Financial Markets This Week

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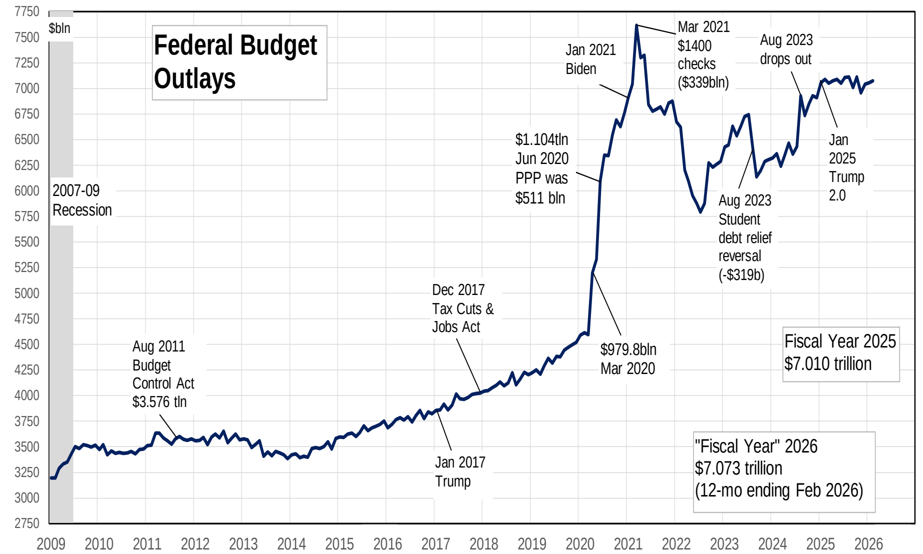
GOVT SPENDING



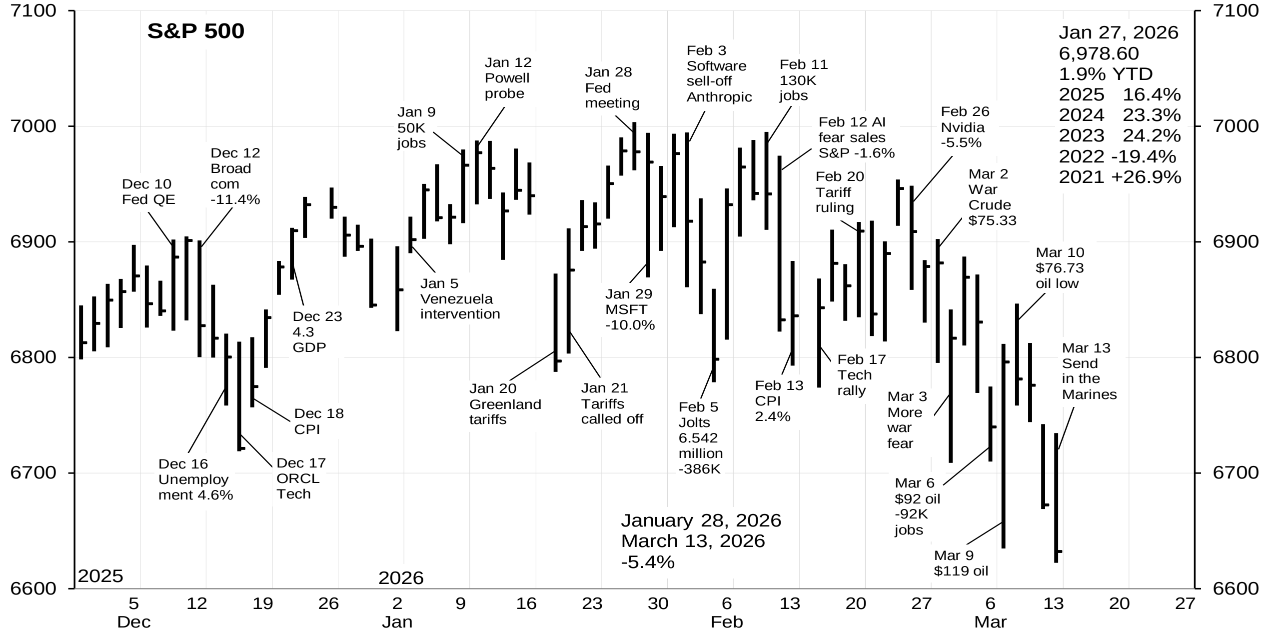
The February Federal budget results are out. Government spending looks flat in the graph; maybe two ways to read this, either not enough cuts for some, keeping in mind these are nominal dollars and inflation means real spending is actually less, or on the other hand, this is a pretty good outcome where maybe there is a chance Federal outlays run sideways like they did following the August 2011 Budget Control Act. Federal government spending was $7.010 trillion in FY 2025 ending September, and is running $7.073 trillion in the 12-months ending February 2026. The Federal budget deficit is $1,633.2 billion now in February 2026, 12-month trailing sum, versus $1,775.4 billion in FY25. The war with Iran has shifted attention to defense spending with the story this week that the first week of fighting cost $11.3 billion. What happens to the deficit when the defense spending (military programs) of $826.3 billion in FY25 gets boosted by the Trump 2.0 wish for a 50% increase, $413 billion, as floated earlier by the Administration. Tariffs, customs duties were still $26.594 billion in February despite the court ruling, and with collections effectively running a month behind, it could be another couple of months to see any reduction before going back up with the new 10% across-the-board increase. Meanwhile, don't ask when the social security trust fund will run out, become insolvent, there's no money in it right now. Benefits are greater than payroll tax receipts right now every month, and the difference is funded elsewhere, like from the market. There are no reserves. Social security needs real cash right now, and is getting it. Stop worrying about the dire social security trustees 2034 warning date of insolvency. It is a myth. The red ink is being covered right now by a mix of Treasury borrowing and other Federal government receipts including your income taxes. Stay tuned. Government spending is flat for now.

Selected Federal Budget Items Mostly Outlays In The News ($bln)

	Feb 25	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec 25	Jan 26	Feb
Tariffs	7.247	8.168	15.634	22.173	26.632	27.670	29.503	29.675	31.354	30.756	27.982	27.742	26.594
Food stamps	8.129	8.929	8.628	8.638	8.716	8.829	8.530	8.867	8.732	7.709	8.998	8.189	7.594
Social Security	-27.814	-34.081	-5.630	-30.616	-5.251	-36.757	-35.180	-34.383	-42.329	-35.466	-30.387	-13.984	-31.993
Gross Interest	85.872	104.413	101.650	92.230	144.625	91.913	111.466	91.270	104.404	96.255	153.922	71.888	93.483
Adj. Interest	74.165	92.875	89.376	86.015	84.345	92.011	92.699	36.900	90.871	87.853	91.540	75.944	78.644
Total Outlays	603.441	528.174	591.769	686.881	499.436	629.635	689.107	345.725	688.704	509.279	629.136	654.667	620.623

*"Social security" is a net figure: Payroll taxes minus Benefits paid, normally a deficit funded by other taxes, Treasury borrowing from market etc.

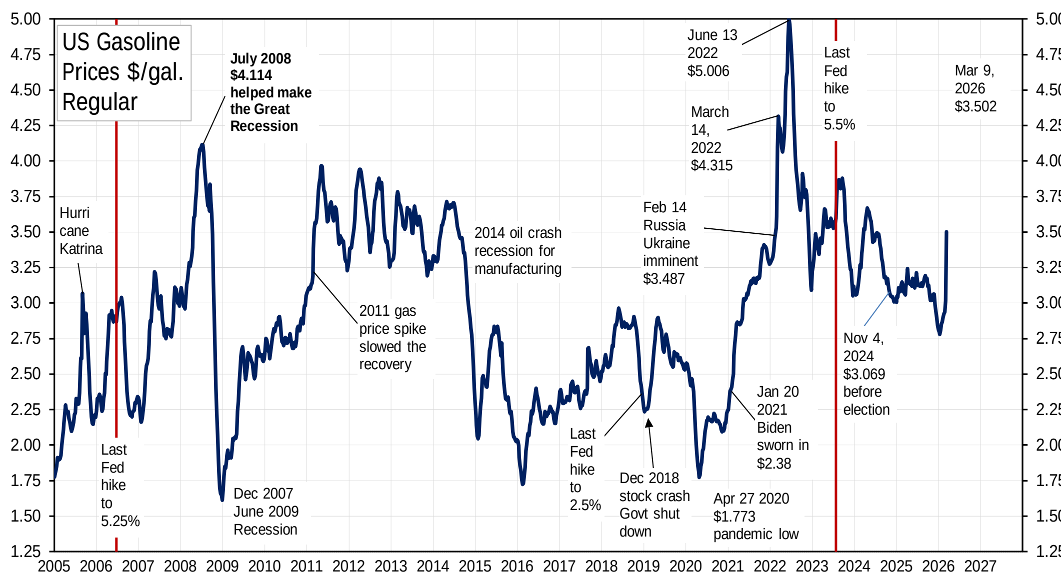
INTEREST RATES



How’s the war going? That is all the market wanted to hear about this week, and stocks and bonds watched crude oil prices closely. Friday’s story about Marines going to the Mideast pushed oil prices higher and stocks lower finally. Last trade Friday on April crude oil futures was $99.31, after the brief panic peak of $119.48 at the Sunday, March 8 open. The low was $76.73 on Tuesday afternoon. The Fed makes their decision Tuesday, March 18 with the new forecasts released at 2pm ET. Core PCE inflation is 3.1% and miles above the 2.0 target, so perhaps they take the one 25 bps rate cut forecast for 2026 back off the table. Bond yields are moving up on war cost stories and some private equity credit stories/concerns; since February 26: Morgan Stanley -12.7%, Goldman -15.8%, with S&P 500 just -4.0%. The S&P 500 made a new 2026 low on Friday, and 10-year yields closed Friday at 4.28%.

Rising gasoline prices are not enough of a shock yet for the economy

The week-ending Monday regular gas prices from the Energy Information Agency EIA (supposed to be “cash” prices, although we always use a credit card which is usually 10 cents more) was $3.502 on March 9, 2026 while AAA gas prices were $3.47. [AAA gas prices were $3.630]() on Friday, March 13. Gas prices were $2.937 on February 23 before the US Israel attack on Iran the final day of the month, so the rise of roughly 70 cents is not enough yet to bring the economy to a screeching halt, looking back historically. It will be a headwind of course.

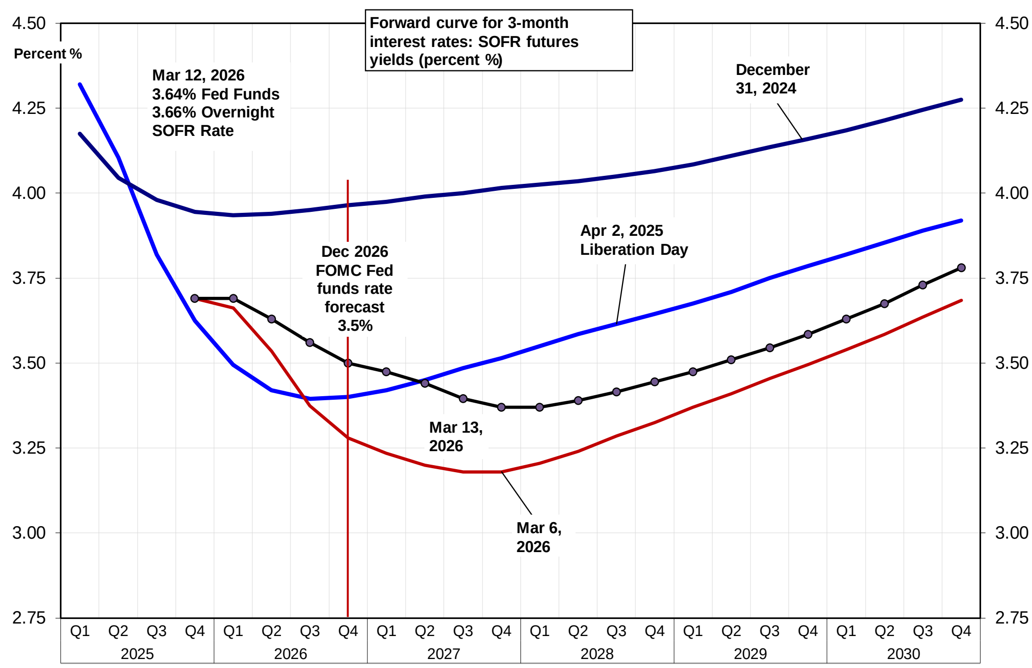


FEDERAL RESERVE POLICY

The Fed meets March 17-18, 2026 to consider its monetary policy. They have not had to make a new forecast, mostly for interest rates which the markets are centered on, since the December 2025 meeting. These will be the final forecasts before Warsh gets in there as Fed Chair theoretically. The President is back making his view known, while the Iran War goes on, saying Thursday Powell :"should be dropping Interest Rates, IMMEDIATELY." The personal income report with the Fed's preferred inflation measure was not supportive of the President's wishes, unless Fed officials want to pretend to be "forward-looking" as some Trump 2.0 economic officials have urged. Core PCE inflation rose 0.4% in December, and another 0.4% to 3.1% year-on-year in January. This is the Fed's inflation target measure even if core CPI was 2.5% year-over-year for January and February. Stay tuned. Powell has not left the building yet. Still time to leave with a bang instead of a whimper.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	11-Mar	4-Mar	25-Feb	18-Feb	3/11/20*	3/11/20
Factors adding reserves						to Mar 11
U.S. Treasury securities	4351.545	4336.533	4321.596	4305.596	2523.031	1828.514
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2010.418	2010.418	2010.418	2023.727	1371.846	638.572
Repurchase agreements	0.001	0.006	0.003	0.006	242.375	-242.374
Primary credit (Discount Window)	4.664	4.713	4.483	4.775	0.011	4.653
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	0.047	0.049	0.049	0.053		
Main Street Lending Program	1.325	1.324	1.323	1.322		
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	0.017	0.030	0.055	0.058	0.058	-0.041
Federal Reserve Total Assets	6697.5	6679.4	6664.6	6664.4	4360.0	2337.480
~~3-month Libor %~~ SOFR %	3.64	3.67	3.67	3.73	1.15	2.490
Factors draining reserves						
Currency in circulation	2441.343	2438.431	2432.413	2431.064	1818.957	622.386
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	805.806	846.979	838.975	888.854	372.337	433.469
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	0.552	0.877	1.159	0.856	1.325	-0.773
Federal Reserve Liabilities	3624.355	3665.710	3660.158	3704.410	2580.036	1044.319
Reserve Balances (Net Liquidity)	3073.151	3013.716	3004.429	2959.961	1779.990	1293.161
Treasuries within 15 days	54.550	50.118	62.087	61.400	21.427	33.123
Treasuries 16 to 90 days	300.460	290.108	266.868	258.173	221.961	78.499
Treasuries 91 days to 1 year	515.563	515.613	496.769	490.135	378.403	137.160
Treasuries over 1-yr to 5 years	1390.606	1390.474	1411.100	1411.109	915.101	475.505
Treasuries over 5-yrs to 10 years	496.248	496.220	492.751	492.753	327.906	168.342
Treasuries over 10-years	1594.118	1594.001	1592.021	1592.028	658.232	935.886
Note: QT starts June 1, 2022	Change	3/11/2026	6/1/2022			
U.S. Treasury securities	-1419.234	4351.545	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					



Only 7 bps of a 25 basis point rate cut to 3.5% is discounted by the June 2026 meeting.

Fed funds futures call Fed policy		
Current target: March 13 -- 3.75%		
Rate+0.11	Contract	Fed decision dates
3.735	May 2026	Mar 18, Apr 29
3.680	Jul 2026	Adds Jun 17*
*July 2026 could be two days at a new rate		

Next up: February PCE inflation Thurs, April 9, March CPI inflation Fri, April 10														
Monthly	2026		2025										2025	2024
% Changes	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec
Core CPI inflation	0.2	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
Core PCE inflation		0.4	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
Core PCE YOY		3.1	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
Core CPI YOY	2.5	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

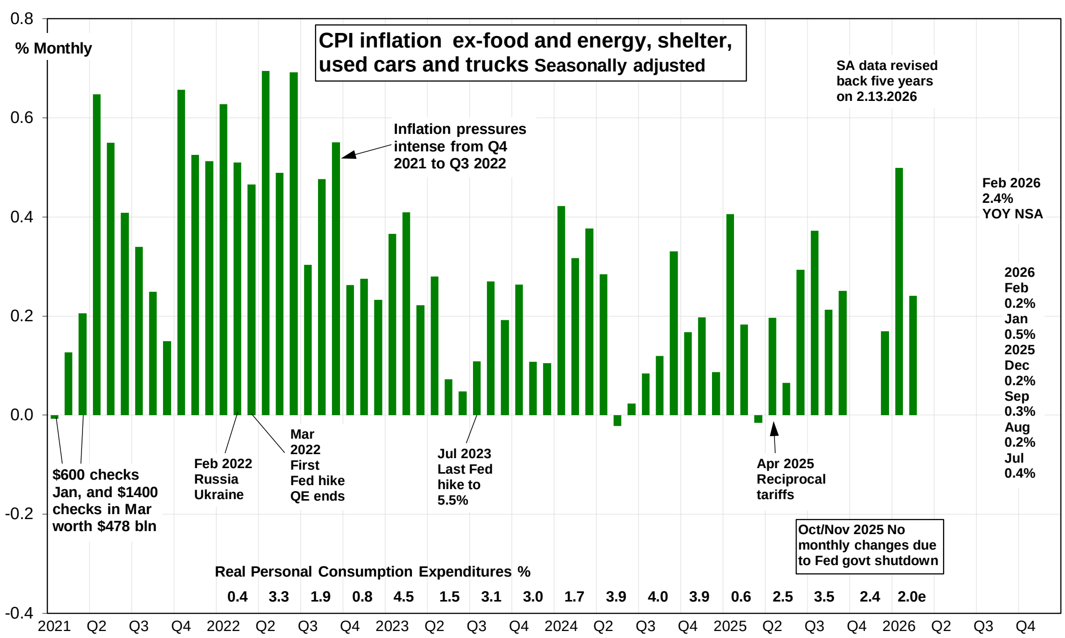
OTHER ECONOMIC NEWS

Inflation hoax (Tuesday)

Breaking economy news. February headline CPI rose 0.3% and is 2.4% higher than a year ago, core CPI up 0.2% and rose 2.5% from last year. Shelter was up 3.0% from a year earlier, and medical care services were 4.1% higher. Shelter has a huge 35.6% weight in the CPI index, the only problem being it has risen much less than some of the popular home price indexes since the pandemic and doesn't really reflect the higher prices consumers have to pay for a new home in most of the country. This is February data and the US and Israel did not attack Iran and send crude oil prices soaring until February 28, so next month's headline CPI at least is going to pop. Unclear when energy prices will affect other prices in the consumer's basket of goods and services.

Dec 25 Weight	CPI inflation	Monthly Percent Changes Dec 2025	Jan 2026	Feb 2026	YOY % Feb 2026
100.0	Total	0.3	0.2	0.3	2.4
13.698	Food	0.7	0.2	0.4	3.1
8.325	Food at home	0.6	0.2	0.4	2.4
5.373	Food away from home	0.7	0.1	0.3	3.9
6.383	Energy	0.3	-1.5	0.6	0.5
2.895	Gasoline	-0.3	-3.2	0.8	-5.6
79.919	Ex-food & energy	0.2	0.3	0.2	2.5
3.838	New vehicles	0.0	0.1	0.0	0.5
2.759	Used cars/trucks	-0.9	-1.8	-0.4	-3.2
2.368	Clothing	0.3	0.3	1.3	2.5
1.489	Medical care goods	0.3	-0.1	0.0	0.1
35.625	Shelter	0.4	0.2	0.2	3.0
26.204	Owner equiv. rent	0.3	0.2	0.2	3.3
6.315	Transportation	0.4	1.4	0.2	2.2
6.935	Medical care services	0.4	0.3	0.6	4.1
	Special: Where inflation might come back down to				
60.744	Services ex-energy	0.3	0.4	0.3	2.9
19.176	Commodities (core)	0.0	0.0	0.1	1.0

Net, net, after all this time there is not a shred of evidence that import tariffs have boosted the key goods and commodities that consumers purchase which will count as one of the major puzzles for economists to ponder in the months to come. Sooner or later investors need to ready themselves for a series of Fed rate cuts because as soon as the Iran War shooting winds down and the upside inflation risks from crude oil get taken off the table, inflation is likely to slow enough to the Fed's satisfaction to lower interest rates to at least 3% neutral later on this year. Stay tuned. The inflation watch for markets is turning out to be a complete bust as miraculously, import tariff costs which are certainly real, are not getting passed on to the consumer. Commodities less food and energy commodities are rising just 1.0% from a year ago. Clothing prices did increase 1.3% in February, possibly import tariffs, but core commodities overall just rose 0.1%, Stay tuned.



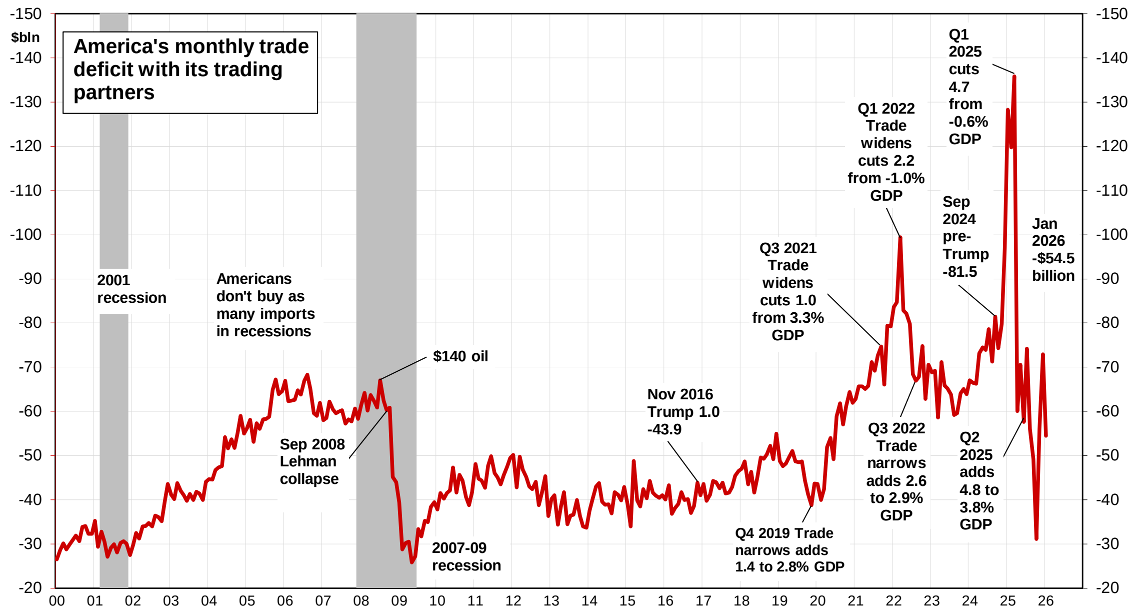
Trade deficit narrows, housing starts jump (Thursday)

$mln	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Dec 2025	-72,900	-99,246	26,347	286,301	180,864	105,437	359,201	280,110	79,090
Jan 2026	-54,455	-81,791	27,336	302,149	195,492	106,658	356,604	277,283	79,321
Change	18,445	17,455	989	15,848	14,628	1,221	-2,597	-2,827	231

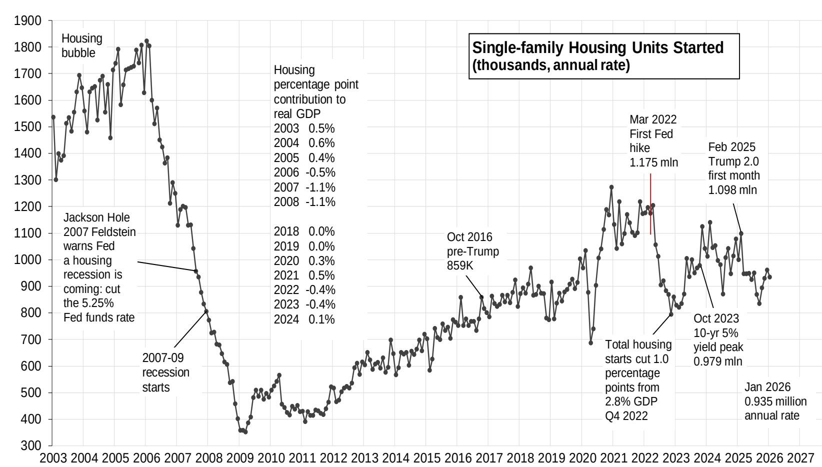
Breaking economy news. The January trade deficit narrowed to $54.5 billion from $72.9 billion in December. Imports dropped, and exports were stronger, but a lot of the latter was due to a “temporary” increase in gold and other precious metals. Imported goods from China collapsed to $21.1 billion in January 2026 from $41.6 billion in January 2025. Makes one wonder what Trump and Xi have to discuss in a couple of weeks. China imports down $20 billion from last year while Vietnam is up $6.6 billion and Taiwan is up $10.6 billion.

Trade deficit ($bln) contribution to Real GDP

	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26e
GDP %	1.9	-0.6	3.8	4.4	0.7	1.5
Net Ex	-0.1	-4.7	4.8	1.6	-0.2	0.0
Deficit	-83.7	-128.0	-62.8	-59.8	-53.3	-60.0
$ Chg	-6.6	-44.3	65.2	3.0	6.5	-6.7



Housing starts were also released at 830am ET with a headline jump of 7.2% in January to a 1.487 million annual rate. The increase was all rentals, 5 units or more, as single-family American Dream home starts fell 2.8% to 935 thousand at an annual rate. Mortgage rates are going the wrong way to help much with the oil future-inflation spike, some private credit concerns as well, pushing yields to 6.11% in the March 12 week from 6.0% the week before.



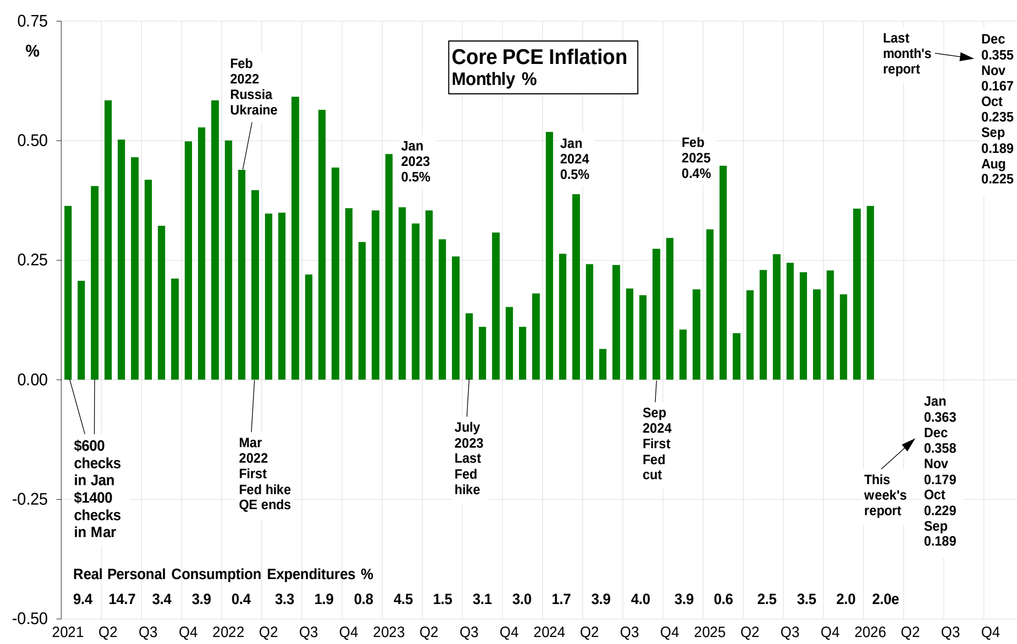
Economy cool inflation not (Friday)

	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25p	Q4 25r
REAL GDP	3.3	1.9	-0.6	3.8	4.4	1.4	0.7
REAL CONSUMPTION	4.0	3.9	0.6	2.5	3.5	2.4	2.0
CONSUMPTION	2.7	2.6	0.4	1.7	2.3	1.6	1.3
Durables	0.6	0.9	-0.3	0.2	0.1	-0.1	0.0
Nondurables	0.7	0.5	0.3	0.3	0.5	0.1	0.1
Services	1.4	1.2	0.4	1.2	1.7	1.6	1.3
INVESTMENT	0.2	-1.3	3.8	-2.7	0.0	0.7	0.6
Business Plant	-0.1	-0.3	-0.1	-0.2	-0.2	-0.1	-0.2
& Equipment and	0.4	-0.2	1.0	0.4	0.3	0.2	0.2
Intellectual Property	0.1	0.0	0.3	0.8	0.3	0.4	0.3
Homes	-0.2	0.2	0.0	-0.2	-0.3	-0.1	0.0
Inventories	-0.1	-0.9	2.6	-3.4	-0.1	0.2	0.3
EXPORTS	1.0	-0.1	0.0	-0.2	1.0	-0.1	-0.4
IMPORTS	-1.4	0.0	-4.7	5.0	0.6	0.2	0.2
GOVERNMENT	0.9	0.6	-0.2	0.0	0.4	-0.9	-1.0
Federal defense	0.5	0.2	-0.3	0.0	0.2	-0.4	-0.4
Fed nondefense	0.1	0.1	-0.1	-0.4	0.0	-0.7	-0.7
State and local	0.4	0.3	0.2	0.3	0.2	0.3	0.1
Below line: Percentage point contributions to Q4 2025 0.7% real GDP							
Third estimate for Q4 is Thursday, April 9							

Breaking economy news. Real GDP was revised to 0.7% from 1.4% for Q4 2025 where exports and consumer spending on services were weaker than the first estimate. Real consumer spending is certainly slow with 0.1% monthly increases starting in September through January, except for 0.2% in October, the government shutdown month (Oct 1 to Nov 12). Auto sales tumbled in the January cold winter weather which caused durable goods spending to drop 0.4%. Real consumption in Q4 was revised from 2.4% to 2.0%, and January data is running 0.8% so far in Q1 2026 with February/March data left.

PCE inflation is diverging from the CPI inflation measure. Core PCE inflation was 0.4% both of the last two months, 0.358 December, 0.363 January. For January, health care inflation was a major contributor, with a large weight in core goods and services, as was “recreational goods and vehicles” with increases in the price of computers, recording media, sporting goods and equipment including guns and ammo.

Net, net, the latest economic reports have stagflation written all over them with GDP growth revised down to the stall speed of 0.7%, and a burst of core consumer inflation for a second month now with prices advancing 0.4% in December and in January. It is a good thing that markets are focused elsewhere on the war in the Mideast because the economic data rule out an interest rate cut by the Federal Reserve at next week’s meeting. One has to wonder if the Fed forecasts next week will pencil in a rate cut at all in 2026 with the inflation reading this hot. The economy is more unpredictable than ever and bonds and stocks do not know how to react and seem to be frozen in time. There is only one economic indicator right now for markets and policymakers alike and that is the price of crude oil. Stay tuned. Inflation is still too hot to touch and rate cuts will have to wait until the price pressures cool down a little regardless of what the President is calling for. Economy is cool and inflation is hot.



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