Financial Markets This Week

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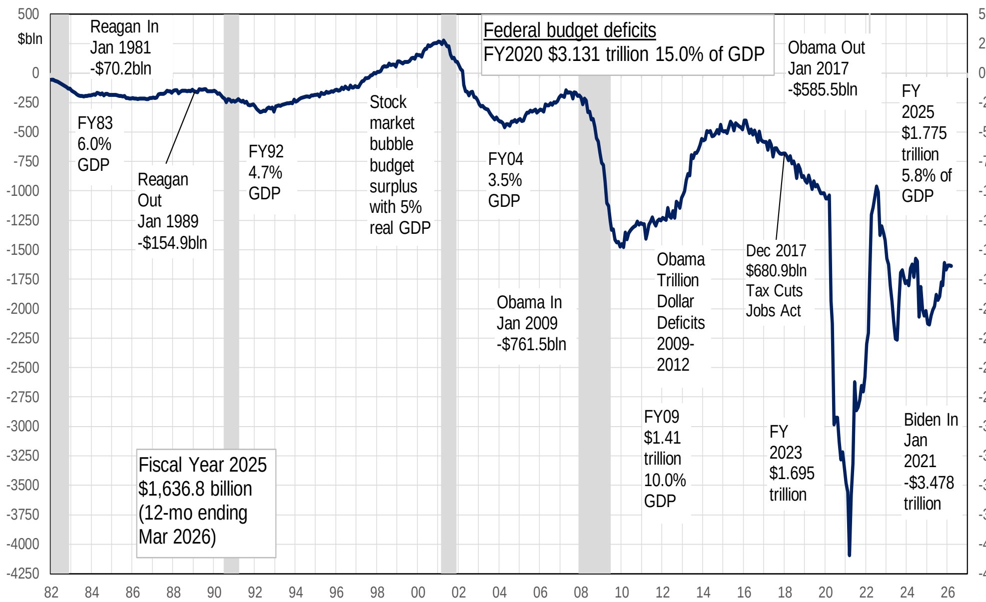
BUDGET DEFICIT



The March results are in and in the first half of FY26, the deficit is running $1.636 trillion on a 12-month trailing sum basis. In FY25 the deficit was $1.775 trillion or 5.8% of GDP. Forget cutting the national debt, just keep the annual deficit at 3% of nominal GDP. This might be hard to achieve with the [White House FY27 budget]() requesting a 44% increase to $1.5 trillion for national defense. Closer to home, the spectre of financial insolvency for social security is ringing alarm bells in Congress. If insolvency means the trust fund cannot make payments to retirees, then that day is already here. Social Security cannot pay 100% of promised benefits each month, so it borrows from the Treasury market to make up the difference. In FY2025 Social Security was $313 billion short and met this financial liability by borrowing. Seems to be working for now. Don't rock the boat. Maybe the annual shortfall increases with the baby boom still retiring, but we will have to wait and see. Social Security collected $1.1 trillion in taxes, but paid out $1.4 trillion in benefits. You could cut retiree (58 million of them 65-years and up) benefits 20% to match the $1.1 trillion in tax collections, but there's no point. It won't increase the trust fund's "solvency."

Selected Federal Budget Items Mostly Outlays In The News ($bln)													12-month
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec 25	Jan 26	Feb 26	Mar 26	Total
Tariffs	15.634	22.173	26.632	27.670	29.503	29.675	31.354	30.756	27.982	27.742	26.594	22.155	295.715
Food stamps	8.628	8.638	8.716	8.829	8.530	8.867	8.732	7.709	8.998	8.189	7.594	8.242	101.672
Social Security	-5.630	-30.616	-5.251	-36.757	-35.180	-34.383	-42.329	-35.466	-30.387	-13.984	-31.993	-23.257	-325.233
Gross Interest	101.650	92.230	144.625	91.913	111.466	91.270	104.404	96.255	153.922	71.888	93.483	102.644	1255.750
Adj. Interest	89.376	86.015	84.345	92.011	92.699	36.900	90.871	87.853	91.540	75.944	78.644	94.336	1000.534
Total Outlays	591.769	686.881	499.436	629.635	689.107	345.725	688.704	509.279	629.136	654.667	620.623	548.963	7093.925

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

Besides Social Security, there is Interest on the Public Debt for some to worry about. Gross interest is $1.255 trillion the last 12 months, but adjusting the debt for reality is just $1 trillion. Tariffs were still $22.155 trillion, which includes normal refunds of $1.9 trillion in March. We thought the court ruling would have brought down customs duties even further. They averaged $6.9 billion monthly Q4 2024.

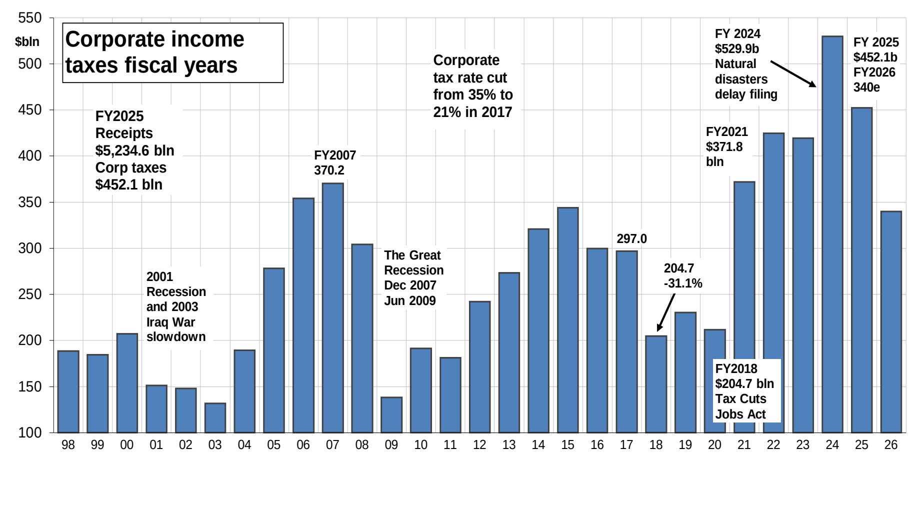
FY2025 spending was $7.011 trillion in the latest White House OMB tables released with the new 2027 budget. Mandatory spending was 73% of the total, nondefense discretionary was $981.5 billion. FY27 sees nondefense discretionary outlays cut to $963.7 billion, $896.2 billion in FY28, and the cuts keep going to $766.9 trillion in FY31. Budget authority for defense military programs goes to $1.5 trillion as said earlier from FY2025 outlays of $868.4 billion in the table here.

Notable cuts in the first half of FY26 here are the Office of Elementary and Secondary Education, the National Institute of Standards and Technology in the Commerce Department, and the CDC and FDA are seeing cuts.

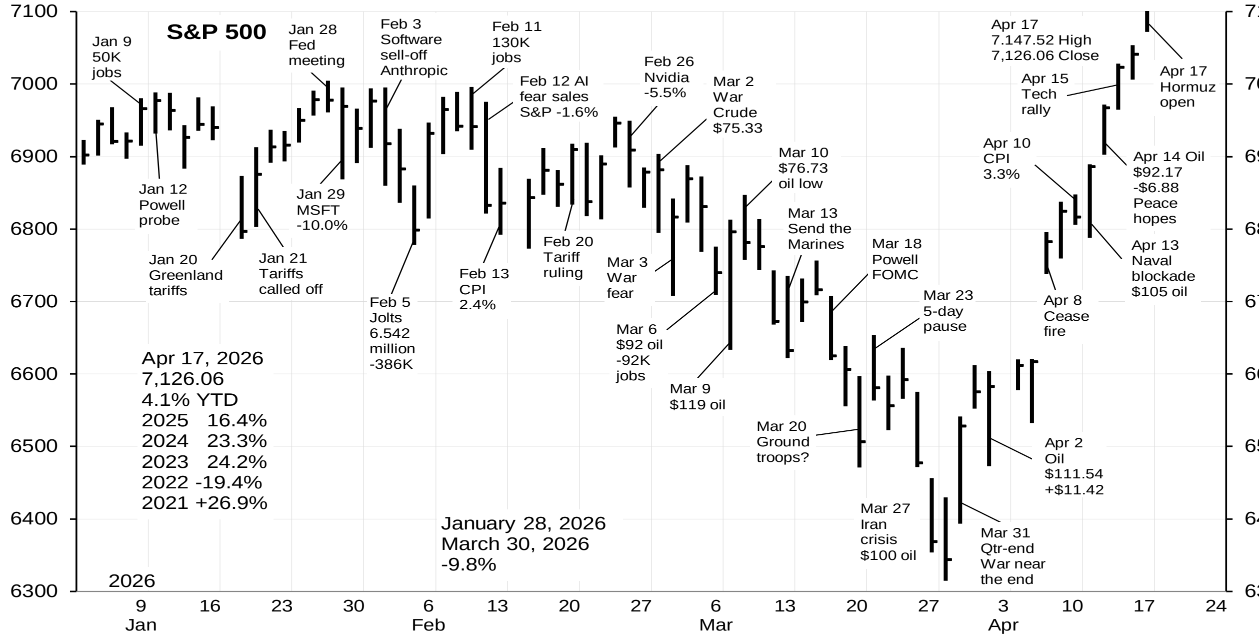
Corporate tax collections continue to slow with the immediate write-off of capital spending. Collections are running about three-quarters of FY2025 levels. Stay tuned. Halfway through the year, slowing Federal government outlays are $3.651 trillion, double that and you get about $7.3 trillion for the full year versus $7.0 trillion in FY2025.

The President's budget buried the deficit news. FY2027 by their estimates for receipts/outlays separately, doing the addition/ subtraction ourselves, will be $2.171 trillion up from $1.775 trillion in FY2025. National debt is still going the wrong way.

Federal Government Spending ($bln) Where to cut?	2 Qtrs FY26 Q4 25-Q1 26	2 Qtrs FY25 Q4 24-Q1 25	Fiscal Year Changes	Fiscal Year % chg	Full Year FY 2025
TOTAL BUDGET OUTLAYS	3,651.372	3,567.433	83.939	2.4	7,009.974
Legislative	3.539	3.683	-0.144	-3.9	7.233
Judicial	4.975	4.882	0.093	1.9	9.759
Agriculture	116.558	120.167	-3.609	-3.0	227.432
Fed Crop Insurance fund	10.296	13.859	-3.563	-25.7	13.805
Food Stamps	49.465	54.125	-4.660	-8.6	106.335
Child Nutrition	17.538	17.750	-0.212	-1.2	33.375
Commerce	6.911	15.344	-8.433	-55.0	29.712
Defense	458.429	443.064	15.365	3.5	868.412
Military Personnel	127.885	115.660	12.225	10.6	206.529
Operation Maintenance	157.815	168.733	-10.918	-6.5	342.398
Procurement	86.926	83.745	3.181	3.8	161.960
Research Development	74.548	66.368	8.180	12.3	141.429
Military Construction	7.220	6.425	0.795	12.4	13.152
Education	69.974	78.875	-8.901	-11.3	34.718
Office of Federal Student Aid	43.071	34.076	8.995	26.4	111.227
Energy	25.681	26.141	-0.460	-1.8	52.292
Health Human Services	960.422	901.311	59.111	6.6	1884.277
Medicare	606.206	561.814	44.392	7.9	561.814
Medicaid States Grants	353.027	319.955	33.072	10.3	668.139
Homeland Security	46.290	58.718	-12.428	-21.2	115.306
Housing Urban Development	33.759	34.868	-1.109	-3.2	50.533
Interior	7.821	11.798	-3.977	-33.7	22.402
Justice	23.261	23.001	0.260	1.1	44.948
Labor	26.945	29.898	-2.953	-9.9	50.383
State Unemployment Benefits	19.239	19.654	-0.415	-2.1	38.023
State	13.696	15.675	-1.979	-12.6	28.362
Transportation	55.337	55.909	-0.572	-1.0	127.583
FAA	12.347	11.842	0.505	4.3	24.806
Federal Highway Admin.	29.408	27.523	1.885	6.8	65.033
Treasury	784.563	750.498	34.065	4.5	1458.910
IRS	169.032	168.173	0.859	0.5	234.015
Premium Tax Credit	66.755	66.746	0.009	0.0	129.260
Earned Income Credit	53.883	53.082	0.801	1.5	66.007
Child Tax Credit	23.210	21.904	1.306	6.0	26.567
Interest on Public Debt	622.596	582.460	40.136	6.9	1215.614
Veterans Affairs	201.363	185.302	16.061	8.7	376.591
Corps of Engineers	5.635	6.163	-0.528	-8.6	12.124
Other Defense Civil Programs	40.037	40.305	-0.268	-0.7	76.488
Environmental Protection	8.430	28.211	-19.781	-70.1	36.976
Exec. Office of President (EOP)	-1.074	-0.226	--	--	-0.508
International Assistance	9.527	13.078	-3.551	-27.2	17.294
NASA	12.290	12.265	0.025	0.2	24.576
National Science Foundation	4.133	4.717	-0.584	-12.4	9.949
Personnel Management	66.352	63.452	2.900	4.6	128.239
Small Business Admin.	0.488	1.334	-0.846	-63.4	36.173
Social Security Admin.	850.490	807.609	42.881	5.3	1646.515
Retirement Benefits	734.372	693.385	40.987	5.9	1411.167
Federal Disability Payments	79.902	78.538	1.364	1.7	157.436
Other Independent Agencies	4.642	7.498	-2.856	--	6.788



INTEREST RATES



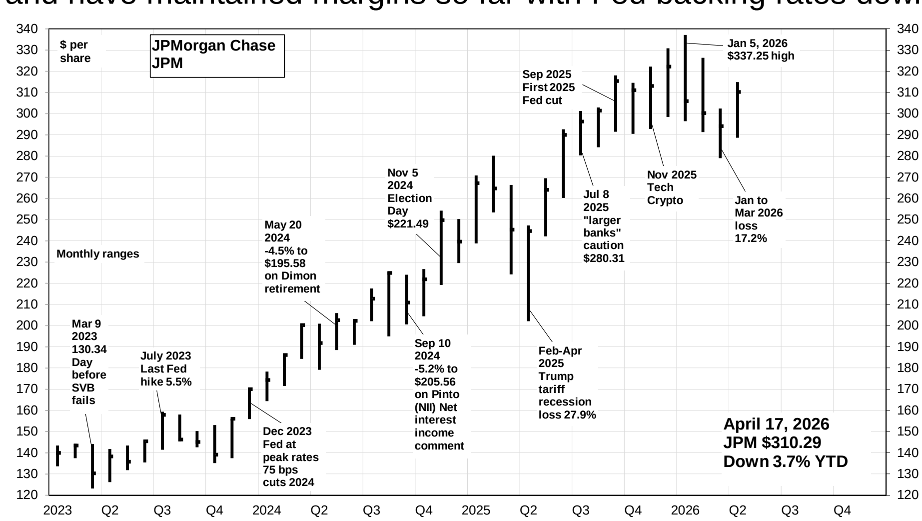
[New all-time highs this week for stocks](), starting from the lows Monday, as oil hit $115 on the U.S. Naval blockade of the Strait of Hormuz, the market kept climbing as peace hopes edged closer to reality, so at Friday's close the S&P 500 was 4.9% higher than Monday's low. For bonds, 4.37% yield highs were Monday on the Naval blockade and $115 oil, and back down to 4.24% Wednesday when oil came back down to $92 on Iran peace hopes. Around 830am ET Friday, peace plan news headlines, $$$ for uranium and the Strait of Hormuz is open, sent yields tumbling and stocks moving still higher. Little economic news to trade on, jobless claims for the April 11 week fell back 11K to 207K after the Good Friday blip; no recession. Tuesday, April 21 is March retail sales, first month of war, but we already know car sales rose 3.2% to 16.3 million "normal." June crude oil -9.4% $82.59 Friday.

JPMorgan Chase (JPM) down 3.7% YTD, NII Guidance

Confusing price action during the Iran war with the stock jumping 3.6% to $307.97 on April 8 as did the entire market on the cease-fire news. The stock closed $313.68 on Monday before Tuesday morning earnings this week, but seemed to falter a day later falling 2.6% from the Wednesday, April 15 open to $305.93 while the broader market was rallying. Something to do with a second look at the outlook for net interest income. The banking industry generally saw a boost in net interest margin with Fed rate hikes starting in Q1 2022 and have maintained margins so far with Fed backing rates down from 5.5% to 3.75%.

JPM results (billions)

Quarter	Net Income	Provision for Credit Losses	Stock price Qtr end
3.31.2026	16.494	2.507	294.16
12.31.2025	13.025	4.655	322.22
9.30.2025	14.393	3.403	315.43
6.30.2025	14.987	2.849	289.91
3.31.2025	14.643	3.305	245.30
12.31.2024	14.005	2.631	239.71
9.30.2024	12.898	3.111	210.86
6.30.2024	18.149	3.052	202.26
3.31.2024	13.419	1.884	182.35

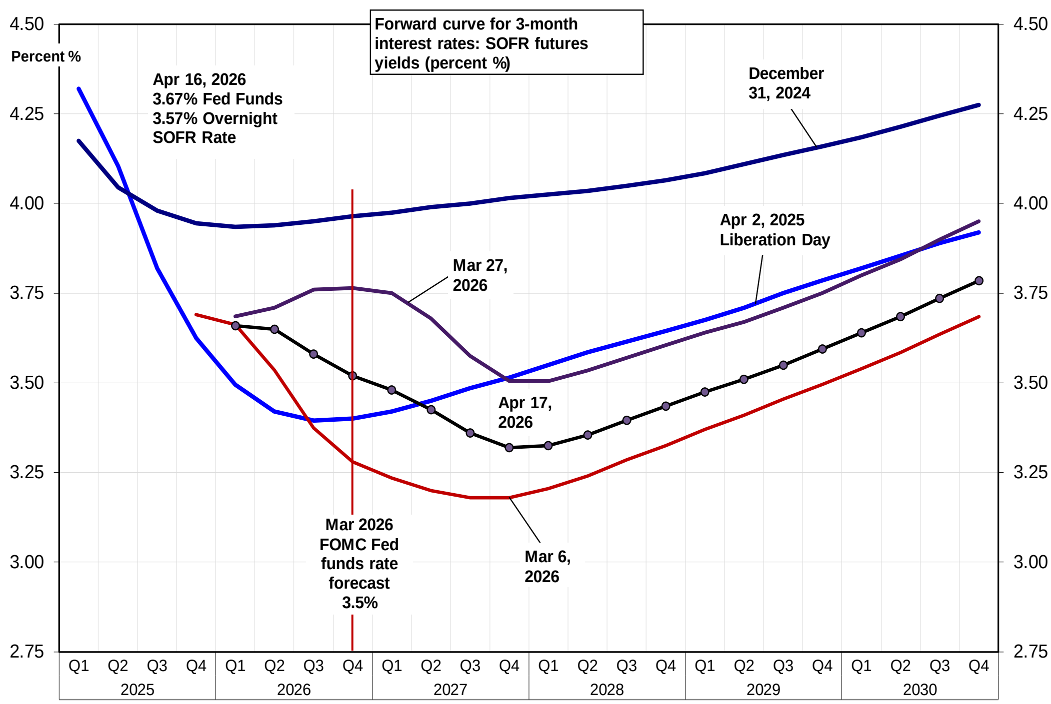


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	15-Apr	8-Apr	1-Apr	25-Mar	3/11/20*	3/11/20
Factors adding reserves						to Apr 15
U.S. Treasury securities	4407.209	4406.779	4390.204	4375.064	2523.031	1884.178
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1996.478	1996.680	1996.680	1996.680	1371.846	624.632
Repurchase agreements	10.463	0.101	0.750	0.007	242.375	-231.912
Primary credit (Discount Window)	5.306	5.873	6.012	5.216	0.011	5.295
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	0.040	0.042	0.043	0.043		
Main Street Lending Program	1.333	1.333	1.331	1.325		
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	0.106	0.105	0.180	0.028	0.058	0.048
Federal Reserve Total Assets	6756.9	6745.1	6726.0	6708.4	4360.0	2396.891
~~3-month Libor %~~ SOFR %	3.72	3.59	3.65	3.64	1.15	2.570
Factors draining reserves						
Currency in circulation	2452.150	2452.773	2450.588	2446.604	1818.957	633.193
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	924.435	697.079	803.553	837.412	372.337	552.098
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	0.223	0.177	2.107	0.777	1.325	-1.102
Federal Reserve Liabilities	3776.731	3561.603	3661.557	3672.286	2580.036	1196.695
Reserve Balances (Net Liquidity)	2980.186	3183.533	3064.460	3036.073	1779.990	1200.196
Treasuries within 15 days	80.940	70.676	66.965	68.978	21.427	59.513
Treasuries 16 to 90 days	306.882	329.923	328.018	304.017	221.961	84.921
Treasuries 91 days to 1 year	521.259	526.978	516.388	520.514	378.403	142.856
Treasuries over 1-yr to 5 years	1388.245	1380.331	1380.156	1390.885	915.101	473.144
Treasuries over 5-yrs to 10 years	509.849	502.894	502.855	496.314	327.906	181.943
Treasuries over 10-years	1600.033	1595.977	1595.823	1594.357	658.232	941.801
Note: QT starts June 1, 2022	Change	4/15/2026	6/1/2022			
U.S. Treasury securities	-1363.570	4407.209	5770.779			
Mortgage-backed securities (MBS)	-710.968	1996.478	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets April 28-29, 2026 to consider its monetary policy. Bessent is even talking Fed pause on interest rates with war and inflation. Let's wait and see given the war and higher oil prices. That was Tuesday before the Friday market hopes that the Strait of Hormuz was opening and the war was over. Bessent is not on the FOMC yet, but Trump's man Fed governor Miran spoke Thursday. His March forecast was for four rate cuts in 2026, down from six rate cuts he forecast at the December meeting. March core PCE inflation is estimated at 3.2%, but he still thought a rate cut was needed in April and was unsure whether he thinks 3 or 4 rate cuts are necessary. The 3.75% Fed funds rate does not appear to be putting the brakes on economic growth or sending the unemployment rate higher. Only housing is not doing well, but the 6.30% mortgage rate will not fall much lower without Fed rates of 2%. And hopefully Fed officials will never feel the need to push rates to that level again, except in a recession, if they feel they must. Speaking as a saver that is.

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				



8.5 bps of a 25 bps rate cut is discounted by the September 2026 meeting.

Fed funds futures call Fed policy	
Current target: April 17 -- 3.75%	
Rate+0.11 Contract	Fed decision dates
3.740 Jul 2026	Apr 29, Jun 17*
3.665 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: March PCE inflation Thursday, April 30 830am ET

Monthly	2026			2025											2025
% Changes	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
Core CPI inflation	0.2	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
Core PCE inflation	0.3e	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3
Core PCE YOY	3.2e	3.0	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
Core CPI YOY	2.6	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

OTHER ECONOMIC NEWS

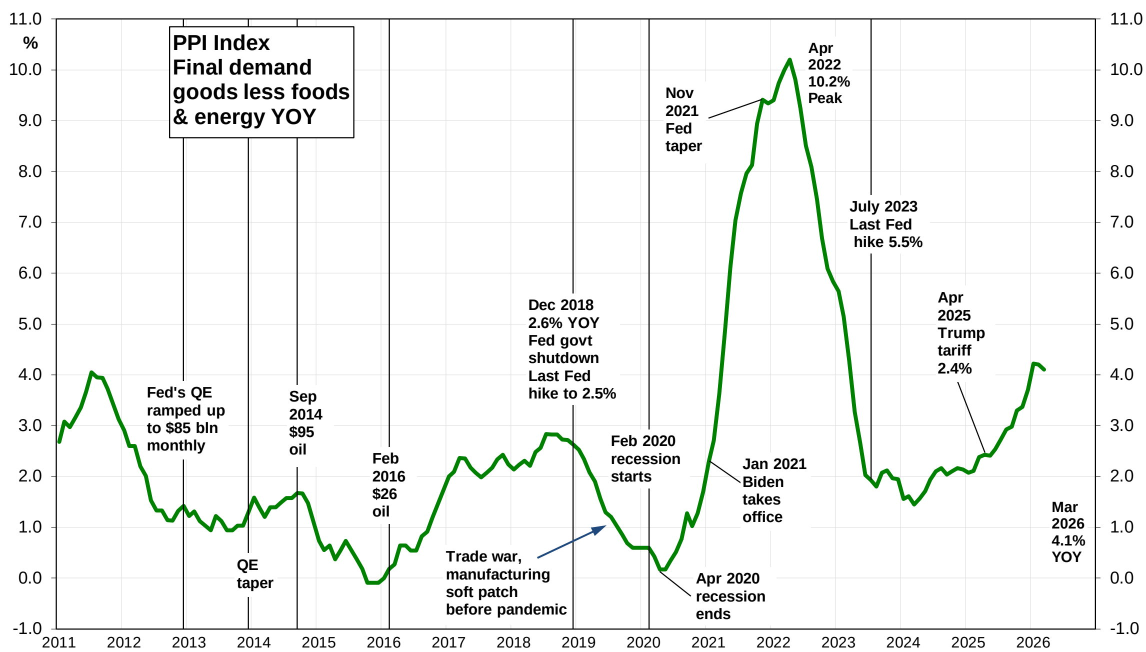
PPI not as bad as feared given energy spike (Tuesday)

Breaking economy news. Headline PPI in March was 0.5%, some thought it would be 1.1% given that energy prices is most of it, and February is now 0.5%, revised down from 0.7% in last month's report. Some of the PPI numbers that go into core PCE, due out on Thursday, April 30, were higher like airline fares, and portfolio management and investment advice which increased 0.9%.

Monthly % SA		Final demand goods				Final demand services			
2025	Total final demand	Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other
Apr	-0.3	-0.1	-1.0	-0.5	0.3	-0.3	-0.3	0.1	-0.4
May	0.3	0.1	0.2	-0.2	0.3	0.4	1.3	0.0	0.1
Jun	0.2	0.3	0.2	0.9	0.2	0.1	0.0	-0.6	0.2
Jul	0.8	0.6	1.2	0.7	0.4	0.9	1.2	1.4	0.7
Aug	-0.2	0.2	-0.1	-0.2	0.4	-0.3	-2.1	0.6	0.3
Sep	0.6	0.6	0.8	2.0	0.2	0.6	1.6	0.7	0.2
Oct	0.1	-0.2	-0.4	-2.2	0.5	0.2	-0.9	0.0	0.7
Nov	0.4	0.8	0.1	3.4	0.2	0.3	0.2	0.8	0.2
Dec	0.4	-0.1	-0.2	-1.5	0.4	0.6	2.0	0.2	0.0
2026									
Jan	0.6	-0.1	-1.4	-1.8	0.7	0.8	2.0	1.0	0.3
Feb	0.5	1.0	2.4	2.1	0.3	0.3	-0.4	0.4	0.6
Mar	0.5	1.6	-0.3	8.5	0.2	0.0	-0.3	1.3	0.1

**Final demand goods, less foods and energy is old-fashioned PPI

Net, net, producers are still reporting above-normal price increases which will put upward pressure on inflation the consumer is already seeing. The only good thing is that producer price inflation was perhaps not as bad as feared given March is the first full month since the Iran war began. Air fare prices which feed into core PCE inflation did not escape the jump in energy prices with a sharp rise of 4.1%, the largest since the October 2025 increase of 6.6%. Stay tuned. Core PPI final demand goods prices were more restrained with a 0.2% increase in March following 0.3% in February and 0.7% in January. But at the intermediate demand level for processed goods, prices are exploding with increases of 0.7% in March following 0.8% in February. More inflation is on the way to consumers based on today's producer price report, it is just a matter of time. We think. Old-fashioned PPI in the graph below is holding at 4% year-on-year now versus the 10.2% peak in April 2022, one month after the Fed's first rate hike following the worst inflation since the 80s. Fed timing seemed off, looking back.



Import prices on fire (Wednesday)

Breaking economy news. Nonfuel import prices rose 0.6% in March to a 2.8% year-on-year rate. Industry is paying more for finished metals shapes and advanced manufacturing, and for major nonferrous metals-crude. Capital goods and consumer goods ex-autos are also higher, the latter from higher prices for medicinal, dental and pharmaceutical preparatory materials. Computers and semiconductors are rising too. We don't want to leave out exports as America is exporting its inflation to the rest of the world. Non-agricultural exports increased 1.7% in March, following 2.1% in February, and is 5.8% higher than a year ago.

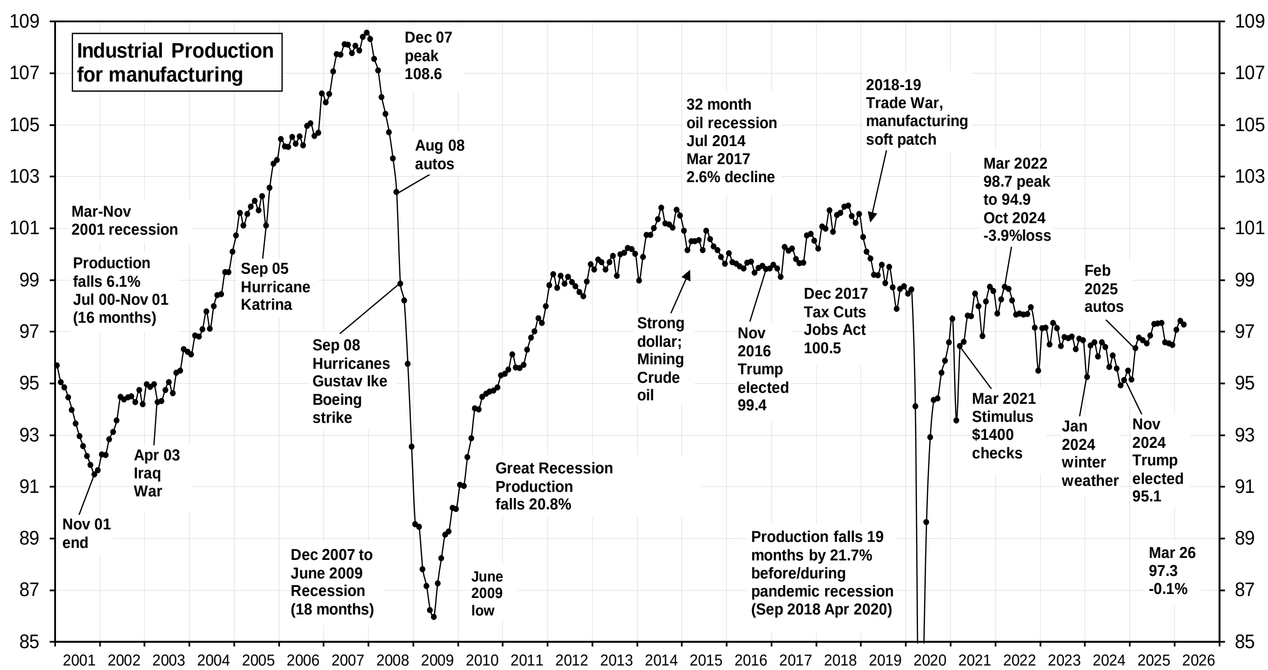
Net, net, someone, somewhere is paying for the Trump import tariffs finally as the prices for goods coming to American shores is literally on a tear in the first quarter of 2026. Import price inflation is another reason why US consumers are unlikely to see any relief to the higher prices causing the affordability crisis as higher-priced overseas goods stoke the fires of inflation. Whether it is higher shipping costs from supply disruptions or foreign manufacturers no longer offsetting the tariffs with their own product price cuts, import price inflation is on its way up, and then adding insult to injury, once the ships dock here, the imported goods are hit with the tariffs. All this means is that the consumer is losing, and will continue to lose, where these nonfuel import prices are exploding this year after showing little change and even declines for much of 2025. Nonfuel import prices increased 0.8% in January and in February and another 0.6% rise in March to an increase of 2.8% year-on-year which will likely hold inflation higher than Fed officials want to see and push off the date for interest rate cuts, possibly until 2027.

	Nonfuel Imports prices-- Monthly Percent Changes NSA March 2026 2.8% 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	0.8	0.6									
	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	2.2	2.8									

Manufacturing spinning its wheels (Thursday)

Breaking economy news. Industrial production fell 0.5% in March from an upward revised February gain of 0.7% which had been 0.2%. That is not a fair characterization because there were many haywire revisions that we can easily see going back to last October, October when production stumbled during the Federal government shutdown. The bottom line was February was 102.6 in February and now in March it is 0.8% lower at 101.8. Looking at the market groups breakdown, of course the total index was roughly unchanged since last July, but strong growth in information processing which is under business equipment, and equipment parts under durable materials kept the index from being even weaker.

Net, net, the manufacturing revival stumbled badly in the first month of the war in the Middle East with industrial production falling 0.5% in March. Production is limping along at a modest 0.7% pace the last year with most of the declines seen this month in consumer goods products, business equipment, and in materials. Part of the reversal in total industrial production comes from the decline in utilities where output was pushed sharply lower during the colder than seasonal winter temperatures in December and in February. There is no sign the import tariffs have brought factories back to America yet and manufacturing production currently fell 0.1% in March and is just 0.5% higher than a year ago. About the only manufacturing sectors seeing gains were petroleum and coal products, plastics and rubber products and for paper. It is little wonder why factories are not hiring more workers when these results show manufacturing output is just spinning its wheels and adding only modestly to economic growth.



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