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Global Macro Hedge Strategy EconomicsTrading

Financial Markets This Week

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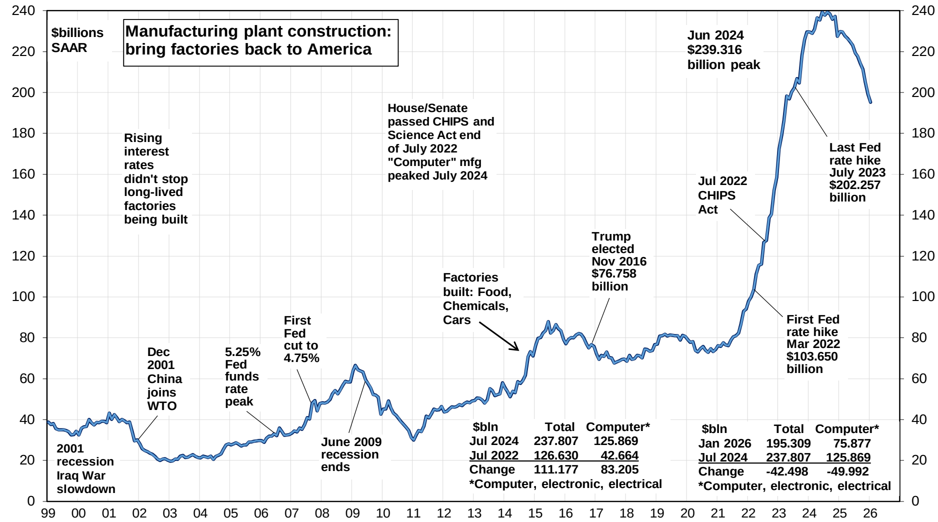
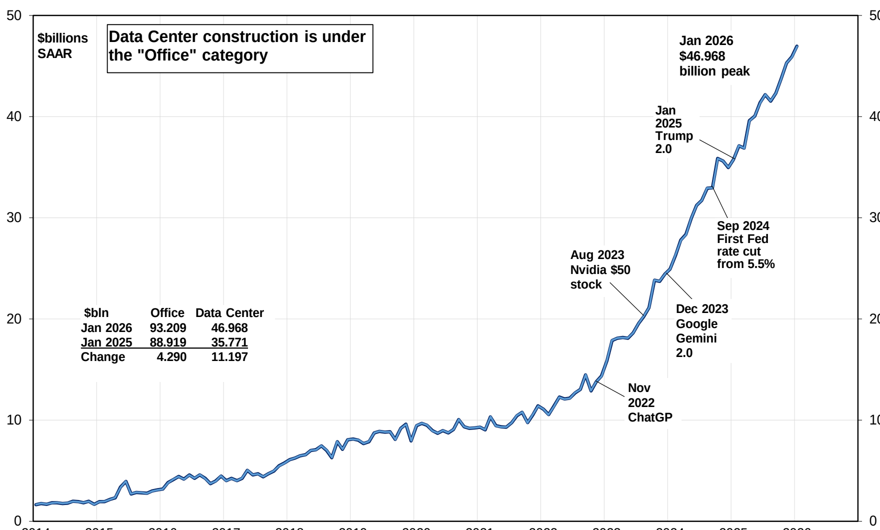
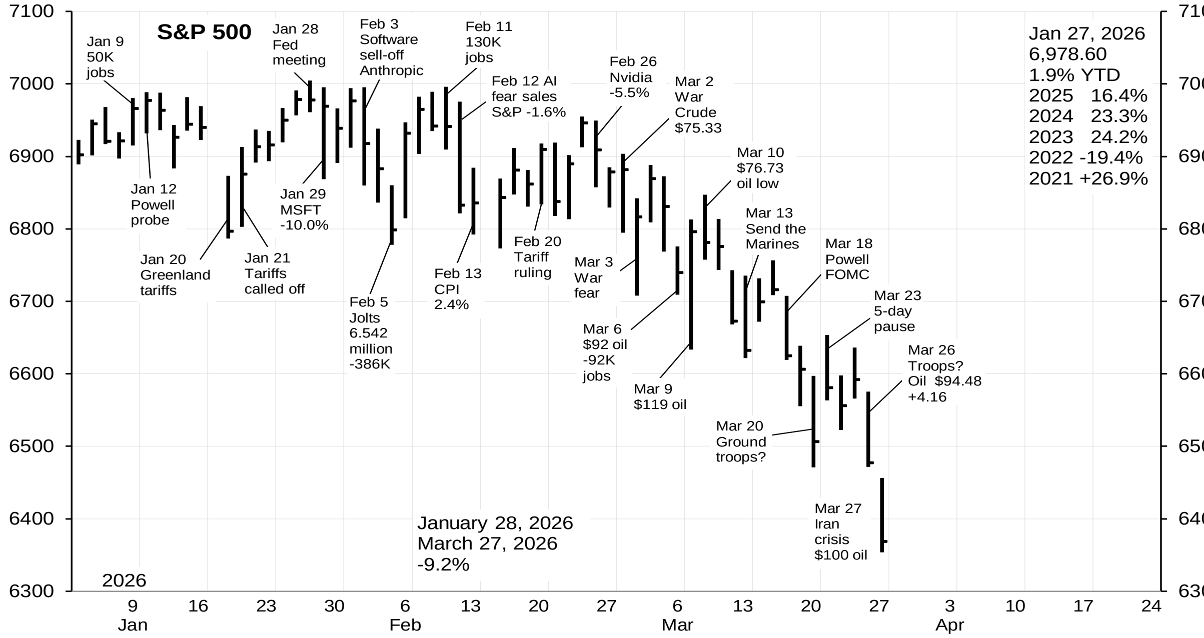
FACTORIES YOUR WAY



The construction spending report for January, delayed, was released Monday which tells us how many factories are coming back from overseas. The Census Bureau is still trying to get back to normal after the shutdown and February and March data will both be released way out on May 7. Spending on structures has not added to GDP growth in any quarter since 2023. The report is called the value of construction put in place, nonresidential we are interested in, and it is at an annual rate. The Trump tariff negotiations have brought promises of investment from many countries, but the factory construction data are still on a steep downward slope. Basically, manufacturing construction rose with the July 2022 CHIPS Act, and now it is in decline. There were some big commitments to build semiconductor plants (Samsung, Intel) before the CHIPS Act. While we wait for the factories to come back to the USA, the latest trend is Data Centers. Data Centers are in the Office category along with General Offices, which are administration buildings, computer centers, office buildings, and professional buildings. Data Center data collection we see started in 2014, and the trend accelerated after ChatGPT news in November, 2022, and Nvidia was still a $50 stock in August 2023. Without the Data Center activity, “buildings that contain the hardware needed for storing, processing, and transmitting digital information,” construction activity would be an even greater drag on GDP. To sum up, January nonresidential construction spending fell 3.0% or $22.9 billion to $728.2 billion from a year earlier, with Data Centers up $11.2 billion, and Computer/electronic/electrical manufacturing down $42.5 billion.



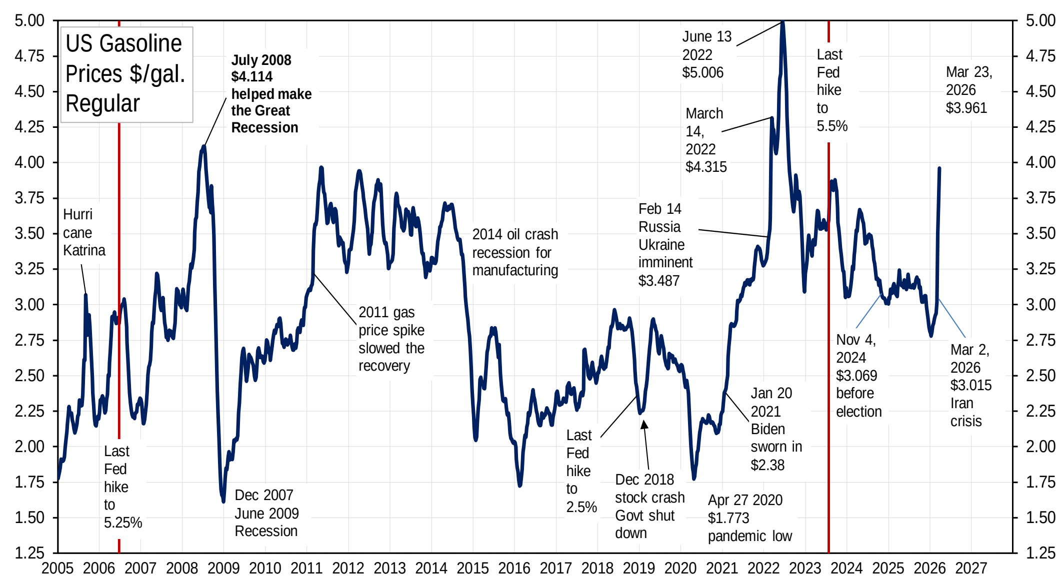
INTEREST RATES



Stock futures fell as much as 1.6% Sunday evening on Trump’s 48-hour ultimatum for Iran to open the Strait of Hormuz. Shortly after 7am ET Monday morning a Trump tweet sent stock futures soaring as much as 4.1% from that 2026 low, when Trump paused his threat to bomb energy infrastructure after productive talks with Iran. The Treasury yield curve flattened initially Monday morning thinking no Fed rate cuts in any event. That was Monday, which shows how difficult it is to forecast the future for markets. Many ultimatums later, stocks collapsed the final two days of the week and the rise in 10-year yields as high as 4.49% on Friday did not help. That was the 2026 yield high, the low was 3.92% on March 2 on the initial safe-haven buying after US/Israel bombed Iran. At least markets won’t have to deal with the April 3 Good Friday jobs report: cash markets are closed, futures open briefly.

Rising gasoline prices closer to shocking 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 $3.961 on March 23, 2026 while AAA gas prices were $3.956. [AAA gas prices were $3.978] on Friday, March 27. Gas prices were $2.937 on February 23 before the US Israel attack on Iran the final day of the month, so the $1 increase is closer to bringing the economy to a screeching halt, looking back historically. Gas and Diesel will be a headwind, along with stock market losses.

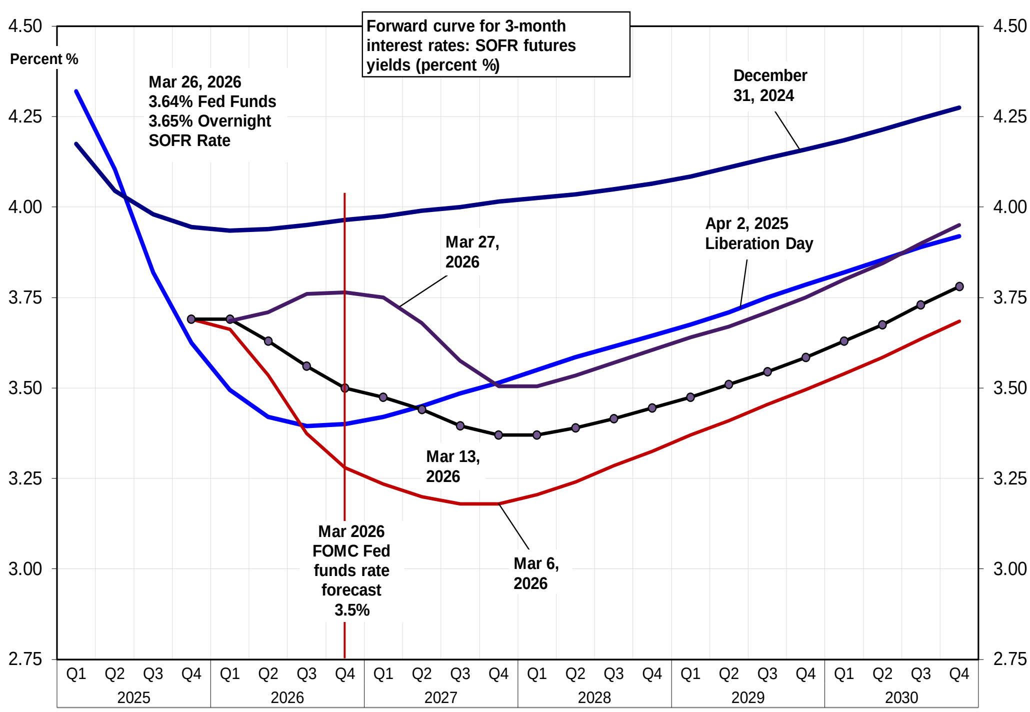


FEDERAL RESERVE POLICY

The Fed meets April 28-29, 2026 to consider its monetary policy. It is supposed to be Powell's last meeting if Warsh is not voted in yet. War uncertainty or not, the Fed voices this week are not talking up rate cuts this year. The Fed forecasts for neutral "long term" rates is 3.1% and the current 3.75% funds rate is close enough and not especially restrictive for corporate borrowers who make the investments for a better economic tomorrow. Fed governor Miran, the burr in everyone's saddle, was on TV this week explaining his dissent in favor of a rate cut at the March meeting, though he scaled back his 2026 rate cut forecast from 6 times to just 4 times in 2026 which would put rates at 2.75% at year-end. On Thursday he spoke on the [Prospects for Shrinking the Fed's Balance Sheet](). We will wait for this as it has little to do with the direction of 10-year yields. The common complaint of conservatives is that the Fed MBS holdings of $1.996 trillion unfairly injected support to the housing market. But that was in the past. If the Fed actively sells its Treasury holdings it means more Treasury auctions which we view as an unforced Fed error.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	25-Mar	18-Mar	11-Mar	4-Mar	3/11/20*	3/11/20
Factors adding reserves						to Mar 25
U.S. Treasury securities	4375.064	4358.597	4351.545	4336.533	2523.031	1852.033
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1996.680	2010.370	2010.418	2010.418	1371.846	624.834
Repurchase agreements	0.007	0.006	0.001	0.006	242.375	-242.368
Primary credit (Discount Window)	5.216	4.884	4.664	4.713	0.011	5.205
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	0.043	0.045	0.047	0.049		
Main Street Lending Program	1.325	1.325	1.325	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	0.028	0.018	0.017	0.030	0.058	-0.030
Federal Reserve Total Assets	6708.4	6707.1	6697.5	6679.4	4360.0	2348.334
~~3-month Libor %~~ SOFR %	3.64	3.62	3.64	3.67	1.15	2.490
Factors draining reserves						
Currency in circulation	2446.604	2443.928	2441.343	2438.431	1818.957	627.647
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	837.412	875.833	805.806	846.979	372.337	465.075
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	0.777	0.698	0.552	0.877	1.325	-0.548
Federal Reserve Liabilities	3672.286	3708.295	3624.355	3665.710	2580.036	1092.250
Reserve Balances (Net Liquidity)	3036.073	2998.809	3073.151	3013.716	1779.990	1256.083
Treasuries within 15 days	68.978	76.381	54.550	50.118	21.427	47.551
Treasuries 16 to 90 days	304.017	291.434	300.460	290.108	221.961	82.056
Treasuries 91 days to 1 year	520.514	509.503	515.563	515.613	378.403	142.111
Treasuries over 1-yr to 5 years	1390.885	1390.753	1390.606	1390.474	915.101	475.784
Treasuries over 5-yrs to 10 years	496.314	496.286	496.248	496.220	327.906	168.408
Treasuries over 10-years	1594.357	1594.240	1594.118	1594.001	658.232	936.125
Note: QT starts June 1, 2022	Change	3/25/2026	6/1/2022			
U.S. Treasury securities	-1395.715	4375.064	5770.779			
Mortgage-backed securities (MBS)	-710.766	1996.680	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2026	2027	2028	Long Term
Fed funds	3.4	3.1	3.1	3.1
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.7	2.2	2.0	
Unemployed	4.4	4.3	4.2	4.2
GDP	2.4	2.3	2.1	2.0
March 2026 median Fed forecasts				



No rate cut by June, but 6 bps of a 25 basis point rate hike to 4.0% is discounted by the September 2026 meeting.

Fed funds futures call Fed policy		
Current target: March 27 -- 3.75%		
Rate+0.11	Contract	Fed decision dates
3.770	Jul 2026	Apr 29, Jun 17*
3.810	Oct 2026	Adds Jul 29, Sep 16*
*July 2026 could be two days at a new rate		
*Oct 2026 could be 3 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

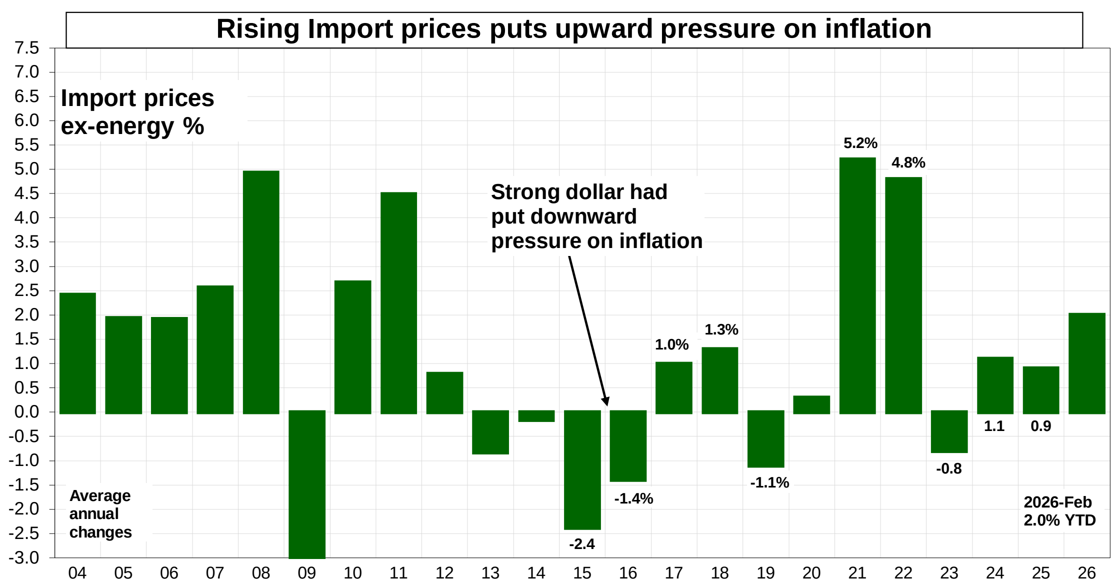
Import prices arising (Wednesday)

Breaking economy news. Nonfuel import prices jumped 0.8% in January and now another increase of 1.1% in February. The BLS report said the February increase was driven by capital goods, industrial supplies and materials, consumer goods, and auto, parts and engines. We do not get February PCE inflation until April 9, but Powell said it should ease to 3.0% year-on-year in February from 3.1% in January.

Nonfuel Imports prices-- Monthly Percent Changes NSA February 2026 2.5% YOY												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2023	0.2	0.4	-0.5	-0.1	0.0	-0.3	-0.1	-0.2	-0.2	-0.2	0.1	0.1
2024	0.6	0.1	0.2	0.6	-0.2	0.2	0.2	0.0	0.2	0.2	0.1	0.0
2025	0.0	0.2	-0.1	0.3	-0.1	-0.3	0.2	-0.2	0.0	Govt shutdown		0.2
2026	0.8	1.1										

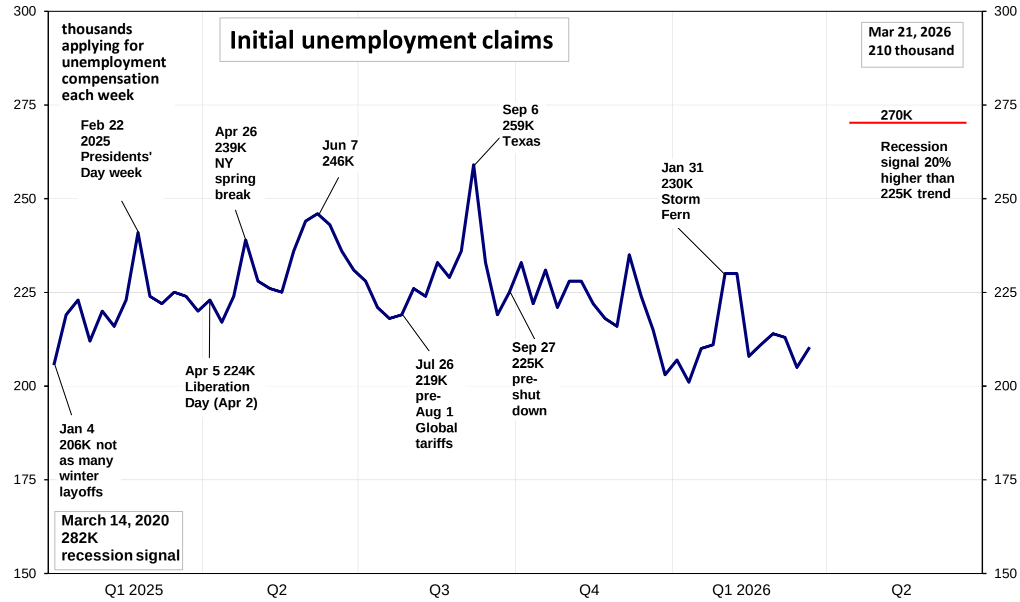
Nonfuel Imports prices-- Year-Over-Year Percent Changes NSA												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2024	-0.3	-0.6	0.1	0.8	0.5	1.1	1.3	1.5	2.0	2.4	2.4	2.3
2025	1.6	1.7	1.4	1.1	1.2	0.7	0.7	0.5	0.3		0.5	0.8
2026	1.5	2.5										

It is unclear whether foreign manufacturers/assemblers are boosting import prices (certainly have the tariff incentive) or maybe it could be the dollar weakness seen in Trump 2.0 that is finally being felt. Commodity prices, namely crude oil, collapsed in 2015 and the strong dollar certainly had an effect on lowering import prices. The reverse is being seen now and is boosting core import prices somewhat. Stay tuned. It is uncertain whether the rising import price trend will continue, and the effect remains modest on a year-on-year basis for now. It still adds to inflation pressures here in the USA.

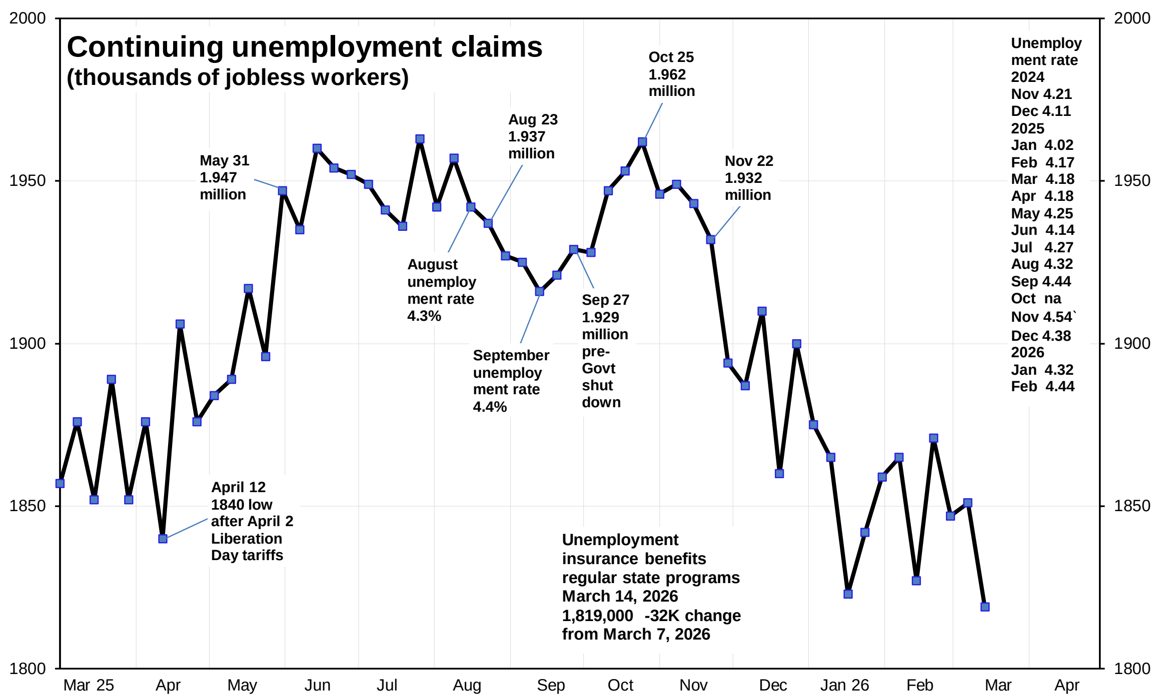


Jobless claims point to unemployment rate drop (Thursday)

Breaking economy news. No one has been fired recently, except the 210 thousand in the March 21 week, rather, not enough workers have lost their jobs to signal a sharp deterioration in the economy. The Saturday, February 28 US Israel bombing of Iran was a classic external shock, but companies have done nothing yet.



The total number of Americans receiving unemployment benefits dropped to a new 2026 low in the March 14 week which is the survey week of the March unemployment rate to be released on Good Friday where you have 45 minutes to trade stock futures after the report (until 1115am ET for bond futures). The annual seasonal factor adjustments last week did not change the basic trend. Continuing claims rose in early 2025 and the unemployment rate rose, and now there is a new low, so presumably there should be a drop in the jobless rate from 4.44% in February. Stay tuned.



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