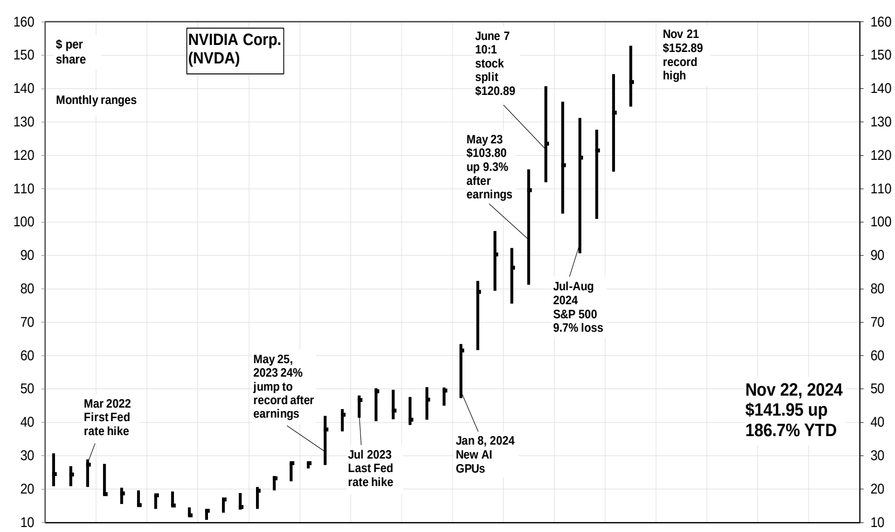


The market is holding up near the highs with only minor updates on the outlook from the economic indicators released this week. Russia and Ukraine brought geopolitical risks back, mostly on Tuesday, shooting missiles at one another. The 10-yr year is holding above 4.40% after lifting from 4.29% on Election Day. For all the concern about the president-elect's economic agenda, yields have not adjusted that much higher for now. Perhaps whistling in the dark or maybe thinking import tariffs and tax cuts will not get fully executed. For stocks, last week the S&P 500 tested the gap left when Trump won the election held Tuesday, November 5, but did not try again this week, even with the Russia Ukraine news on Tuesday that brought bond yields down. The S&P 500 closed up 25.1% YTD on Friday, following on the 2023 gain of 24.2%. Not sure stocks are Fed rate cut dependent.

NVIDIA Corporation (NVDA) up 186.7% YTD

With some hesitation, the stock set a record high after Wednesday, November 20 earnings. The report beat expectations, but revenue "slowed" to 94% year-on-year from 122% in Q2 FY25, and 262% in Q1 FY25. The rally has not been all one-way this year with the stock tumbling 4.7% on October 15 after making a record high close the prior day. The stock closed $139.91 on Election Day.

$mln Quarter	Revenue	Data Center	Gaming	Other
Q3 FY25	35,082	30,771	3,279	1,032
Q2 FY25	30,040	26,272	2,880	888
Q1 FY25	26,044	22,563	2,647	834
Q4 FY24	22,103	18,404	2,865	834
Q3 FY24	18,120	14,514	2,856	750
Q2 FY24	13,507	10,323	2,486	698
Q1 FY24	7,192	4,284	2,240	668
Q4 FY23	6,051	3,616	1,831	604

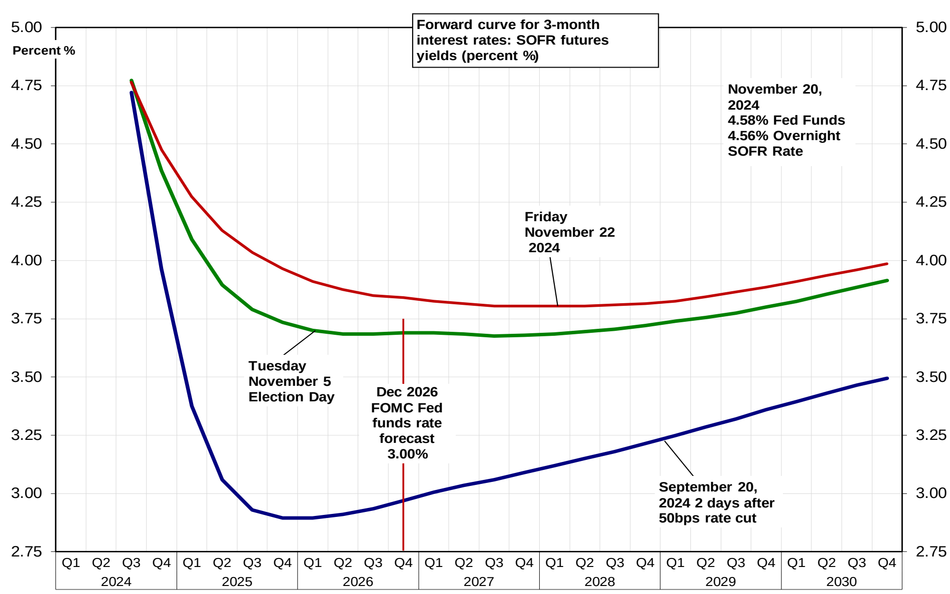


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	20-Nov	13-Nov	6-Nov	30-Oct	3/11/20*	3/11/20
Factors adding reserves						to Nov 20
U.S. Treasury securities	4322.938	4340.060	4339.963	4357.825	2523.031	1799.907
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2262.279	2265.963	2265.963	2265.963	1371.846	890.433
Repurchase agreements	0.011	0.006	0.101	0.031	242.375	-242.364
Primary credit (Discount Window)	2.747	1.830	1.600	1.505	0.011	2.736
Bank Term Funding Program	21.423	26.395	59.758	57.831		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.014	2.042	2.049	2.090		
Main Street Lending Program	9.945	10.153	10.143	10.158		
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	0.132	0.128	0.151	0.157	0.058	0.074
Federal Reserve Total Assets	6974.9	7018.3	7045.6	7063.7	4360.0	2614.880
~~3-month Libor %~~ SOFR %	4.56	4.59	4.81	4.81	1.15	3.410
Factors draining reserves						
Currency in circulation	2358.202	2361.352	2359.810	2356.502	1818.957	539.245
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	737.834	808.857	840.227	847.137	372.337	365.497
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	217.793	238.106	177.871	228.946	1.325	216.468
Federal Reserve Liabilities	3707.587	3826.203	3790.092	3847.954	2580.036	1127.551
Reserve Balances (Net Liquidity)	3267.319	3192.048	3255.532	3215.794	1779.990	1487.329
Treasuries within 15 days	49.439	74.216	86.296	70.055	21.427	28.012
Treasuries 16 to 90 days	232.067	205.975	193.934	215.127	221.961	10.106
Treasuries 91 days to 1 year	458.822	486.014	485.953	484.413	378.403	80.419
Treasuries over 1-yr to 5 years	1499.158	1452.218	1452.216	1467.694	915.101	584.057
Treasuries over 5-yrs to 10 years	548.983	593.297	593.275	592.512	327.906	221.077
Treasuries over 10-years	1534.468	1528.341	1528.291	1528.024	658.232	876.236
Note: QT starts June 1, 2022	Change	11/20/2024	6/1/2022			
U.S. Treasury securities	-1447.841	4322.938	5770.779			
Mortgage-backed securities (MBS)	-445.167	2262.279	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets December 17-18, 2024 to consider its monetary policy. Many Fed voices this week some saying there was a long way to go with the rate cuts before rates hit the neutral level that does the economy no harm, and others not so sure, but neutral could be close to where rates are now, or at least there is no sign even a 4.75% Fed funds rate stands in the way of the economy's advance. Different voices split almost down the middle are understandable given that in the September 2024 forecasts, 10 out of 19 saw rates of 4.5% or lower at the end of the year as opposed to the 9 out of 19 who thought the rate would be 4.75% at the end of the year. January Fed funds futures say a rate cut on December 18 is a coin toss. Longer term, SOFR futures don't think the Fed's 3% Fed funds rate prognostication for the end of 2026 is going to happen. And as far as 2025, the end of the first quarter, April Fed funds futures have a yield of 4.435%, which is only 6.5 bps into a 25 bps rate cut at the March 2025 FOMC meeting, assuming they do cut rates 25 bps to 4.5% in December. Market took Powell's no hurry to heart, or perhaps traders see the president-elect's economic agenda as inflationary.

Fed Policy-key variables					Long
	2024	2025	2026	2027	Term
Fed funds	4.4	3.4	2.9	2.9	2.9
PCE inflation	2.3	2.1	2.0	2.0	2.0
Core inflation	2.6	2.2	2.0	2.0	
Unemployed	4.4	4.4	4.3	4.2	4.2
GDP	2.0	2.0	2.0	2.0	1.8
September 2024 median Fed forecasts					



Fed funds futures call Fed policy	
Current target: November 22 -- 4.75%	
Rate+0.17 Contract	Fed decision dates
4.620 Jan 2025	Dec 18*
4.570 Feb 2025	Adds Jan 29
4.435 Apr 2025	Adds Mar 19
Last trade, not settlement price	
* Not strictly true, Jan 2025 has Jan 29 Fed date, so 2 days could be a new interest rate	

Next up: October PCE inflation report Wednesday, November 27

Monthly	2024									2024	2023				2023
% Changes	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug
Core CPI inflation	0.3	0.3	0.3	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2
Core PCE inflation	0.25e	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1	0.3	0.1
Core PCE YOY	2.8e	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4	3.7	3.8
Core CPI YOY	3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.3

OTHER ECONOMIC NEWS

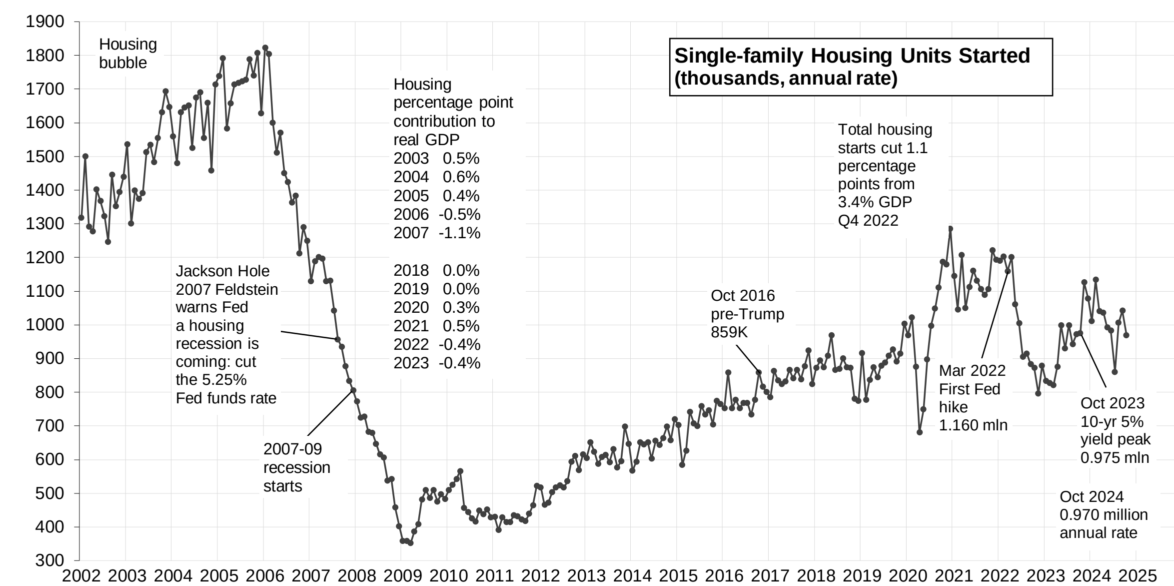
Housing construction storm damage (Tuesday)

Breaking economy news. Housing starts fell 3.1% in October to 1.311 million at an annual rate. The drop would have been larger if not for the 9.8% rebound in 5 units or more housing starts to 326 million reversing the big decline in September. Housing permits have been less volatile and fell just 0.6% to 1.416 million in October.

Housing Starts Total, Single-Family, Multi-Family

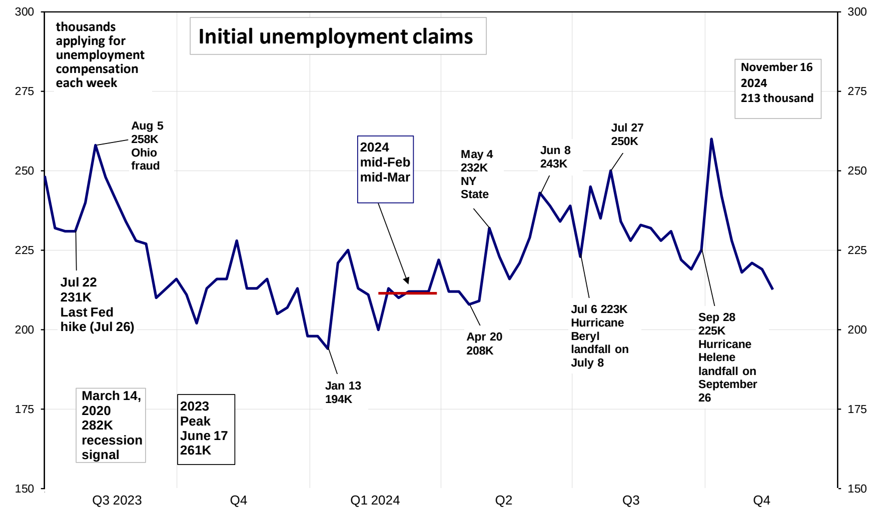
	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Oct 2024	1311	970	326	110	67	197	137	666	537	338	229
Sep 2024	1353	1042	297	164	94	180	131	730	598	279	219
Oct 2024	1365	975	373	79	61	212	115	722	547	352	252
% Chgs											
Oct/Sep	-3.1	-6.9	…	-32.9	-28.7	9.4	4.6	-8.8	-10.2	21.1	4.6
Oct/Oct	-4.0	-0.5	…	39.2	9.8	-7.1	19.1	-7.8	-1.8	-4.0	-9.1

Net, net, despite the weather impact on building down in the South, the recession in residential housing construction remains deep in the woods with no daylight seen for buyers facing supply shortages as they hunt for new single-family homes. The housing shortage and affordability issues will remain unless there is a big jump in new construction. One-family construction dropped 6.9% to 970 million at an annual rate in October with the storm-related decline in the South responsible for almost 85 percent of the nationwide retreat in single-family home starts. Homebuilders are less negative on the outlook, but the backup in mortgage rates that lessens buyer enthusiasm is not helpful. It also will not help the outlook if Powell and crew decide to stop and wait when it comes to lowering the cost of business borrowing further. The wild card is the national election results and time will tell if the housing outlook brightens in the months to come as the new policies from the change in management down in Washington come more fully into view next year. Stay tuned. Hurricane Milton hit Florida on October 9 and there should be a rebound in activity in November as the storm-effect passes.

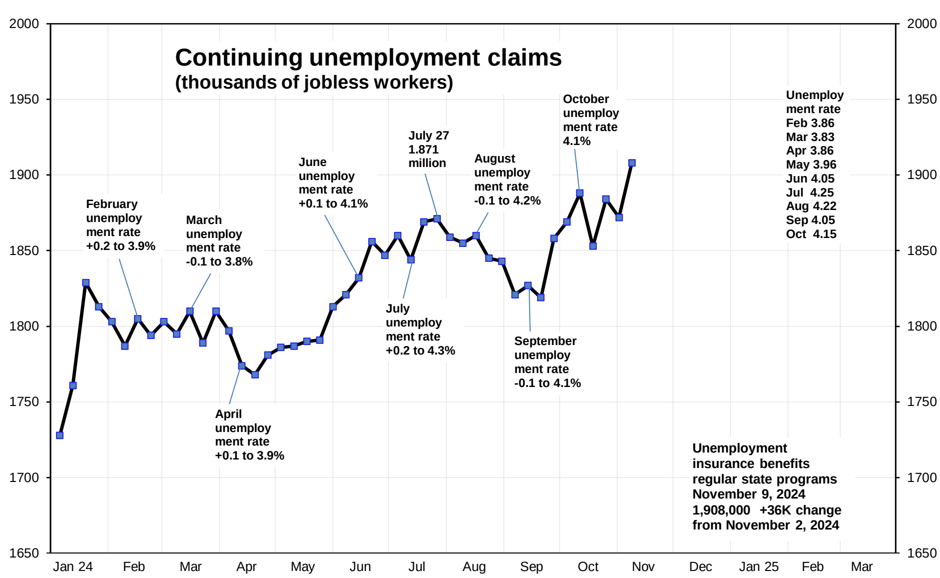


Job market tightens (Thursday)

Breaking economy news. First-time applications for jobless benefits fell 6K to 213K in the November 16 week. Total claims rose 36K to 1.908 million in the November 9 week which is a new 2024 high. Unsure what to make of this as we do not want to predict economic weakness again using this series, but it should be worth a tenth higher move in the 4.1% unemployment rate on Friday, December 6, it was basically already there at a 4.15% two-decimals rate anyway.

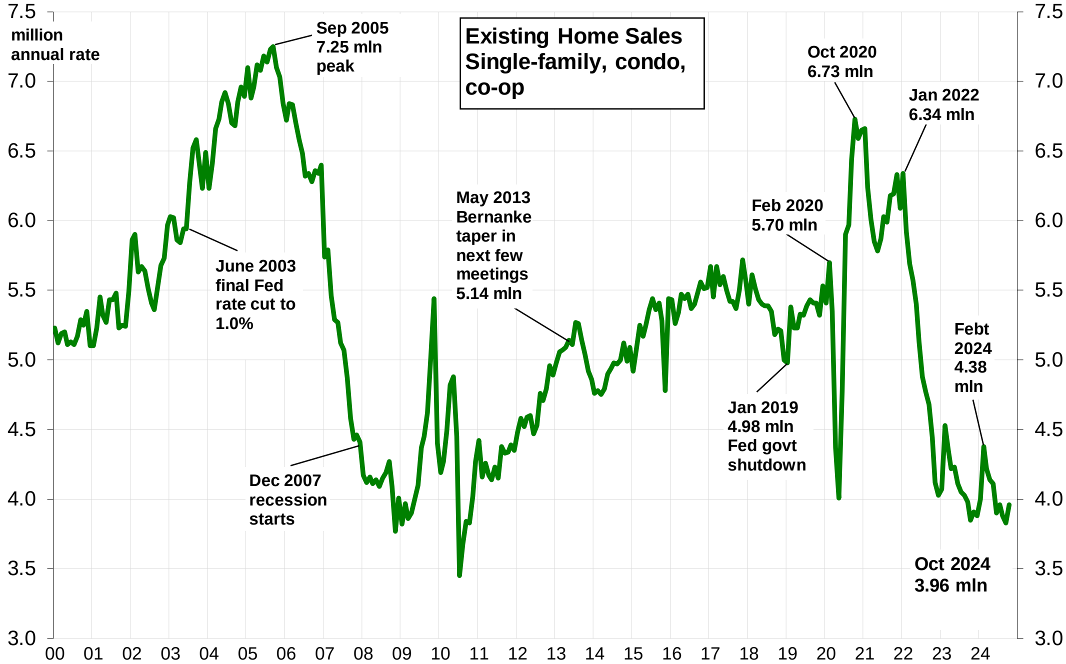


Net, net, another turn of the screw tighter for the labor market with weekly jobless claims falling even further which could be setting markets up for a monster payroll jobs number in a couple of weeks as the labor market comes roaring back from temporary weakness caused by two hurricanes and the Boeing strike a month ago. With many at the Federal Reserve already cautioning on the need for another rate cut at the final meeting this year, the strength seen in the labor market today could be the final straw that breaks the proverbial camel's back and keeps the Committee firmly on the sidelines. Businesses seem frozen like a deer in the headlights as the incoming Administration has a lot of unconventional views that have the potential to turn the economy upside down, so at this point it is better to hold onto the workers you have got before making adjustments to headcount. No one knows when the uncertainty down in Washington will lift, but the president-elect shows all signs of hitting the ground running. Forget the first one hundred days of a new presidency, this one could announce major changes in the first 100 hours.

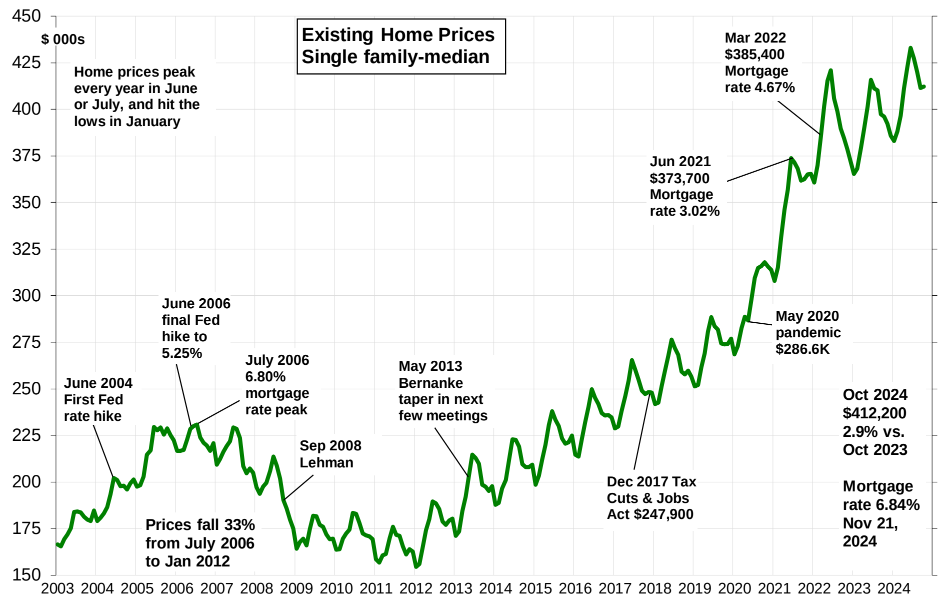


Existing home sales up modestly (Thursday)

Breaking economy news. At 10am ET, existing home sales rose a modest 3.4% to 3.96 million in October but it remains near the lows of the Great Recession and housing bubble collapse over a decade ago. Sales in the West were up just 1.3% while sales in the Midwest increased 6.7%.

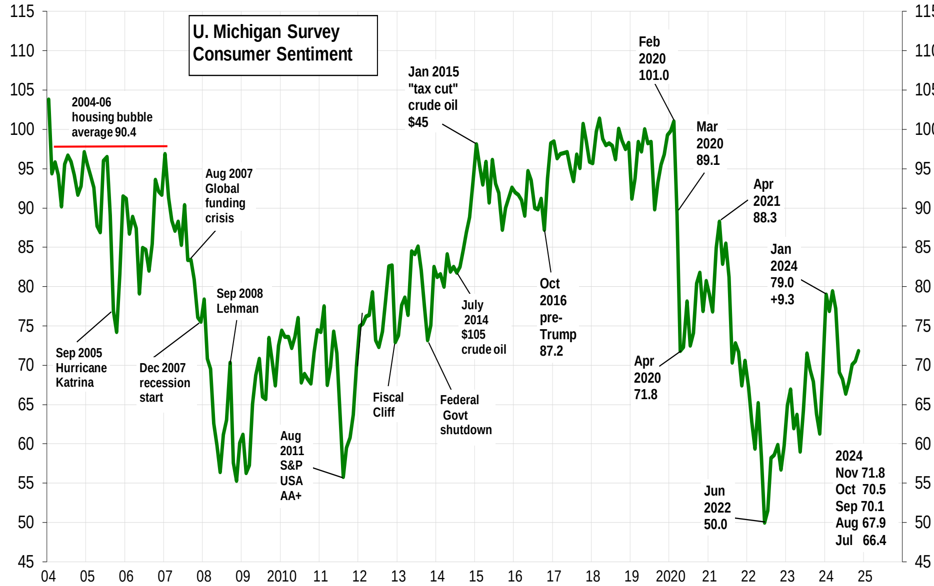


Net, net, activity in the home resale market remains moribund as it awaits for new initiatives from the new Administration coming in next January to reinvigorate sales. We may have a long wait because sellers are very reluctant to change homes as it would mean giving up their low 3% mortgages with mortgage rates stuck up near 6-3/4 percent despite the Fed cutting interest rates 75 bps so far this year. Stay tuned. Sales nationwide lifted 3.4% in October, and the 2.9% increase in the biggest market (Texas and Florida) down South did not see any hurricane effect, but the existing home sales market could take another couple of years to recover unless mortgage rates miraculously fall back to pre-pandemic levels. Meanwhile, the housing price bubble continues to inflate with existing single-family home prices rising 0.2% in October to $412,200. Ordinarily, home prices decline this time of year all the way down to the winter lowpoint early in the New Year.

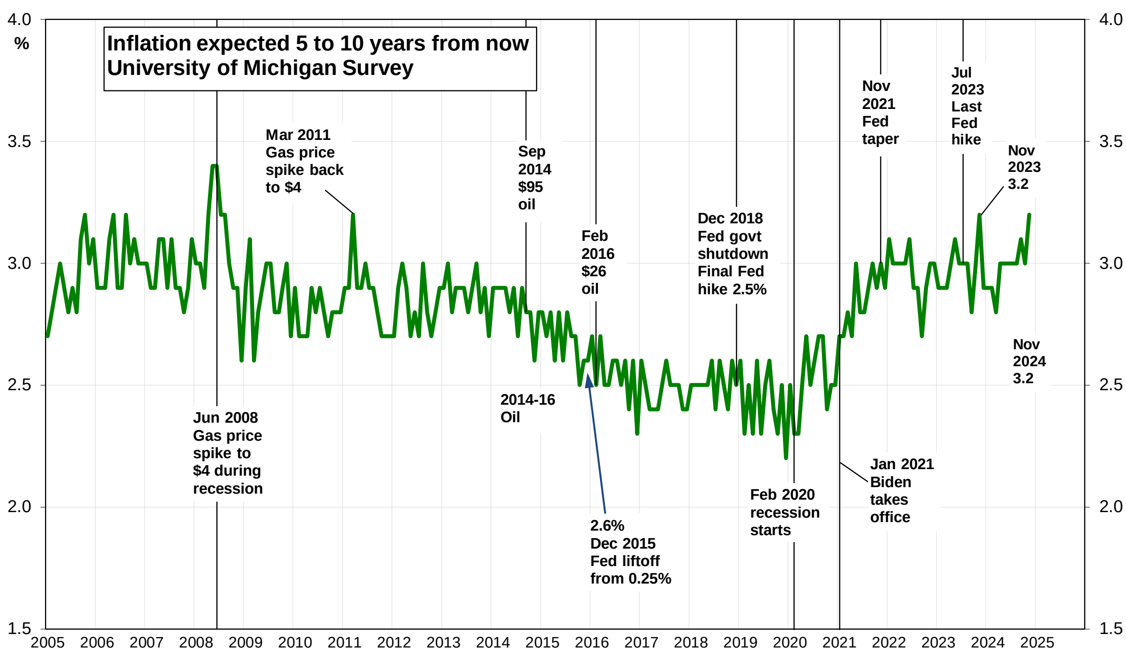


Consumer sentiment down after election (Friday)

Breaking economy news. Consumer sentiment was revised from 73.0 to 71.8 in November where it was 70.5 in October. That is it the University of Michigan survey said for the post-election results, 73.0 down to 71.8 even if expectations “surged for Republicans and fell for Democrats.” Inflation expectations did move up in November to 3.2 over the next five years, the highest since 3.2 in November 2023.



Net, net, if the consumer is in the driver’s seat for the economy, the post-election survey results do not clarify the economic outlook to any significant degree, or answer the crucial question of just how much more are consumers likely to spend this holiday season to drive the economy forward. The one thing consumers do agree on is inflation is going to worsen over the long run which is likely the result of the president-elect’s economic agenda which could turn the economy upside down with budget-busting tax cuts and import tariffs. As mortgage yields rise with the post-election bond market sell-off, consumers may be worried about their ability to borrow to buy a house next year. The outlook is not grim, but the fog of uncertainty is not going to lift until the new proposals from Washington become a reality.



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