Financial Markets This Week

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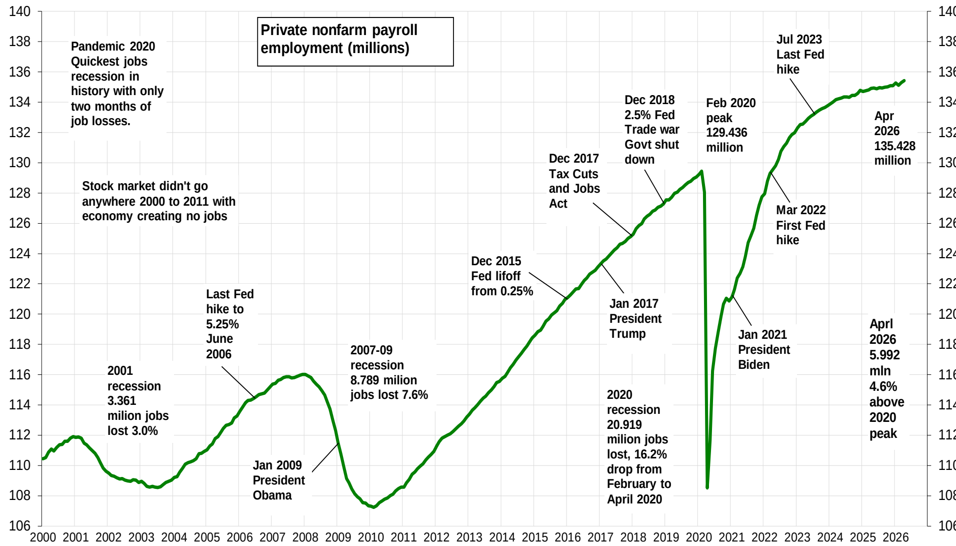
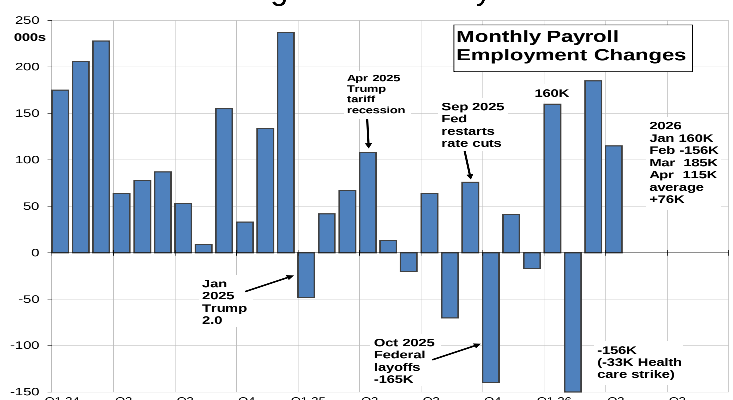
NOT BROKEN

More private jobs this month. 123K more and a total of 135.428 million people working. In the last three recessions, payroll jobs collapsed: 3.361 million in 2001, 8.789 million in the 2007-09 recession, and for the two-month pandemic recession in 2020, don't ask. The decline is always in the millions. This private payroll jobs graph illustrates one problem economists may have in explaining why the recession is over to a skeptical public; but once the job losses stop and jobs climb again from the nadir point, it's over. A problem as no one believes it. Similar to voter concerns over inflation or the cost of living today. Core PCE inflation year-on-year peaked at 5.4% in Q1 2022, the same quarter the Fed first raised rates from the 0.5% floor (guess policy tightening worked), but the price level remains higher to this day and so does the cost-of-living crisis for Americans.



Here are our colorful remarks at the time of the jobs report release. Net, net, a middle-of-the-road employment report that was slightly better than expected. The labor market isn't broken and no one is losing their job, so no reason for Fed officials to rush forward with interest rate cuts even with the changeover at the top of the Fed being filled by a new Trump 2.0 appointee. No reason for interest rate cuts looking at the economy, but plenty of reasons to consider an interest rate hike with inflation getting a lift from the double whammy of import tariffs and $4 a gallon gasoline the latter as a result of the war in the Middle East. This is not the typical payroll jobs growth slowdown over the last year that has preceded recessions in the past where companies gradually slow hiring and finally the dam bursts with thousands of your-fired workers out on the unemployment line. The good news is the economy is not heading over a cliff with the millions of lost jobs seen in recessions despite what are arguably recession-level gasoline prices. The bad news for the market is the Fed will not relax its grip on interest rates with the labor market standing firm. The Fed says a 3.75% policy rate is not restrictive, but the bond and stock markets are not so sure. Jobs creation is split with AI advances eliminating tech positions offset by an overwhelming concentration of hiring in health care and social assistance. But



maybe this is what the new economy needs with 10 thousand baby boomers retiring every day and the Federal government pulling back its traditional funding for welfare and the support for American families in need.

Review & Outlook: Hyperbole aside, it is hard to give a thumbs up or thumbs down on the labor market trend. Trump 2.0 policies seem to have dampened the trajectory of jobs creation. Private jobs rose at a certain regular pace from the lows of the 2007-09 recession and, after tumbling in the 2020 pandemic, seemed to have almost rejoined the trend in July 2023 when the Fed stopped its recession-magnitude rate hikes to fight inflation at 5.5%. The upward arc in jobs has now moderated, perhaps due to Trump 2.0 economic policies on immigration/tariffs, and lately the Iran War that started February 28. But there is no hint of recession in the air where millions lose their jobs. We were surprised at the 2-decimal increase in the unemployment rate, given what we thought the trend of continuing unemployment claims was, but the correlation doesn't have to match each and every month. The conspiracy-minded might think people dropped out of the labor force and that was the only reason the jobless rate fell from 4.44% in February. Stay tuned.

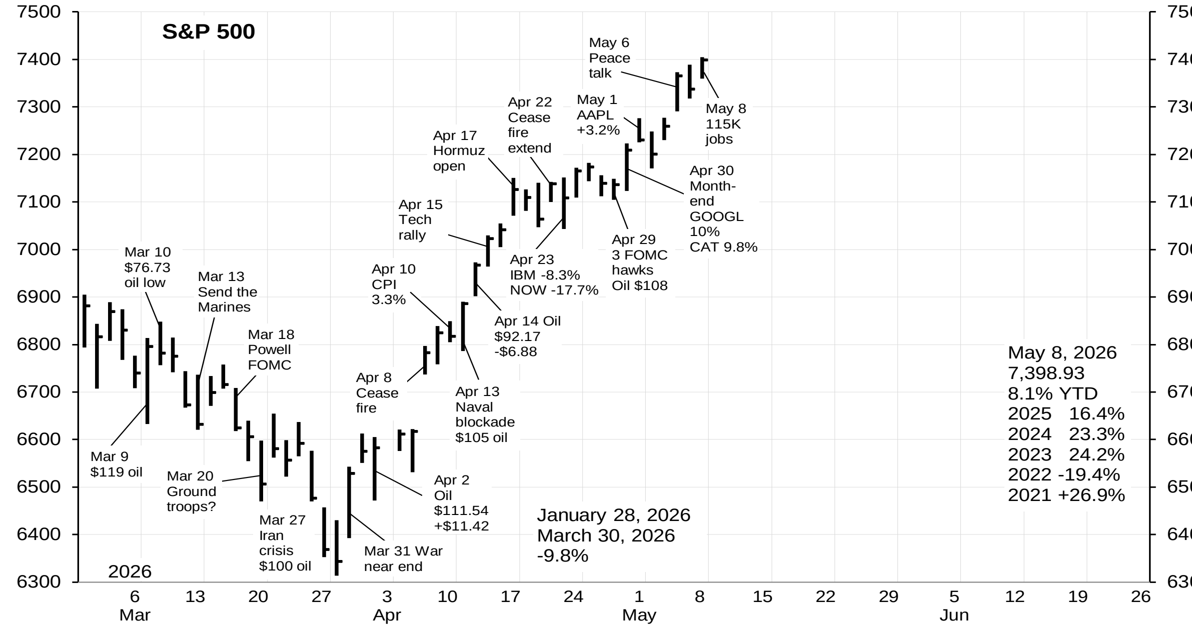
2026 Payroll jobs volatility

Dec. 2025 Totals millions		Apr 26	Mar 26	Feb 26	4 months Dec 25 to Apr 26	12 months Dec 24 to Dec 25
158.432	Nonfarm Payroll Employment	115	185	-156	304	116
135.083	Total Private (ex-Govt)	123	190	-148	345	296
21.456	Goods-producing	10	33	-21	67	-135
0.566	Mining	3	1	0	2	-15
12.580	Manufacturing	-2	15	1	16	-113
0.951	Motor Vehicles & parts	-3	2	5	5	-37
0.990	Computer/electronics	0	1	-1	0	-22
1.780	Food manufacturing	2	0	0	1	1
8.272	Construction	9	16	-21	49	-4
5.222	Specialty trade contractors	4	10	-16	27	-17
113.627	Private Service-providing	113	157	-127	278	431
28.616	**Trade, transportation, utilities**	60	46	-36	108	-195
15.414	Retail stores	22	19	0	53	-47
3.217	General Merchandise	12	8	5	37	-16
3.247	Food & Beverage stores	-5	10	-9	8	3
6.555	Transportation/warehousing	30	22	-46	29	-108
1.467	Truck transport	4	0	-1	2	-28
0.571	Air transportation	0	2	5	5	8
1.051	Couriers/messengers	38	22	-44	45	-43
1.836	Warehousing and storage	1	-1	1	-6	-45
2.842	**Information**	-13	-6	-23	-69	-53
0.473	Computing, data, web hosting	-4	-2	-4	-15	-8
9.186	**Financial**	-11	-19	2	-67	7
2.993	Insurance	-9	-10	-7	-36	-23
2.452	Real Estate	-5	1	4	-15	-4
1.371	Commercial Banking	0	-5	-3	-14	-7
1.158	Securities/investments	4	-1	7	11	34
22.372	**Professional/business**	7	26	4	73	-160
2.451	Temp help services	8	5	2	34	-91
2.622	Management of companies	-4	-3	-2	-10	3
1.746	Architectural/engineering	4	5	4	17	33
2.381	Computer systems/services	1	-11	5	-12	-51
1.231	Legal services	2	0	1	6	24
1.130	Accounting/bookkeeping	1	-1	1	1	5
27.627	**Education and health**	46	91	-49	207	682
4.039	Educational services	-8	0	-19	-14	-5
18.295	Health care	37	78	-33	151	387
9.121	Ambulatory health care	18	55	-36	76	167
5.719	Hospitals	4	15	9	43	137
3.456	Nursing/residential care	15	9	-5	31	83
5.292	Social assistance	17	12	3	70	299
16.961	**Leisure and hospitality**	14	29	-31	17	99
1.939	Hotel/motels	-15	12	-9	-19	-6
12.343	Eating & drinking places	17	12	-39	13	78
23.349	Government	-8	-5	-8	-41	-180
2.128	Federal ex-Post Office	-7	-13	-1	-59	-283
5.476	State government	1	-2	-6	-4	-39
2.603	State Govt Education	1	-2	-7	1	-42
15.151	Local government	0	12	-6	20	146
8.232	Local Govt Education	-5	7	-5	-1	58

Monthly changes (000s)	Apr	Mar	Feb	Jan	Dec
Payroll employment	115	185	-156	160	-17
Private jobs	123	190	-148	180	-7
Federal govt ex-post office	-7	-13	-1	-37	-12
Bars/Restaurants	17	12	-39	23	-5
HH Employment Survey*	-226	-64	-185	-895	232
Unemployment rate %	4.34	4.26	4.44	4.32	4.38
Participation rate %	61.8	61.9	62.0	62.1	62.4
Not in labor force (mln)	104.959	104.771	104.283	104.211	103.321
... and Want A Job (mln)	6.111	6.040	5.974	5.838	6.208
Average hourly earnings	$37.41	$37.35	$37.27	$37.15	$37.02
MTM % Chg	0.2	0.2	0.3	0.4	0.1
YOY % Chg	3.6	3.4	3.7	3.7	3.7

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES

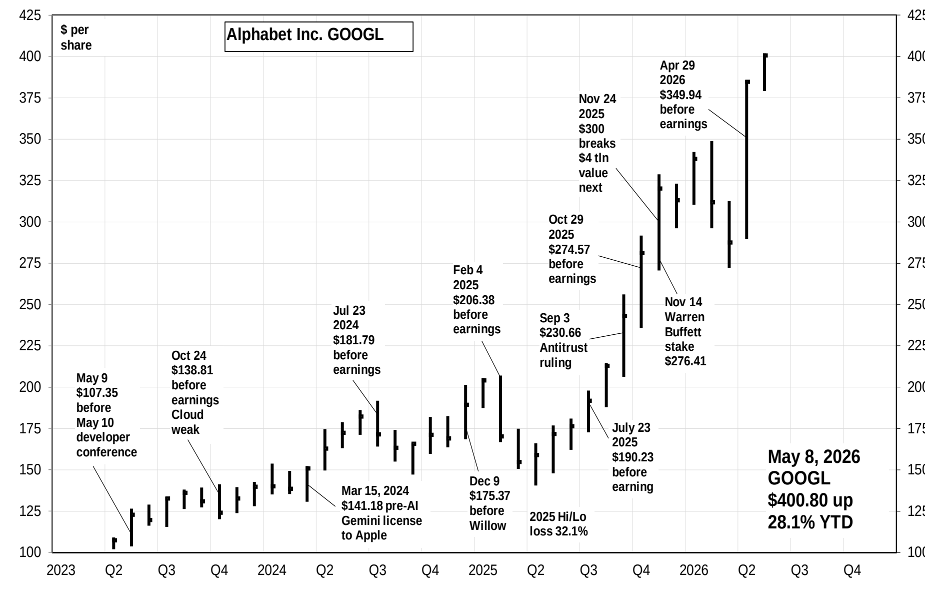


More chaos for markets this week on a peace plan news story shortly before 5am ET on Wednesday. That was the first news story of the day as it turned out and there were several others weighing in on whether the war was ending, complete with some contradictory comments from the President himself. Nothing matters. Chaos or not. New all-time highs Wednesday with the S&P 500 up 1.5% for the day. Stock futures up about 0.5% before the stronger 115K jobs report Friday, seems to see a bright future, S&P 500 closing Friday up 0.8% at new record. Bonds came down from 4.43% on Wednesday's peace at last rally and closed Friday 4.36% despite next week's Treasury quarterly refunding auctions.

Alphabet, Inc. (GOOGL) up 28.1% YTD

The stock soared 10.0% from $349.94, the day after earnings on Wednesday, April 29. Wall Street or someone loved it. Guess they don't have Gmail or have not given the company three credit cards to back up a transaction. They are making money for now as the doomsters always say, "for now." We do like the company because it is #3, 6.60% weight, on the S&P 500 biggest list. And if numbers never lie, if you are worried about tech industry AI layoffs, the company had 194,668 employees in March, up from 185,719 a year ago. Cloud is growing 67.5% from last year to $20.028 billion, still substantially less than other companies, revenues, if not for YOY growth. Advertising is okay for now, even though we never see Google advertising in our internet searches anymore at least on the results page from our inquiries.

Calendar Year Mln $	Revenue	Advertising	Cloud	Operating Income
Q1 2026	109,896	77,253	20,028	39,696
Q4 2025	113,828	82,284	17,664	35,934
Q3 2025	102,346	74,182	15,157	31,228
Q2 2025	96,428	71,340	13,624	31,271
Q1 2025	90,234	66,685	12,260	30,606
Q4 2024	96,469	72,461	11,955	30,972

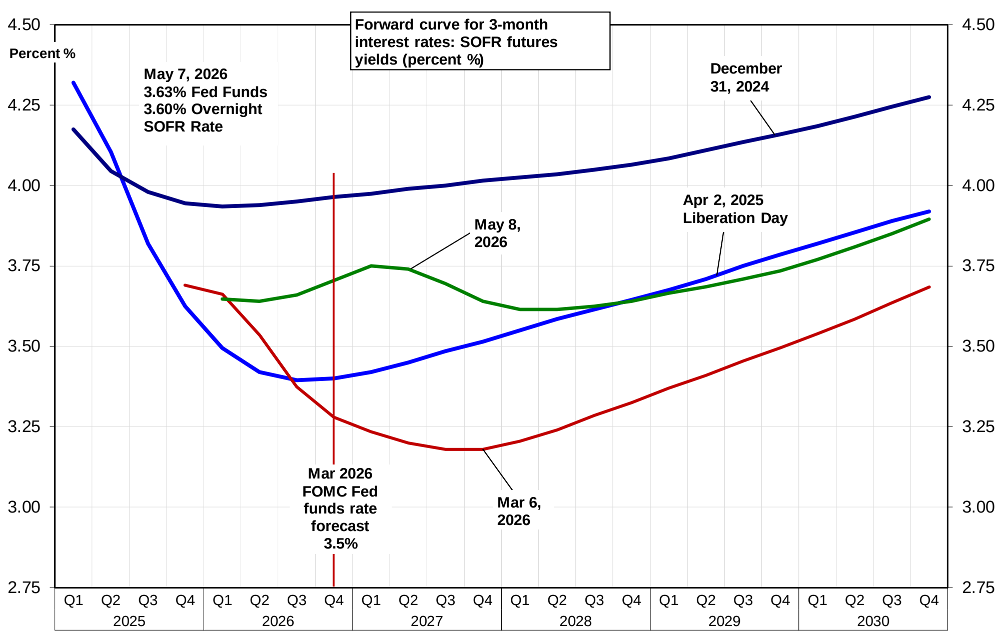


FEDERAL RESERVE POLICY

The Fed meets June 16-17, 2026 to consider its monetary policy. We think they will meet on these dates, as the new regime-change Fed Chairman will be at the helm. What can we say. The new boss is always great, on Wall Street, no matter what, and so for the Federal Reserve. There have been stories about how Warsh will drop the number of meetings or press conferences at least. This will be the markets second, back-to-back actually, experience with a non-economist as Fed Chairman. Probably not the best idea to put someone in there without formal economics training, holding a graduate school academic degree, even if they are a former Fed governor. Lots of new ideas from Warsh, some good, some bad, which is how it goes. Many of his written comments for newspapers were to get the job, and no one knows what thoughts/ideas will stick around. And the only problem is the 20th member of the FOMC wants lower interest rates. Warsh seems to like the Dallas Fed trimmed-mean PCE inflation which he says is trending in the right direction. Okay. Reinvent the wheel. Stay tuned. New ideas coming from a former Fed governor who sent in his resignation letter February 11, 2011. Big resume gap. A lot has happened since.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	6-May	29-Apr	22-Apr	15-Apr	3/11/20*	3/11/20
Factors adding reserves						to May 6
U.S. Treasury securities	4434.161	4425.737	4420.267	4407.209	2523.031	1911.130
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1981.060	1981.060	1993.276	1996.478	1371.846	609.214
Repurchase agreements	0.002	0.001	0.004	10.463	242.375	-242.373
Primary credit (Discount Window)	5.735	6.105	6.032	5.306	0.011	5.724
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	0.029	0.030	0.031	0.040		
Main Street Lending Program	1.404	1.402	1.335	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	0.206	0.020	0.101	0.106	0.058	0.148
Federal Reserve Total Assets	6760.8	6750.2	6758.7	6756.9	4360.0	2400.823
~~3-month Libor %~~ SOFR %	3.61	3.63	3.64	3.72	1.15	2.460
Factors draining reserves						
Currency in circulation	2457.249	2454.885	2453.331	2452.150	1818.957	638.292
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	862.757	988.102	1007.172	924.435	372.337	490.420
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	1.633	0.747	0.538	0.223	1.325	0.308
Federal Reserve Liabilities	3709.368	3831.053	3844.166	3776.731	2580.036	1129.332
Reserve Balances (Net Liquidity)	3051.481	2919.153	2914.576	2980.186	1779.990	1271.491
Treasuries within 15 days	92.033	90.628	89.725	80.940	21.427	70.606
Treasuries 16 to 90 days	322.685	322.167	315.690	306.882	221.961	100.724
Treasuries 91 days to 1 year	507.653	514.081	516.358	521.259	378.403	129.250
Treasuries over 1-yr to 5 years	1394.175	1388.806	1388.419	1388.245	915.101	479.074
Treasuries over 5-yrs to 10 years	515.328	509.713	509.888	509.849	327.906	187.422
Treasuries over 10-years	1602.287	1600.342	1600.187	1600.033	658.232	944.055
Note: QT starts June 1, 2022	Change	5/6/2026	6/1/2022			
U.S. Treasury securities	-1336.618	4434.161	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				



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

Fed funds futures call Fed policy		
Current target: May 8 -- 3.75%		
Rate+0.12	Contract	Fed decision dates
3.740	Jul 2026	Apr 29, Jun 17*
3.730	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		

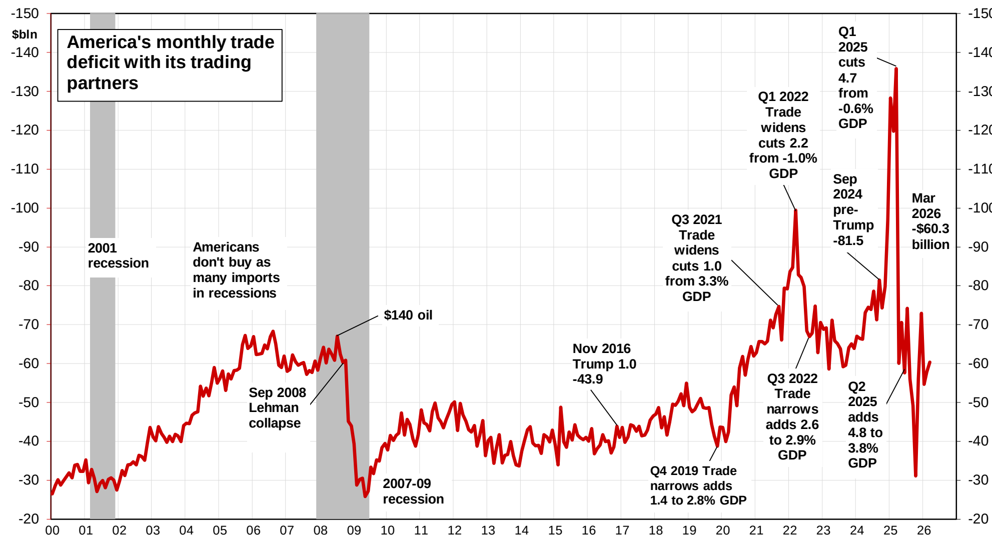
Next up: April CPI inflation Tuesday, May 12 830am ET														
Monthly	2026			2025										2025
% Changes	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
Core CPI inflation	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3	0.4
Core PCE inflation	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	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

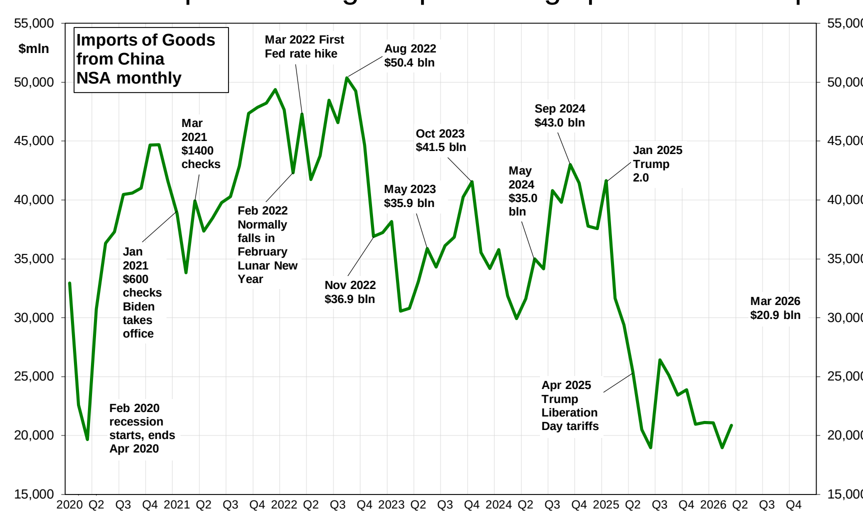
Winning trade war (Tuesday 830am ET)

Breaking economy news. The March trade deficit was little changed at $60.3 billion from $57.8 billion in February. The deficit for Q1 2026 was $57.6 billion, wider than $53.3 billion in Q4 2025, but the GDP measurement was large with a 1.3 percentage point drag on 2.0% real GDP reported last Thursday.

$mln	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Feb 2026	-57,777	-84,623	26,846	314,673	206,976	107,697	372,449	291,599	80,851
Mar 2026	-60,307	-88,712	28,406	320,859	213,461	107,398	381,165	302,173	78,992
Change	-2,530	-4,089	1,560	6,186	6,485	-299	8,716	10,574	-1,859

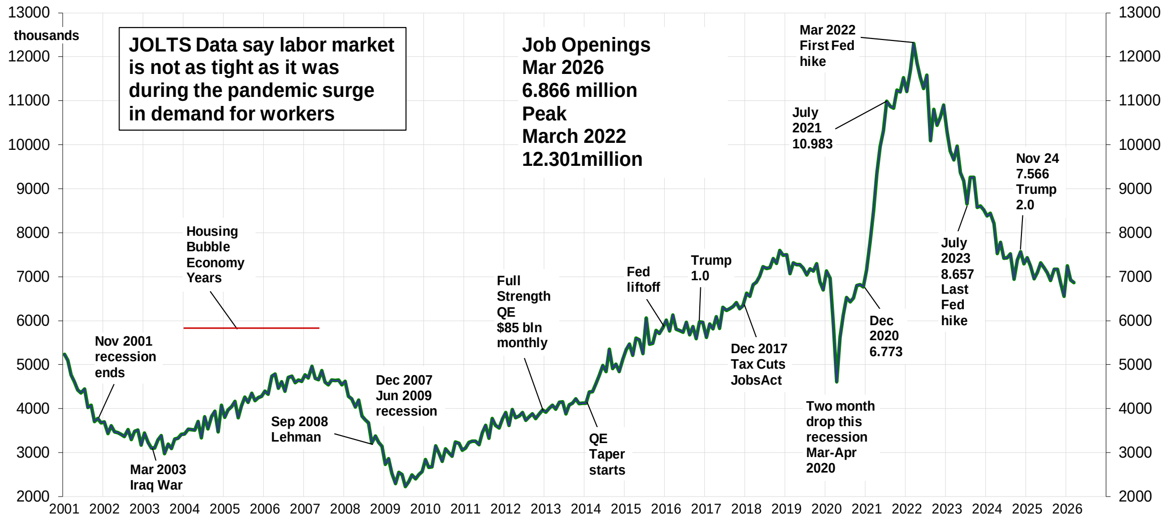


Net, net, America is seeing record trade flows with its global partners as the trade war tariffs appear to be fully digested for now so commerce between nations can proceed. The trade deficit was little changed at $60.3 billion in March as both exports and imports climbed. American goods imports set a record for the Trump administration outside of the huge jump in the first quarter of 2025 to beat the higher costs of the looming import tariffs. Exports are higher as well although some of the increase is due to higher energy prices during the first month of the war in the Middle East. Stay tuned. Last week's 2% real GDP report for the first quarter was dragged down by greater trade with the world with exports adding 1.3 percentage points while imports were a huge 2.6 percentage points drag. Trump 2.0 economic policies seeking to bring production back to American shores aren't working yet as US imports are very close to record levels. Meanwhile, it is unclear what there will be to discuss with China's leaders if the President's trip is still on, as Chinese producers are not shipping out the same volumes of goods that led Trump 1.0 to put tariffs on Chinese goods nearly a decade ago. US goods imports from China were $20.9 billion in March 2026 down 28.9% from $29.4 billion a year earlier. The good news America is winning the trade war with China, but the bad news is it is losing the trade war with the rest of the world.



Job openings down, new home sales up (Tuesday 10am ET)

Breaking economy news. Job openings were 6.866 million at the end of March and not a lot for the market to trade on. Although it tries from time to time when there is a big change up or down. New home sales finally returned after Federal government shutdown delays and February and March data were released at the same time. New home sales have not changed much the last few years. Sales were low at 583 thousand in January with the colder than seasonal temps, and have recovered. Median home prices fell sharply to $387,400 in March, but there have always been difficulties with this measure of home valuations.



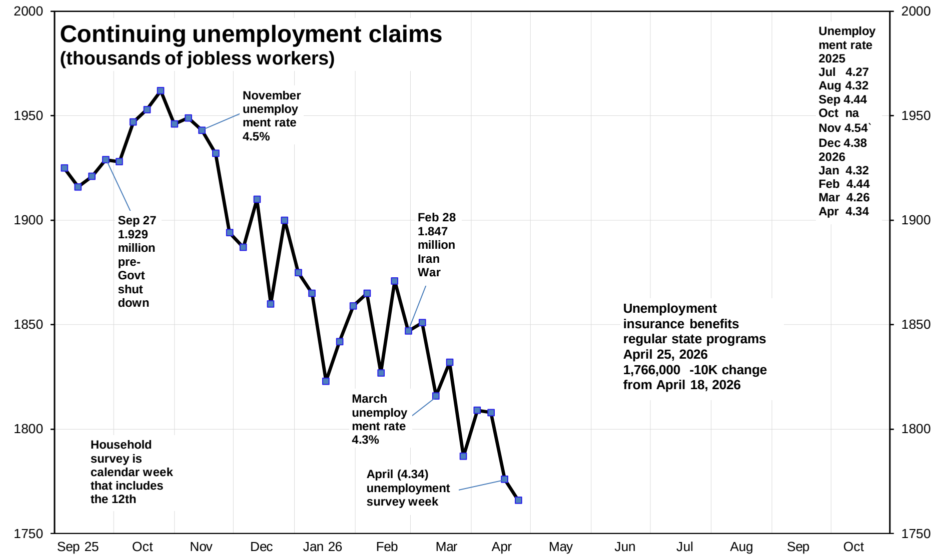
Net, net, more mixed results on the economy in the first month of the Iran war with job openings down and new home sales higher. There were 6.866 million job openings at the end of March which are down 56K from the prior month, but there was a huge drop in professional and business services of 318K where employment is often more affected by geopolitical news and events. If you are looking, there were opportunities in retail trade, showing stores are still seeing consumer traffic despite the gasoline price shock, and the old standby supporting the economy is 87 thousand more job openings in health care and social assistance. New home sales rebounded from some inclement winter weather at the start of the year, although most of the increase was in the South which has the biggest regional housing markets in the country. Stay tuned. Bond yields are lower but not so much on the relative strength of the economy from today's reports on home sales, job openings and the trade balance. The focus remains on the war in the Middle East and right now crude oil prices are dropping as the renewed threat of attacks has not materialized despite the market's worries on Monday at the start of the week.

New Home Sales

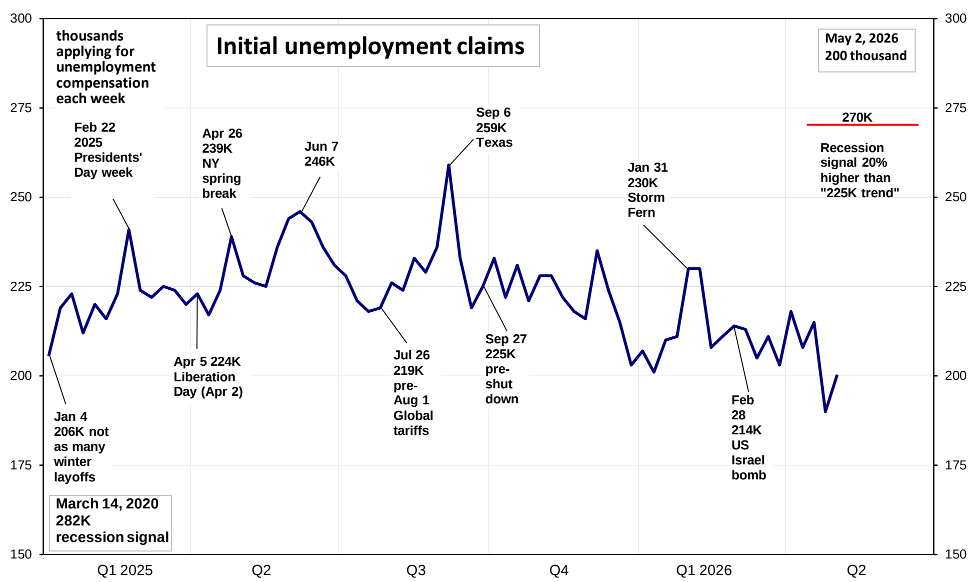
	Total	Northeast	Midwest	South	West	Median Price $
2023 Year	666	33	68	412	153	428,600
2024 Year	686	34	80	413	158	420,300
2025 Year	678	33	82	412	150	417,400
Jan 2026	583	29	75	346	133	412,900
Feb	635	15	80	397	143	409,000
Mar	682	27	76	441	138	387,400
	Thousands at Seasonally Adjusted Annual Rate					

Unemployment rolls tumble (Thursday)

Breaking economy news. Weekly jobless claims bounced from extremely low levels by 10K to 200K in the May 2 week. Continuing claims continue to fall, a new 2026 low, with a 10K decline to 1.766 million.



Net, net, the labor market is strong with the number of Americans on the nation's unemployment rolls getting benefits falling sharply since the start of the war at the end of February. Not only has the so-called fog of war with its uncertainty not led to layoffs, the picture of the economy provided by these timeliest of leading economic indicators is showing all is surprisingly well. If these latest weekly data are to be believed, markets need to brace themselves for what could be a big jobs surprise for Friday's all-important monthly employment situation report for April. Maybe those big income tax refunds, mostly because workers did not change their withholding amounts last year, are supporting economic conditions better than economists thought. It is truly a puzzle why $4 gasoline has not taken more off of economic growth and consumer spending than we had predicted. Fed officials cut interest rates last year because of worries over joblessness and a higher unemployment rate, but right now just days before Warsh becomes Chair, there is no reason to consider interest rate cuts whatsoever because the labor market is steady as a rock.



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