fwd: Bonds

Global Macro Hedge Strategy EconomicsTrading

Financial Markets This Week

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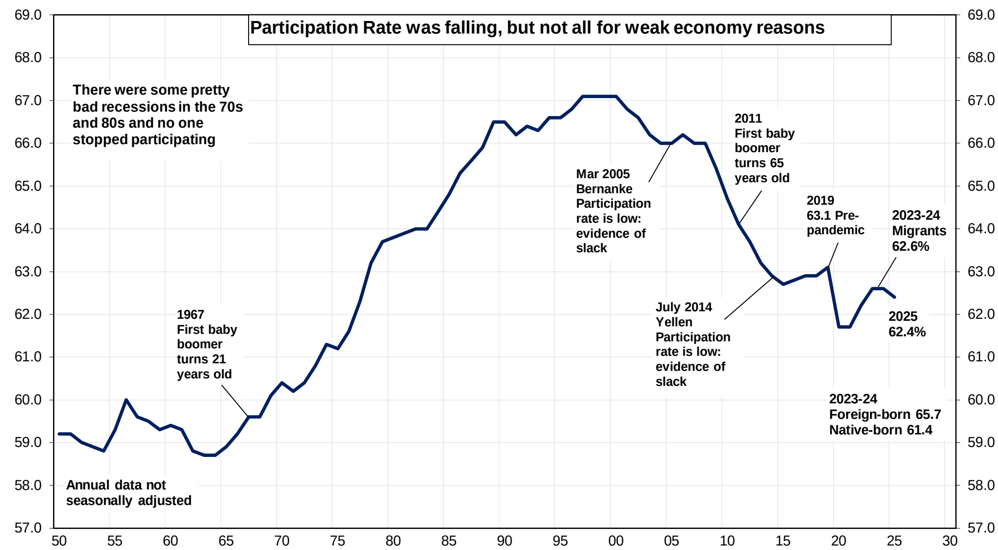
NOT WORKING



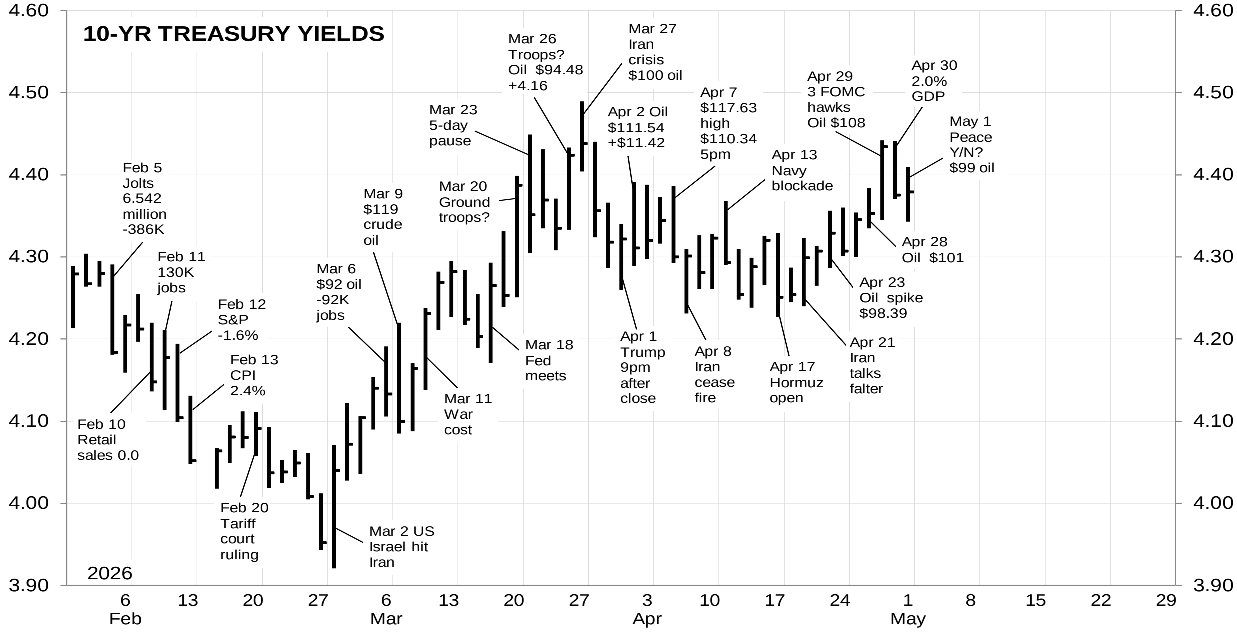
It doesn't sound good. That 67.1 percent of the U.S. population in the year 2000 was participating in society, either working or saying they were actively looking for work, as opposed to only 62.4 percent last year. That's a lot of aimless people without purpose in life given the population 16 years and older who are not in prison or in the Army was 212.577 million in 2000 and 273.653 million in 2025. The main reason for the decline in participation is not economic weakness or the lack of employment opportunities, it is the change in fortunes for the baby boom generation's rise and fall. Participation does fall in recessions as unemployment rises, but it is not bouncing back in good times and this is tied to the first baby boomer (born 1946-64) turning 65 in 2011. Participation did bounce slightly from the pandemic low in 2020, which was likely tied to the migration surge in 2023-24 because immigrants' labor force participation is always higher at 65.7% versus 61.4% for native born Americans.

Participation Rate -- March 2026 (thousands)	
274,858	Population
170,087	Labor Force (Employed + Unemployed) (162,848 + 7,239)
61.9%	Participation Rate 170,087/274,858
104,771	Not in Labor Force
6,040	Not in Labor Force who want a job

Most of the decline in the participation rate appears to be due to the aging population where the baby boom generation is moving beyond the workforce and is starting to need medicare and social security benefits which will take a greater share of Federal government outlays unless Congress wants to increase taxes to cover the amounts until the generation after the greatest generation passes. The drop in participation is dramatic and there is no changing it: participation 83.4% in 45-54 year olds to 32.8% for 65-69 year olds. 8.1% 75-plus, you know who you are. Older politicians, lawyers and economists only need apply.

CIRCLE OF LIFE PARTICIPATION RATE	
35.7%	16-19 years old
70.5%	20-24 years old
83.7%	25-34 years old
84.3%	35-44 years old
83.4%	45-54 years old
75.3%	55-59 years old
59.1%	60-64 years old
32.8%	65-69 years old
19.5%	70-74 years old
8.1%	75-plus years
61.9%	Total Mar 2026

INTEREST RATES

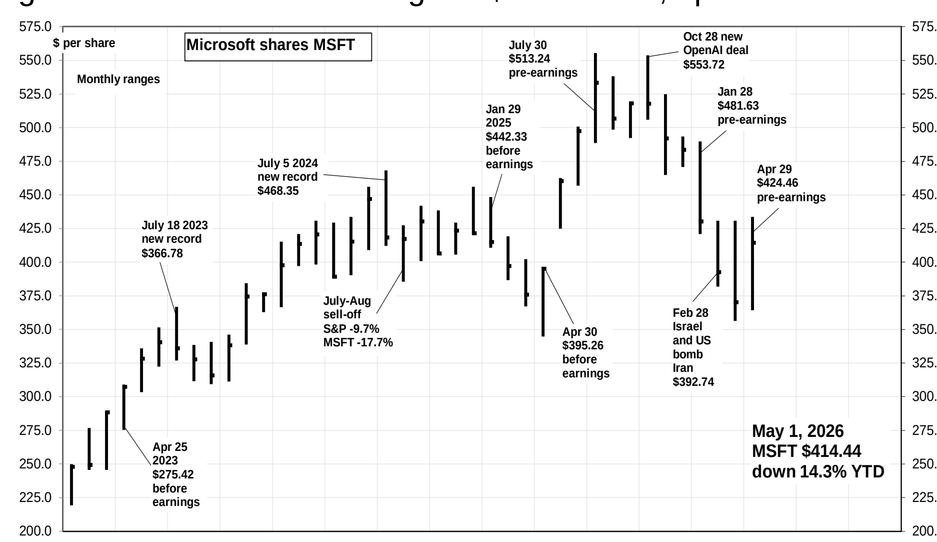


For bonds no peace in the Mideast sent oil up, bond prices down. Oil high Tuesday $101, oil high Wednesday $108. The Fed meeting had three Fed governor dissents against the easing language, which always looked weak to us in the first place as it carries over from the last rate cut to 3.75% in December with the press statement saying, "the extent and timing of further adjustments..." Anyway, Powell said it was too early to change the language at the press conference, and there is the March FOMC forecast with its one rate cut this year to consider. The market did not like the three members concerned about inflation however and 10-year yields broke long-standing resistance at 4.40% on Wednesday. The good news is Powell is sticking around battling Trump as a Fed governor for the June 16-17 meeting while Warsh comes in as Chairman. Interesting. Stocks end week +5.6% YTD.

Microsoft (MSFT) down 14.3% YTD

That's a new one. Earnings Wednesday after the bell: Microsoft, Google, Meta, Amazon. Apple on Thursday. Only Alphabet shares went up in after-hours trading. After a drawdown of 35.7% from the peak, our focus was on Microsoft. Same problem as last quarter in trying to convince the market that it was leading the pack on AI, although the stock was $481.63 before earnings on January 28, so there has been a concession. Intelligent Cloud revenue was huge at $34.7 billion, up 30% YOY.

Calendar Year Mln $	Revenue	Productivity Business Processes	Intelligent Cloud	More Personal Computing
Q1 2026	82,886	35,013	34,681	13,192
Q4 2025	81,273	34,116	32,907	14,250
Q3 2025	77,673	33,020	30,897	13,756
Q2 2025	76,441	33,112	29,878	13,451
Q1 2025	70,066	29,944	26,751	13,371
Q4 2024	69,632	29,437	25,544	14,651
Q3 2024	65,585	28,317	24,092	13,176
Q2 2024	64,727	28,627	23,785	12,315
Q1 2024	61,858	27,113	22,141	12,604
	Income	Processes	Cloud	Computing
Q1 2026	38,398	20,973	13,753	3,672
Q4 2025	38,275	20,599	13,873	3,803
Q3 2025	37,961	20,407	13,391	4,163
Q2 2025	34,323	18,993	12,140	3,190
Q1 2025	32,000	17,379	11,095	3,526
Q4 2024	31,653	16,885	10,851	3,917
Q3 2024	30,552	16,516	10,503	3,533
Q2 2024	27,925	15,706	9,835	2,384
Q1 2024	27,581	15,143	9,515	2,923



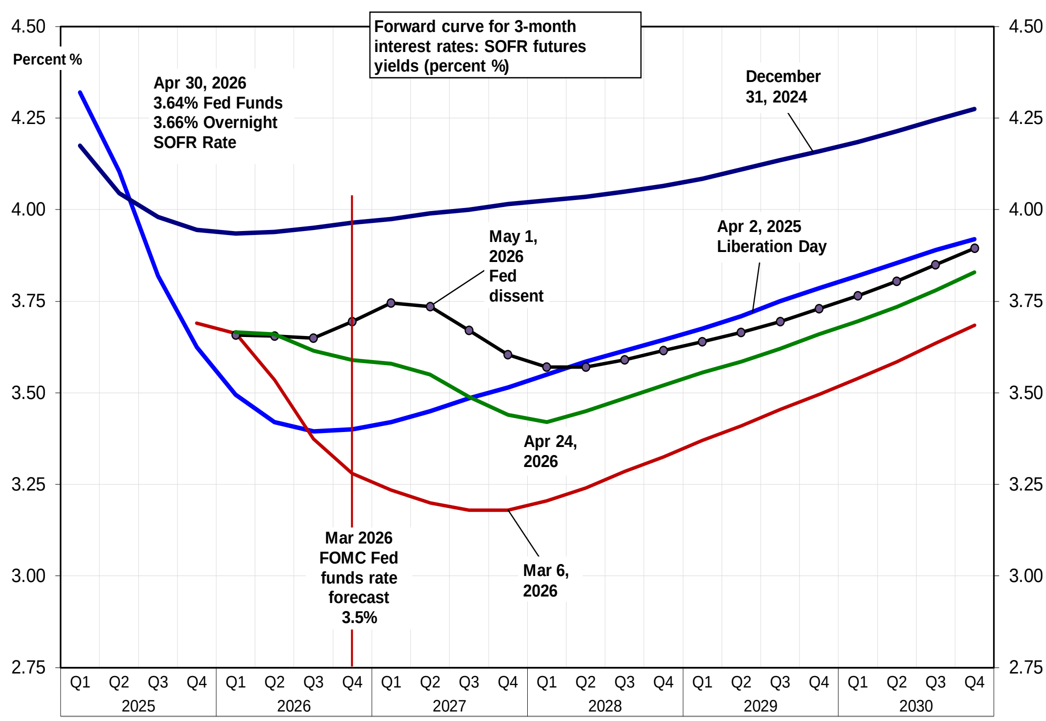
FEDERAL RESERVE POLICY

The Fed met April 28-29, 2026 to consider its monetary policy. What happened? C'mon, that's it. Shows over for Powell. He won't be around to see if the Trump tariff inflation was temporary. Ditto on whether the Trump Iran War inflation was temporary. Trump 2.0 now Fed 2.0. Time will tell about the Warsh choice for Fed Chair, a Fed governor who did great things in the Great Recession and Financial Crisis nearly twenty years ago, except maybe for his part in somehow letting Lehman go over the edge into bankruptcy to fix the "moral hazard" issue. There seemed to be a wish on the part of many Washington policy officials back then to teach Wall Street a lesson and make them understand that the U.S. Government would not always be there to bail them out. Whatever lesson was meant to be taught, everyone in the country suffered in the S&P 500 maximum loss of 57.7 percent at the March 2009 lows. If you like conspiracies, money printing, the exploding national debt, Fed 2.0 is for you.

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	29-Apr	22-Apr	15-Apr	8-Apr	3/11/20*	Change from 3/11/20 to Apr 29
Factors adding reserves						
U.S. Treasury securities	4425.737	4420.267	4407.209	4406.779	2523.031	1902.706
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1981.060	1993.276	1996.478	1996.680	1371.846	609.214
Repurchase agreements	0.001	0.004	10.463	0.101	242.375	-242.374
Primary credit (Discount Window)	6.105	6.032	5.306	5.873	0.011	6.094
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	0.030	0.031	0.040	0.042		
Main Street Lending Program	1.402	1.335	1.333	1.333		
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	0.020	0.101	0.106	0.105	0.058	-0.038
Federal Reserve Total Assets	6750.2	6758.7	6756.9	6745.1	4360.0	2390.180
~~3-month Libor %~~ SOFR %	3.63	3.64	3.72	3.59	1.15	2.480
Factors draining reserves						
Currency in circulation	2454.885	2453.331	2452.150	2452.773	1818.957	635.928
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	988.102	1007.172	924.435	697.079	372.337	615.765
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	0.747	0.538	0.223	0.177	1.325	-0.578
Federal Reserve Liabilities	3831.053	3844.166	3776.731	3561.603	2580.036	1251.017
Reserve Balances (Net Liquidity)	2919.153	2914.576	2980.186	3183.533	1779.990	1139.163
Treasuries within 15 days	90.628	89.725	80.940	70.676	21.427	69.201
Treasuries 16 to 90 days	322.167	315.690	306.882	329.923	221.961	100.206
Treasuries 91 days to 1 year	514.081	516.358	521.259	526.978	378.403	135.678
Treasuries over 1-yr to 5 years	1388.806	1388.419	1388.245	1380.331	915.101	473.705
Treasuries over 5-yrs to 10 years	509.713	509.888	509.849	502.894	327.906	181.807
Treasuries over 10-years	1600.342	1600.187	1600.033	1595.977	658.232	942.110
Note: QT starts June 1, 2022	Change	4/29/2026	6/1/2022			
U.S. Treasury securities	-1345.042	4425.737	5770.779			
Mortgage-backed securities (MBS)	-726.386	1981.060	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				



4 bps of a 25 bps rate cut is discounted by the September 2026 meeting. Big increase in forward curve this week for 2027.

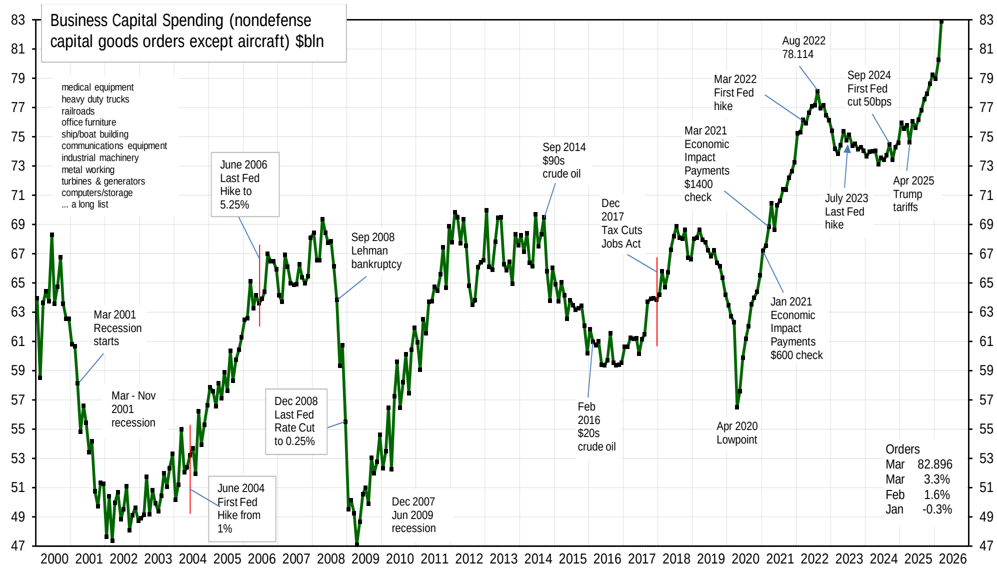
Fed funds futures call Fed policy		
Current target: May 1 -- 3.75%		
Rate+0.11	Contract	Fed decision dates
3.735	Jul 2026	Apr 29, Jun 17*
3.710	Oct 2026	Adds Jul 29, Sep 16*
*July 2026 could be two days at a new rate		
*Oct 2026 could be 3 days at a new rate		

Next up: April CPI inflation Tuesday, May 12 830am ET

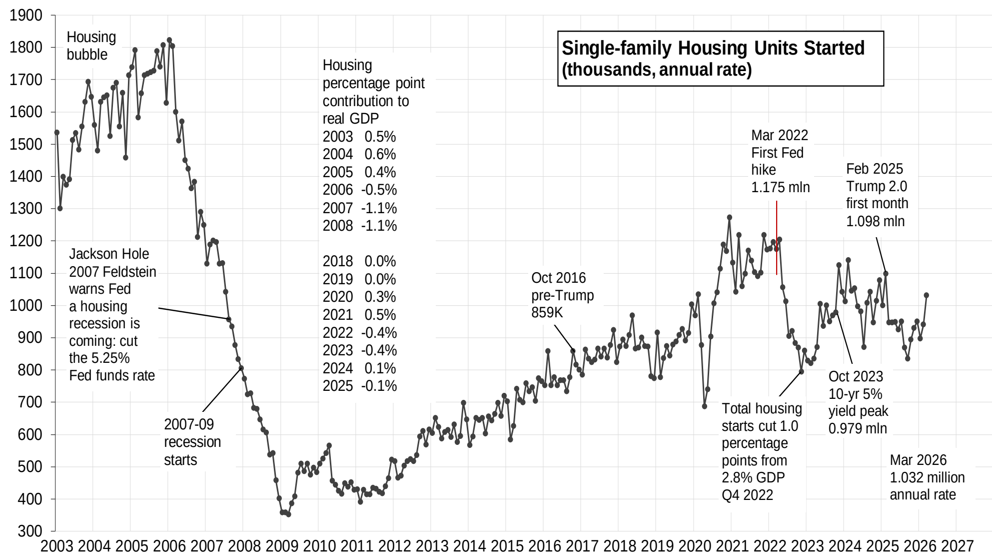
Monthly % Changes	2026 Mar	Feb	Jan	2025 Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	2025 Jan
Core CPI inflation	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3	0.4
Core PCE inflation	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3
Core PCE YOY	3.2	3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8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

Housing starts, durable goods soar (Wednesday)



Breaking economy news. Residential housing starts soared in March despite the cautionary signs on the outlook posted by the Iran war and higher energy prices, although the way forward is less sanguine perhaps as permits for future construction tumbled for both single-family and multifamily residential construction. No such hesitation was observed for business capital investment in March. Core long-lived capital goods orders are literally through the roof with orders revised up to a gain of 1.6% in February and another 3.3% higher in March into the stratosphere and into the record books. Economists had to look at the durable goods orders report not once but twice as the figures look hard to believe. Manufacturers are ordering up communications equipment and machinery as well in what looks like a huge step-up in the business outlook. The manufacturing sector is red hot in March and time will tell if it leads to more hiring of factory workers or whether it is robotics and innovation that is leading the way. Stay tuned. The economic data were picture perfect at least in March with residential housing construction and key capital goods orders soaring. This is not what a recession looks like and those saying the economy's sky is falling will have to shelve their forecasts for now.



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
Mar 2026	1502	1032	446	176	70	221	152	794	562	311	248
Feb 2026	1356	941	407	141	63	197	150	728	518	290	210
Mar 2025	1355	948	393	148	66	223	129	696	530	288	223
% Chgs											
Mar/Feb	10.8	9.7	…	24.8	11.1	12.2	1.3	9.1	8.5	7.2	18.1
Mar/Mar	10.8	8.9	…	18.9	6.1	-0.9	17.8	14.1	6.0	8.0	11.2

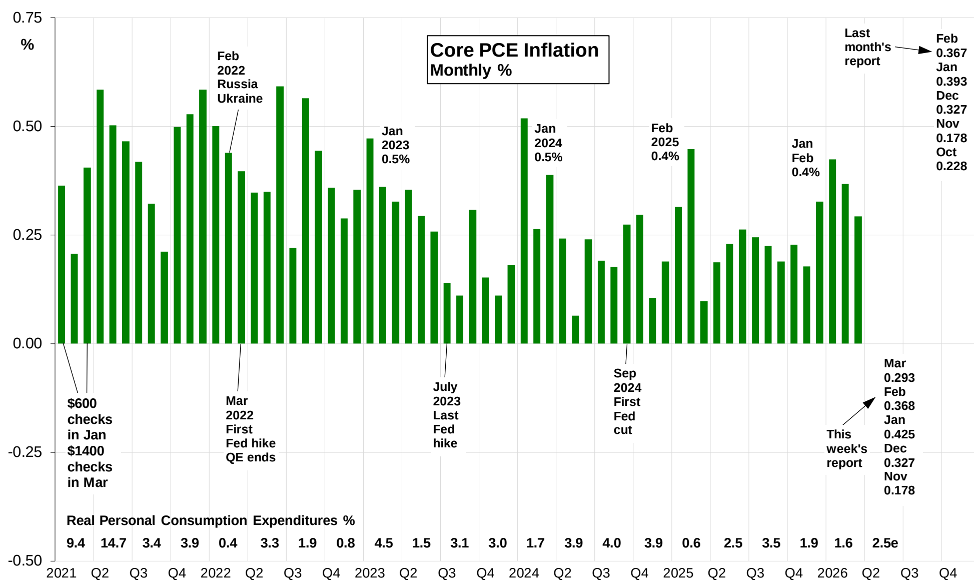
GDP, PCE inflation, ECI, jobless claims (Thursday)

Breaking economy news. Real GDP was 2.0% in Q1 2026 after the 0.5% weakness during the Q4 2025 Federal government shutdown. Consumer spending was 1.6%, we were estimating 2.5%, but there was no spending on nondurable goods. There is momentum given stronger February and March, and Q2 2026 will be 1.0% even if there are no expenditures at all for April, May, June. Weekly jobless claims fell 26K to 189K in the April 25 week, but continuing claims fell 23K to 1.785 million in the April 18 week which is the survey week for the unemployment rate which might drop again from 4.3% (4.26) in the Friday, May 8 report.

	Q4 24	Q1 25	Q2 25	Q3 25	Q3 25	Q4 25	Q1 26p
REAL GDP	1.9	-0.6	3.8	4.4	4.4	0.5	2.0
REAL CONSUMPTION	3.9	0.6	2.5	3.5	3.5	1.9	1.6
CONSUMPTION	2.6	0.4	1.7	2.3	2.3	1.3	1.1
Durables	0.9	-0.3	0.2	0.1	0.1	0.0	0.0
Nondurables	0.5	0.3	0.3	0.5	0.5	0.1	0.0
Services	1.2	0.4	1.2	1.7	1.7	1.2	1.1
INVESTMENT	-1.3	3.8	-2.7	0.0	0.0	0.4	1.5
Business Plant	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
& Equipment and	-0.2	1.0	0.4	0.3	0.3	0.2	0.9
Intellectual Property	0.0	0.3	0.8	0.3	0.3	0.3	0.7
Homes	0.2	0.0	-0.2	-0.3	-0.3	-0.1	-0.3
Inventories	-0.9	2.6	-3.4	-0.1	-0.1	0.1	0.4
EXPORTS	-0.1	0.0	-0.2	1.0	1.0	-0.4	1.3
IMPORTS	0.0	-4.7	5.0	0.6	0.6	0.1	-2.6
GOVERNMENT	0.6	-0.2	0.0	0.4	0.4	-1.0	0.7
Federal defense	0.2	-0.3	0.0	0.2	0.2	-0.4	0.1
Fed nondefense	0.1	-0.1	-0.4	0.0	0.0	-0.7	0.5
State and local	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Below line: Percentage point contributions to Q1 2026 2.0% real GDP							
Second estimate for Q1 is Thursday, May 28							

Net, net, the economy showed steady growth in the first quarter despite the colder weather at the start of the year and the Middle East war and surge of energy price inflation in the final month of the quarter. It was AI spending to the rescue with the big increases in business investment in equipment and intellectual property products driving the first quarter results. A full 1.6 percentage points of 2.0% real GDP was business investment in equipment, computers and software. The big drag was from America going back to buying imported goods which clipped real GDP growth by 2.4 percentage points.

By and large consumers are still engaged with most of their purchases centering on services. Real consumer spending showed a moderate pace in February and March which will keep economic growth solidly in the plus column in the second quarter if the Iran war uncertainty ever gets wound back down. Weekly jobless claims dropped to a new low which shows the labor market may be stronger than economists and consumer surveys have been saying. Wage growth for private industry was 0.7% in the first quarter, the same as it was in the fourth quarter of 2025, so consumers continue to have the incomes to keep spending going. There is no sign of economic weakness anywhere in today's reports and Fed officials under the incoming Fed Chair will have scant reason to cut interest rates. Higher rates often deter business capital spending, but right now business investment and orders are setting records. Stay tuned.



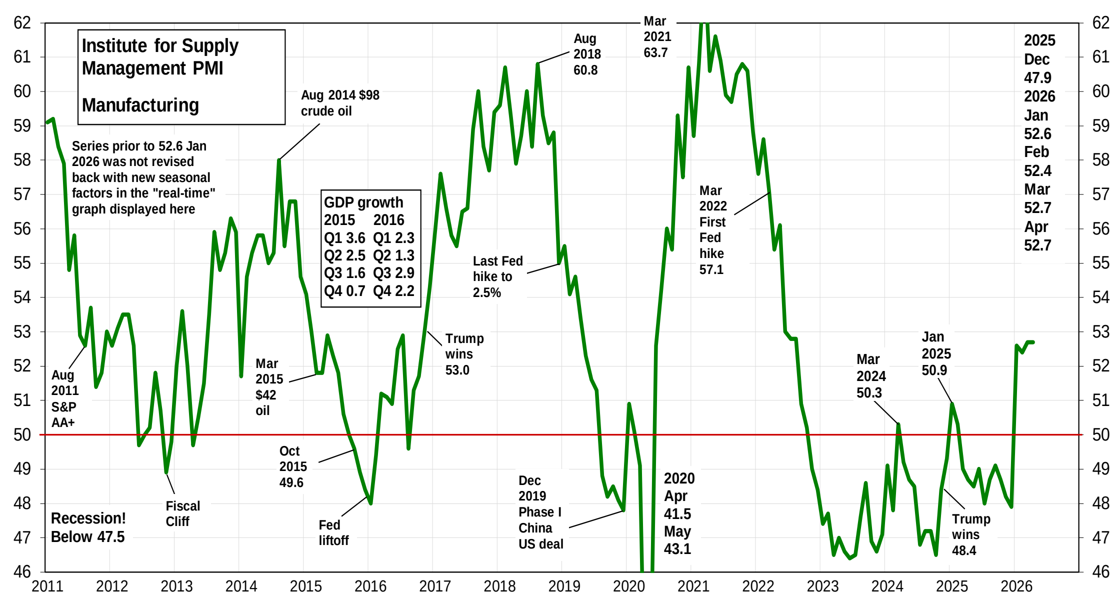
ISM manufacturing solid (Friday)

Breaking economy news. Ever since making a spectacular (unbelievable) jump to start the year, it has been sideways for the ISM manufacturing index. We hope the index is not broken, or less able to tell the future, like so many long-trusted indicators from past economic cycles. Manufacturing, or at least equipment orders are extremely strong, enough to put the index above 60 one would think. The overall index shows the manufacturing sector is expanding, but do not bother applying for a job at the factory as employment is still trending down because factories run on robots and machines.

Net, net, the ISM manufacturing index is holding onto its 2026 expansion trend which is a good thing for the economic outlook, the only troubling finding being that inflation is rearing its ugly head in a way that has not been seen since 2022. Time will tell if the manufacturing renaissance has truly arrived according to purchasing manager executives, but so far, so good, where despite the Iran war uncertainty, sky-high energy prices and import tariffs that just won't go away, the outlook for American companies has rarely been better. The stock market is at all-time highs, and that optimism on the part of investors is supporting the strongest manufacturing expansion seen in years. No one would have believed at the start of the year that business conditions would be so robust. Stay tuned.

ISM manufacturing index

	Apr 26	Mar 26	Feb 26	Jan 26
PMI index	52.7	52.7	52.4	52.6
Prices	84.6	78.3	70.5	59.0
Production	53.4	55.1	53.5	55.9
New orders	54.1	53.5	55.8	57.1
Supplier deliveries	60.6	58.9	55.1	54.4
Employment	46.4	48.7	48.8	48.1
Export orders	47.9	49.9	50.3	50.2
Import orders	50.3	52.6	54.9	50.0



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