Financial Markets This Week

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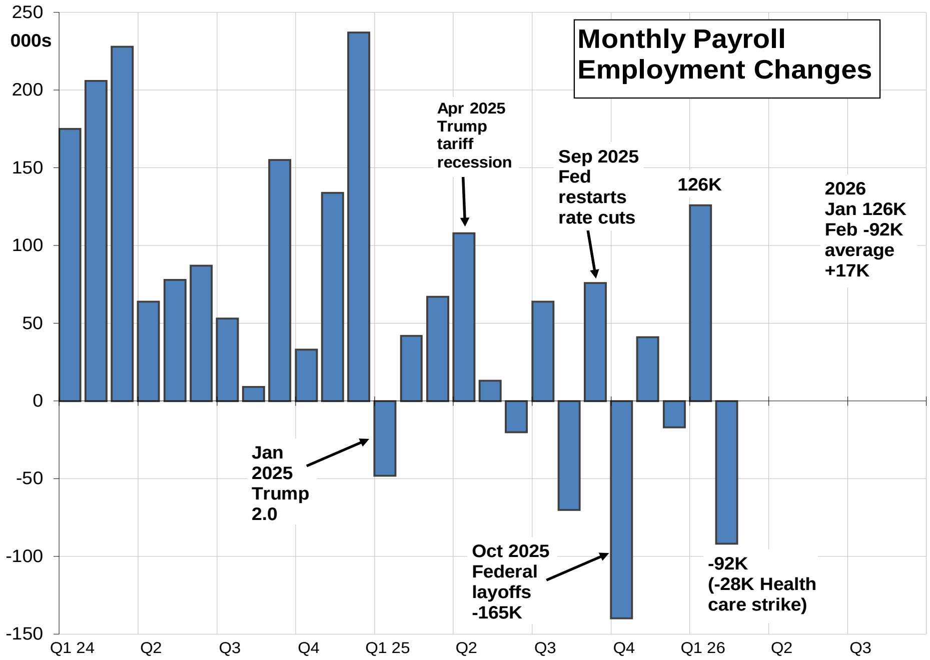
JOBS RECESSION

Jobs recession, not a full recession. Payroll jobs have to decline for three consecutive months for that. Since the April 2025 Liberation Day tariff announcement, payroll jobs have been up one month and down the next, up/down, down/up, repeat. Chaos breeds chaos. The labor market cannot make up its mind. We never liked the "big" January jobs report, although we cannot really blame the new Birth/Death model rules, or at least that effect washes out over the first two months of 2026. 126K jobs in January and now -92K jobs in January where the average is 17K per month so far this year. The 92K drop was partly on the strike at Kaiser Permanente in California and Hawaii in February, where 31K nurses and others was the estimate at the time. It was cold in February as shown by the 11K drop in construction and 30K drop at bars and restaurants.



Payroll employment falls 3 straight months in recession, so not there yet. All jobs count but we watch private jobs because of the big hiring and firing of Federal workers during the census population count every ten years. Both series fell 3 months in March 2008 for the December 2007-June 2009 "great" recession, where January 2008 is the first month of the economy's decline by definition. Federal jobs have to be measured especially due to the loss of 327K Federal jobs ex-post office since Trump 2.0 came in (December 2024 is the start). It does not look like any of these Federal workers got private jobs looking at the statistics here which are weak.

Payroll Employment Changes (thousands

March 2001 to November 2001 Recession "8 months"							
	Nov 00	Dec 00	Jan 01	Feb 01	Mar 01	Apr 01	May 01
Total	204	160	-13	85	-37	-293	-50
Private	187	116	-44	14	-76	-340	-87
December 2007 to June 2008 Recession "18 months"							
	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08
Total	115	105	-4	-62	-70	-219	-189
Private	78	63	-16	-91	-96	-226	-222
No Recession in 2026 yet							
	Aug 25	Sep 25	Oct 25	Nov 25	Dec 25	Jan 26	Feb 26
Total	-70	76	-140	41	-17	126	-92
Private	-20	68	13	72	-7	146	-86

More chaos in the Household Survey measure of the labor market. Last month they said employment rose 528K in January and now after the annual update from the population controls, employment dropped 895K in January… although the BLS always says the series starting in January is not comparable to the series ending in December, so if you do this annual update every year, you don't really have a reliable economic time series. Hopefully, the ratio of the unemployed to the labor force (unemployed plus employed) is still valid and it edged up from 4.3% in January to 4.4% in February, echoing the weak payroll jobs, and it was nearly 4.5% (4.44%). The population controls updates the population of course and that data is a mess due to the 180 on migration. In February, the population NSA rose 0.7% or 1.919 million to 274.766 million (16-years or older) from a year ago, but foreign born fell 741K or 1.5% to 49.316 million, while native born rose 2660K or 1.2% to 225.450 million. Foreign born males fell 1.247 million and you can guess why. Stay tuned. Labor market is weak, but more and larger payroll jobs report declines, and a higher unemployment rate, are needed for a full-blown recession. On the other hand, business orders and industrial production say no recession is coming.

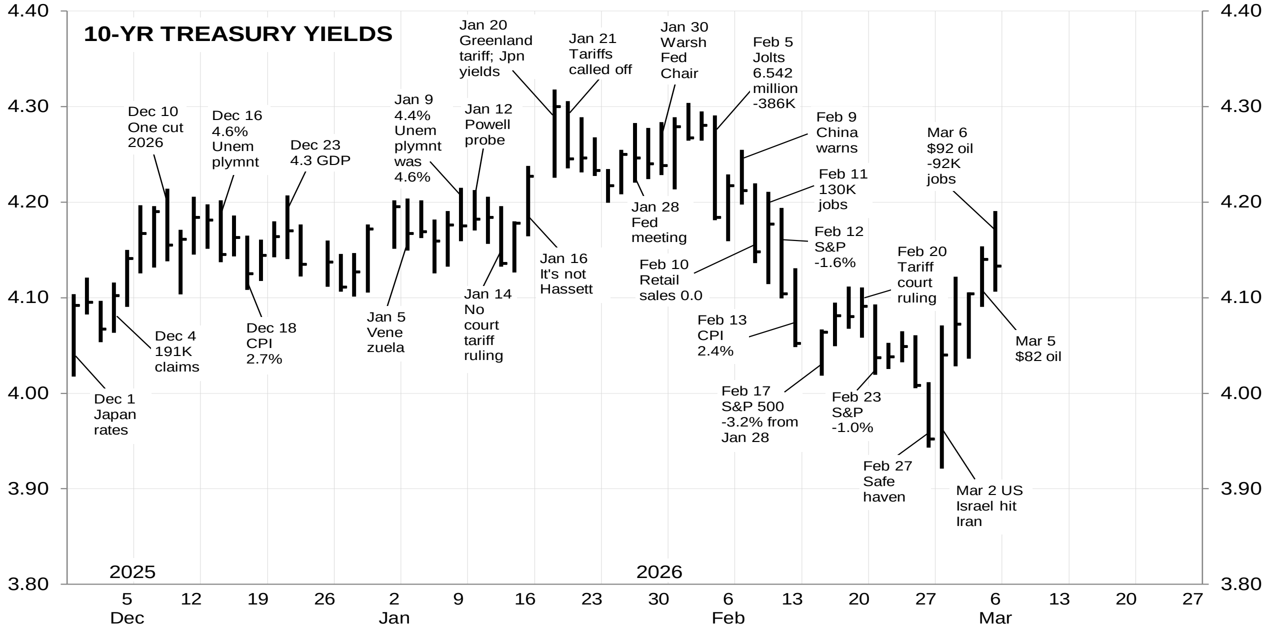
2025 Payroll jobs revised to 116K from 584K

Dec. 2024 Totals millions		Feb 26	Jan 26	Dec 25	After 12 months Dec 24 to Dec 25	Before 12 months Dec 23 to Dec 24
158.316	Nonfarm Payroll Employment	-92	126	-17	116	584
134.787	Total Private (ex-Govt)	-86	146	-7	296	733
21.591	Goods-producing	-25	51	-21	-135	-70
0.581	Mining	-1	-1	0	-15	-13
12.693	Manufacturing	-12	5	-13	-113	-68
0.988	Motor Vehicles & parts	-2	0	-4	-37	-28
1.011	Computer/electronics	-1	0	0	-22	-18
1.779	Food manufacturing	-2	2	-1	1	-1
8.276	Construction	-11	48	-7	-4	14
5.239	Specialty trade contractors	-11	33	-12	-17	0
113.196	Private Service-providing	-61	95	14	431	803
28.811	**Trade, transportation, utilities**	-2	1	-33	-195	-67
15.460	Retail stores	2	11	-24	-47	2
3.233	General Merchandise	8	16	-15	-16	-4
3.244	Food & Beverage stores	-6	8	-15	3	1
6.663	Transportation/warehousing	-11	-12	-5	-108	-59
1.495	Truck transport	-1	-4	-1	-28	-4
0.564	Air transportation	5	-1	-1	8	12
1.094	Couriers/messengers	-17	-6	7	-43	-34
1.881	Warehousing and storage	2	-4	-6	-45	-53
2.895	**Information**	-11	-19	-6	-53	-30
0.481	Computing, data, web hosting	0	-4	-7	-8	-7
9.179	**Financial**	10	-30	1	7	38
3.015	Insurance	1	-13	-5	-23	-17
2.456	Real Estate	6	-11	2	-4	17
1.378	Commercial Banking	-3	-6	2	-7	-5
1.124	Securities/investments	8	3	4	34	35
22.532	**Professional/business**	-5	18	-19	-160	-97
2.542	Temp help services	-7	3	-14	-91	-99
2.619	Management of companies	-2	-5	-4	3	11
1.713	Architectural/engineering	2	5	3	33	36
2.431	Computer systems/services	6	-4	-1	-51	-47
1.207	Legal services	3	4	1	24	16
1.125	Accounting/bookkeeping	-1	0	-4	5	16
26.945	**Education and health**	-34	129	38	682	709
4.044	Educational services	-16	13	-4	-5	-4
17.908	Health care	-28	77	30	387	405
8.954	Ambulatory health care	-34	46	9	167	157
5.581	Hospitals	12	19	18	137	164
3.373	Nursing/residential care	-6	12	4	83	84
4.993	Social assistance	9	40	12	299	308
16.862	**Leisure and hospitality**	-27	-12	25	99	188
1.944	Hotel/motels	-5	-11	15	-6	-4
12.265	Eating & drinking places	-30	13	-5	78	150
23.529	Government	-6	-20	-10	-180	-149
2.411	Federal ex-Post Office	-15	-29	-12	-283	-268
5.515	State government	5	-1	-5	-39	-45
2.644	State Govt Education	7	6	-3	-42	-53
15.005	Local government	-1	10	6	146	170
8.174	Local Govt Education	1	0	-6	58	75

Monthly changes (000s)	Feb	Jan	Dec	Nov	Oct
Payroll employment	-92	126	-17	41	-140
Private jobs	-86	146	-7	72	13
Federal govt ex-post office	-15	-29	-12	-17	-165
Bars/Restaurants	-30	13	-5	22	43
HH Employment Survey*	-185	-895	232	na	na
Unemployment rate %	4.4	4.3	4.4	4.5	na
Participation rate %	62.0	62.1	62.4	62.5	na
Not in labor force (mln)	104.283	104.211	103.321	103.092	na
... and Want A Job (mln)	5.974	5.838	6.208	6.139	na
Average hourly earnings	$37.32	$37.17	$37.02	$37.00	$36.85
MTM % Chg	0.4	0.4	0.1	0.4	0.4
YOY % Chg	3.8	3.7	3.7	3.9	3.9

* Household (telephone) Survey of employment behind unemployment rate

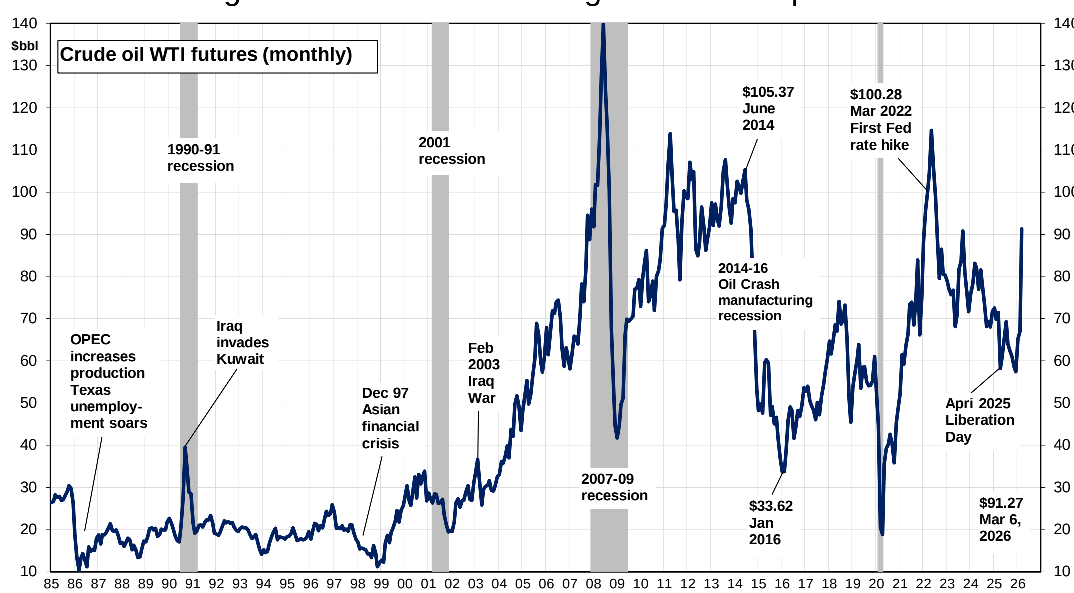
INTEREST RATES



Market reaction was all about the news of the US and Israel attack on Iran early Saturday morning February 28. Bond yields were thought to rally on safe haven from the war, but instead rose on the jump in crude oil prices and gasoline at the pump. Retail sales have been flat for two months and probably are not going to lift much with gas prices going up, at least initially. The President said finally he wanted a complete surrender of Iran which sounds like something from World War II and the market was not expecting this. The Fed gives new quarterly interest rate forecasts on March 18, and this will be interesting ahead of former Fed governor Warsh getting in there. Only one rate cut is seen currently for all of 2026. The economy is more insensitive to Fed rate movements, but lowering the mortgage rate, not likely without a 1% Fed rate, would have a huge impact on housing, maybe a new bubble.

Rising crude oil prices latest risk for the economy

The month-end continuous crude oil futures contract here was rising Friday, February 27 ahead of the early Saturday, February 28 U.S. Israel bombing attack on Iran. The contract was $65.21 Thursday, $67.02 Friday, then traded as high as $75.23 on Monday, March 2. That was then, and the close Friday, March 6 was $91.27 on the thought the war could last longer. When Iraq attacked Kuwait in August 1990, it doubled oil prices and was a famous external shock that sent the US into recession. Oil prices doubled during the inflation outbreak on Powell's watch, but there was no recession. Stay tuned.

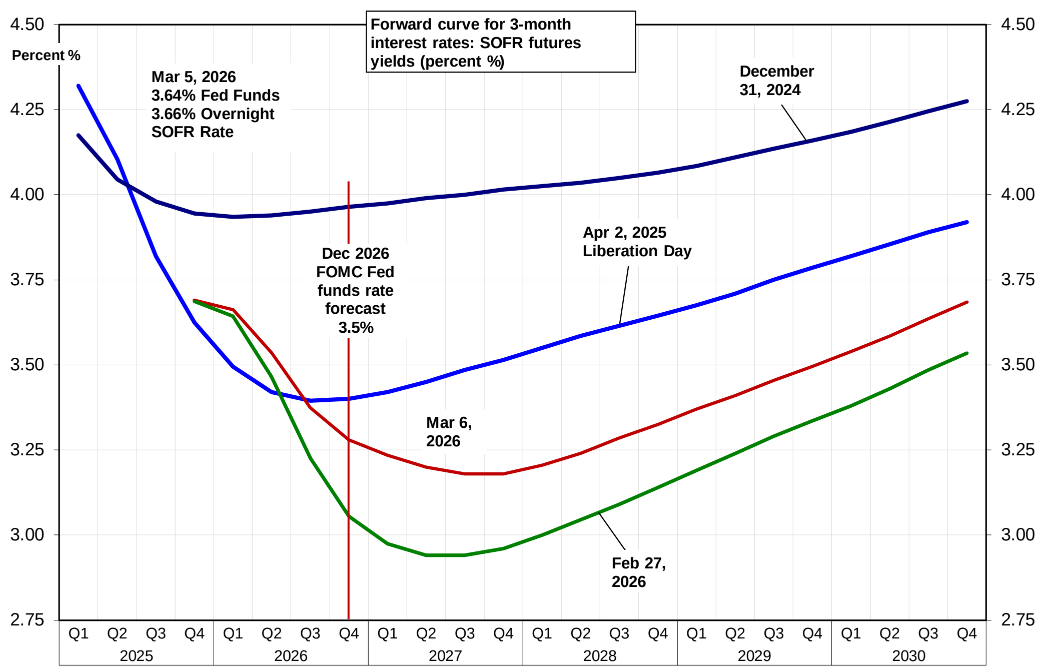


FEDERAL RESERVE POLICY

The Fed meets March 17-18, 2026 to consider its monetary policy. Not to keep picking on Miran even though he may be a leading indicator of the way Fed 2.0 goes. Last week he thought four rate cuts in 2026 to 2.75%. This week he opined that a neutral interest rate level, that neither pushes the economy forward nor retards growth, was 2.5-2.75 percent. It is harder to guess at neutral rates given the economy is less sensitive to rates in recent years. It took forever for zero Fed rates to speed the economy up, and the 5.5% recession magnitude Fed rate peak in July 2023 did not bring down the House. Sometimes it was theorized that businesses would borrow more to finance projects if the Fed dropped rates, but there is already a ton of foreign investment projects coming this way after the Trump 2.0 trade negotiations. Investment coming as long as there is a Trump 2.0. After Friday's drop in payroll jobs there were not a lot of Fed fingers pointing to new downside risks to the labor market, which means rate cuts. Stay tuned.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	4-Mar	25-Feb	18-Feb	11-Feb	3/11/20*	3/11/20
Factors adding reserves						to Mar 4
U.S. Treasury securities	4336.533	4321.596	4305.596	4297.606	2523.031	1813.502
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2010.418	2010.418	2023.727	2023.710	1371.846	638.572
Repurchase agreements	0.006	0.003	0.006	0.113	242.375	-242.369
Primary credit (Discount Window)	4.713	4.483	4.775	4.418	0.011	4.702
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	0.049	0.049	0.053	0.056		
Main Street Lending Program	1.324	1.323	1.322	1.324		
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	0.030	0.055	0.058	0.024	0.058	-0.028
Federal Reserve Total Assets	6679.4	6664.6	6664.4	6673.4	4360.0	2319.401
~~3-month Libor %~~ SOFR %	3.67	3.67	3.73	3.65	1.15	2.520
Factors draining reserves						
Currency in circulation	2438.431	2432.413	2431.064	2430.663	1818.957	619.474
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	846.979	838.975	888.854	910.533	372.337	474.642
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	0.877	1.159	0.856	1.048	1.325	-0.448
Federal Reserve Liabilities	3665.710	3660.158	3704.410	3714.914	2580.036	1085.674
Reserve Balances (Net Liquidity)	3013.716	3004.429	2959.961	2958.493	1779.990	1233.726
Treasuries within 15 days	50.118	62.087	61.400	75.381	21.427	28.691
Treasuries 16 to 90 days	290.108	266.868	258.173	235.562	221.961	68.147
Treasuries 91 days to 1 year	515.613	496.769	490.135	495.568	378.403	137.210
Treasuries over 1-yr to 5 years	1390.474	1411.100	1411.109	1382.100	915.101	475.373
Treasuries over 5-yrs to 10 years	496.220	492.751	492.753	506.012	327.906	168.314
Treasuries over 10-years	1594.001	1592.021	1592.028	1602.982	658.232	935.769
Note: QT starts June 1, 2022	Change	3/4/2026	6/1/2022			
U.S. Treasury securities	-1434.246	4336.533	5770.779			
Mortgage-backed securities (MBS)	-697.028	2010.418	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables					Long
	2025	2026	2027	2028	Term
Fed funds	3.6	3.4	3.1	3.1	3.0
PCE inflation	2.9	2.4	2.1	2.0	2.0
Core inflation	3.0	2.5	2.1	2.0	
Unemployed	4.5	4.4	4.2	4.2	4.2
GDP	1.7	2.3	2.0	1.9	1.8
December 2025 median Fed forecasts					



50/50 now the chance of a 25 basis point rate cut to 3.5% by the June 2026 meeting.

Fed funds futures call Fed policy	
Current target: March 6 -- 3.75%	
Rate+0.11 Contract	Fed decision dates
3.705 May 2026	Mar 18, Apr 29
3.620 Jul 2026	Adds Jun 17*
*July 2026 could be two days at a new rate	

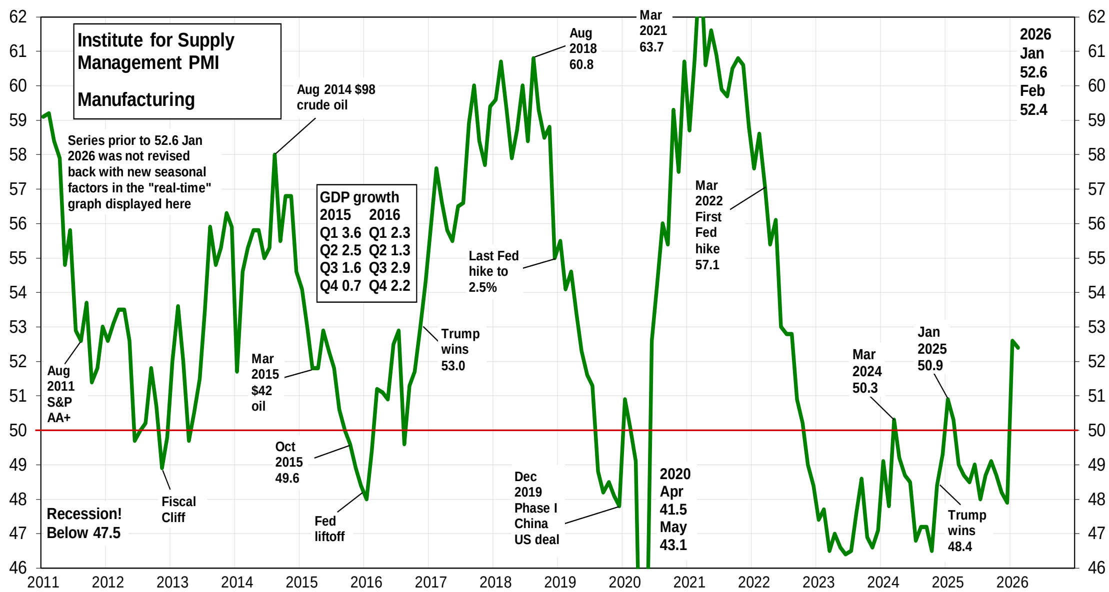
Next up: February CPI inflation Wed, March 11, January PCE inflation Fri, March 13

Monthly	2026	2025											2025	2024	
% Changes	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov
Core CPI inflation	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3	0.4	0.2	0.3
Core PCE inflation		0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3	0.2	0.1
Core PCE YOY		3.0	2.8	2.8	2.8	2.9	2.9	2.8	2.8	2.6	2.7	3.0	2.8	3.0	3.0
Core CPI YOY	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9	2.8	2.8	2.8	3.1	3.3	3.2	3.3

OTHER ECONOMIC NEWS

ISM manufacturing expanding a second month (Monday)

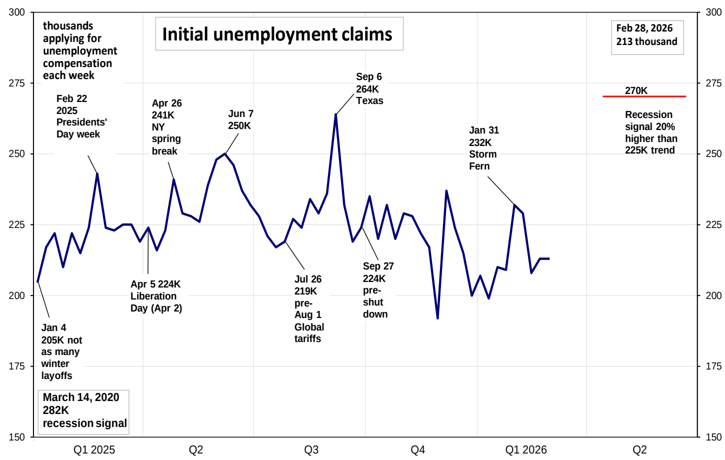
Breaking economy news. ISM manufacturing index. We think it is breaking news although S&P put out their own manufacturing index 15 minutes earlier at 945am ET. How many surveys can manufacturers fill out every month, checking a box whether production was up or down or unchanged? There was a lot going on after the U.S. and Israel attacked Iran over the weekend and it was hard to see a lasting market reaction from the ISM data on Monday at 10am ET. ISM was above the 50-line that separates an expanding sector from one that is in decline or recession. The index was 52.4 in February versus 52.6 in January. Real data like business orders and the Fed's manufacturing industrial production index have been stronger lately, although there have been factory job losses. Trump 2.0 economists say hold on, investments tied to the trade war tariff are coming, although at the moment factory construction is weak, except for some data center construction. Stay tuned.

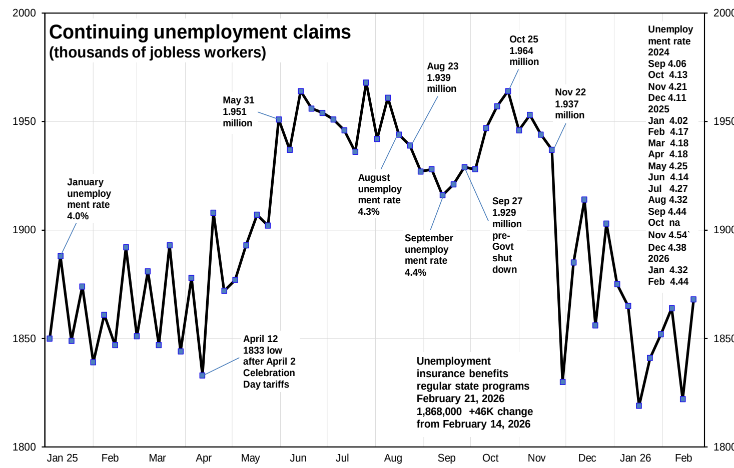


ISM manufacturing index				
	Feb 26	Jan 26	Dec 25	Nov 25
PMI index	52.4	52.6	47.9	48.0
Prices	70.5	59.0	58.5	58.5
Production	53.5	55.9	50.7	51.1
New orders	55.8	57.1	47.4	47.3
Supplier deliveries	55.1	54.4	50.8	49.3
Employment	48.8	48.1	44.8	44.1
Export orders	50.3	50.2	46.8	46.2
Import orders	54.9	50.0	44.6	48.9

Jobless claims stable, productivity too (Thursday)

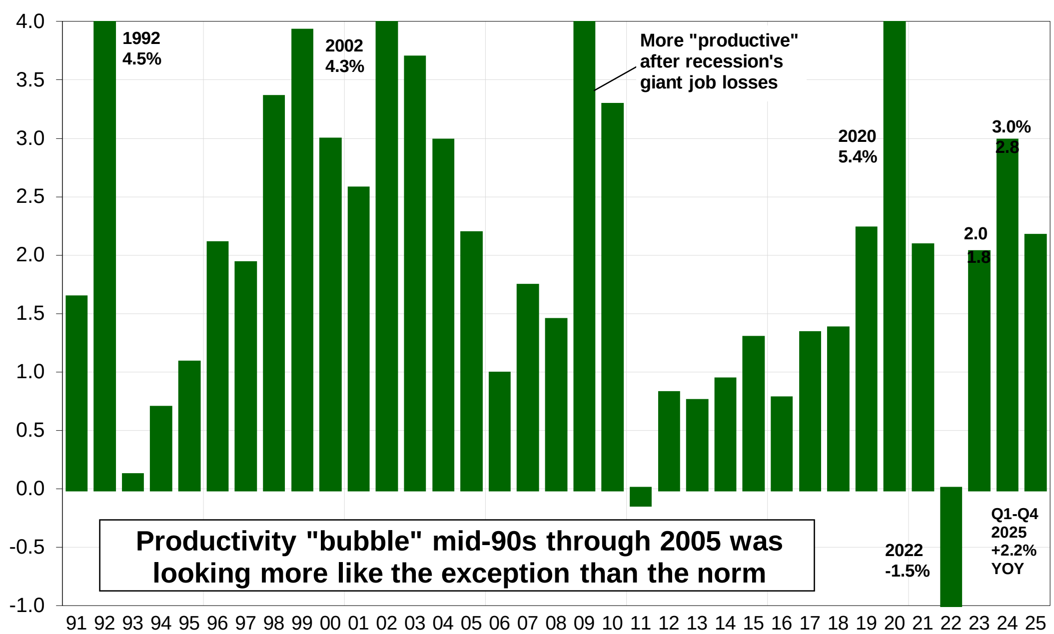
Breaking economy news. First-time applications for unemployment compensation were unchanged at 213K in the February 28 week, The total number of recipients rose 46K to 1.868 million in the February 21 week, and do not signal a rise in the unemployment rate, but of course the unemployment rate rose from 4.3% in January to 4.4% in February in the Friday report, and just missed 4.5% (4.44). There were 7.571 million unemployed persons behind the 4.4% February rate. Anyway, the Department of Labor should do its annual revision in a few weeks which could change this continuing unemployment claims series dramatically.





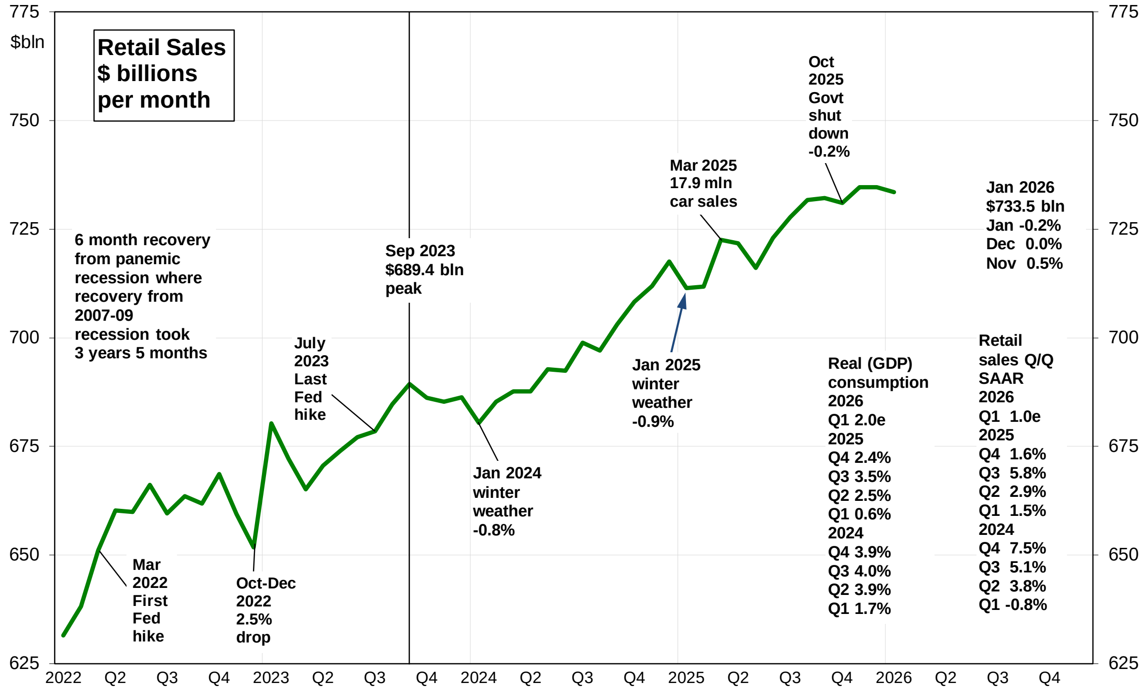
Final Productivity for 2025

We cannot see any AI jobs elimination in the productivity data, although it would be a surprise to see productivity increase much from 2.2% in 2025 down from 3.0% in 2024. Output rose 2.6% in 2025 but hours worked rose 0.4% so productivity increased 2.2%. With AI presumably there will be fewer hours needed to be worked to generate output. During recessions, employment tumbles so it looks like productivity is high but only because fewer are working, and nothing to celebrate.



Retail sales flat for two months (Friday)

Breaking economy news. The delayed January retail sales report was reported the same time as the February jobs report. Usually a market mover but the data a month later for February payroll jobs was released at the same time. Retail sales fell 0.2% in January and was flat in December. Car and light truck sales bounced more than expected in February, from the weak January cold-weather start to the year so we will forecast real consumption expenditures in Q1 2026 of 2.0%, down a little from 2.4% in Q4 2025. Probably a risky forecast given the slow rise in new payroll jobs, workers with paychecks to spend, over recent months. Quite a jobs slowdown from the first half of 2025. We will keep with our 1.5% real GDP forecast for Q1 2026 for now. The Atlanta Fed GDPNow cut their forecast on Friday from 3.2% to 2.1%. Q1 2026 GDP is due for release on Thursday, April 30.



Retail spending, actual dollars, each month

	$million Jan	% to Total	Percent Changes % Jan	Dec	Year/year
Total Retail Sales	733,537	100.0	-0.2	0.0	3.2
Motor vehicles/parts	137,217	18.7	-0.9	-0.2	0.1
Furniture/furnishings	11,070	1.5	0.7	-1.5	-3.5
Electronics/appliances	7,678	1.0	-0.6	-0.1	2.0
Building materials/garden	41,040	5.6	0.6	1.2	4.3
Food & beverage	85,305	11.6	0.2	0.3	1.4
Health/personal care	38,910	5.3	-3.0	-0.3	2.9
Gasoline stations	51,190	7.0	-2.9	-0.1	-3.7
Clothing/accessories	26,732	3.6	-1.7	-0.7	3.0
Sporting goods, books	8,168	1.1	-1.2	-0.5	3.2
General merchandise	77,724	10.6	0.4	0.0	1.5
Department stores	3,035	0.4	-6.0	3.9	-8.3
Miscellaneous retailers	15,754	2.1	2.0	0.0	10.8
Nonstore retailers (internet)	132,921	18.1	1.9	0.2	10.9
Eating & drinking places	99,828	13.6	-0.2	-0.2	3.9
[Total ex-autos/gas]	545,130	74.3	0.3	0.1	4.7

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