Financial Markets This Week

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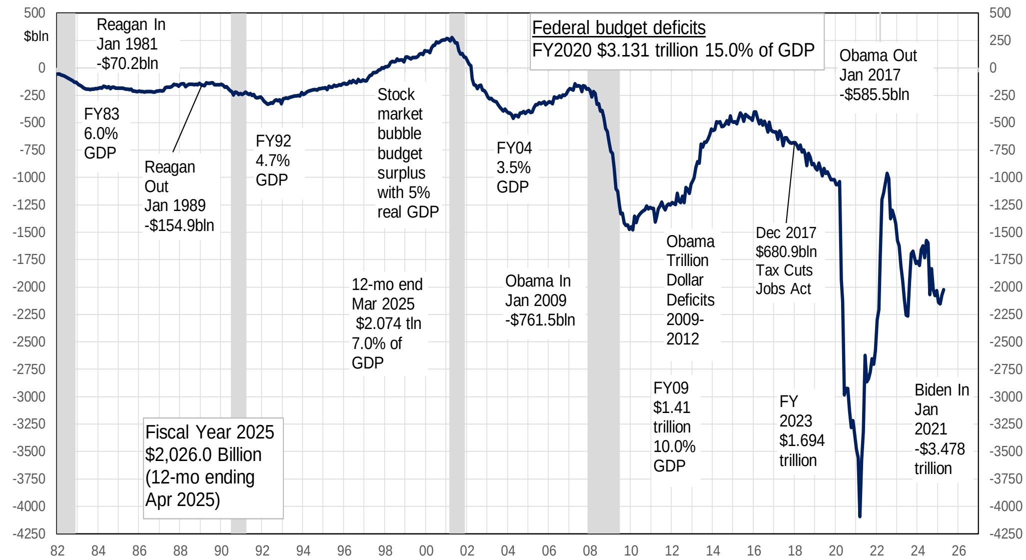
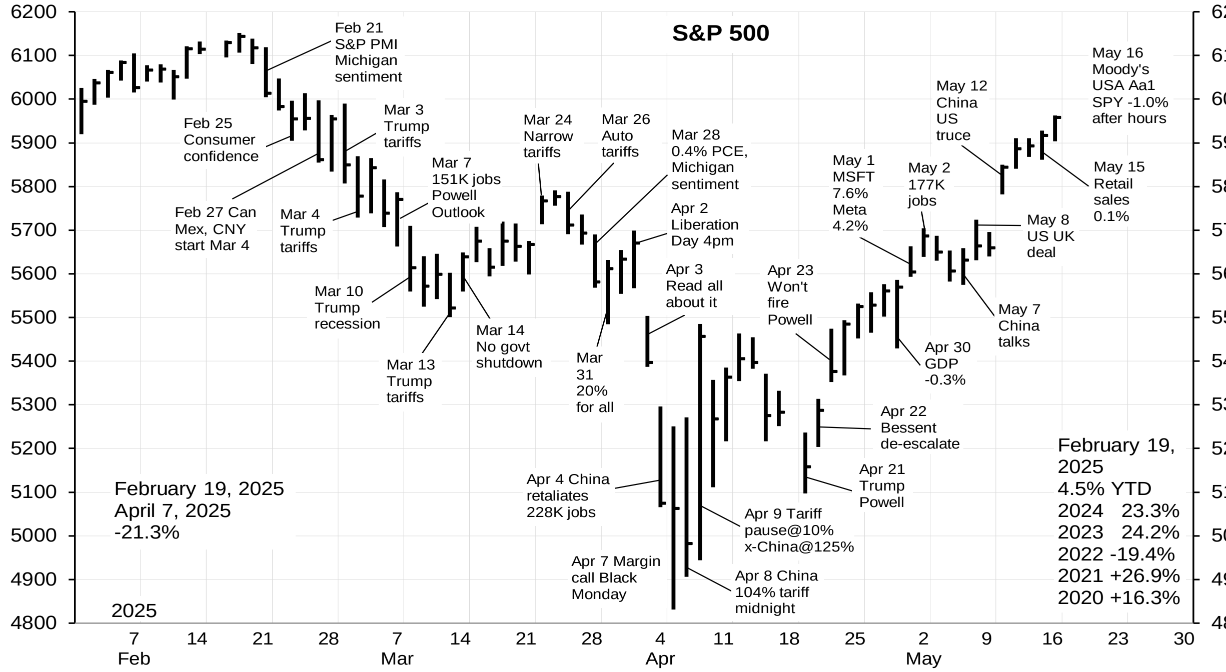
UNCLE SAM IN THE MONEY



April Federal budget results. Customs duties in April 2025 (Liberation Day was April 2) were $15.634 billion versus $6.367 billion in April 2024. Not that rich. What was a surprise was the huge income tax collections in April from individuals paying for the 2024 calendar year, and the first installment of quarterly estimated taxes for most businesses and individuals. April budget receipts were $850 billion up 9.5% from $776 billion in April 2024. Looking ahead the Joint Committee on Taxation put out its estimates of the Republican Plan that renews the expiring 2017 Tax Cuts and adds some other goodies except for those on Wall Street who are paid too much and will not qualify for much of a break. The estimates go out over the next ten years, but it is better to look at just the next two years if you are a robot and trade bonds for a living. How many Treasury auctions are coming? The Federal budget deficit was $1.832 trillion in FY2024 ending last September. We thought it was supposed to be some kind of reconciliation of the FY2025 budget, but the Subtitle A is “MAKE AMERICAN FAMILIES AND WORKERS THRIVE AGAIN.” Anyway, the bottom line of this thing cuts revenues $380.4 billion in 2026 and $610.1 billion in 2027. There’s more. Subtitle B “MAKE RURAL AMERICA AND MAIN STREET GROW AGAIN” cuts revenue $178.4 billion in 2026 and $166.2 billion in 2027. Still more. Finally. Subtitle C “MAKE AMERICA WIN AGAIN” brings in revenue of $78.2 billion in 2026 and $186.7 billion in 2027. (Most of the WINNING revenue coming in is from Limitation on individual deductions for certain State and local taxes, and Enforcement of remedies against unfair foreign taxes, whatever the latter is.)

What did someone famously say? “I don’t know what he just said and I don’t think he does either.” The Federal budget deficit forecasts ahead appear to be completely unknowable. We did look back at the Joint Committee on Taxation estimates for the 2017 Tax Cuts and Jobs Act, and the numbers for revenue loss were smaller: $75.3 billion 2018 and $188.8 billion 2019. This time around it looks like the deficit red ink is on its way up to much higher levels with the projected revenue losses.

INTEREST RATES



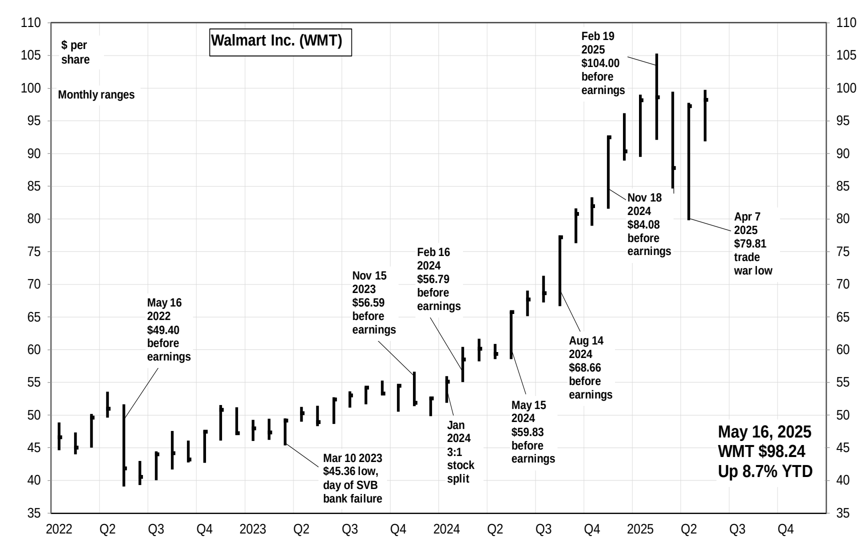
The stock market started/ended the week with a bang. Treasury Secretary Bessent lowered the China tariffs from 145% to 30% Monday morning, and the S&P 500 rallied 3.3% on the day. Things were going along well, friends of the Administration bidding up stocks on no news Friday, ending the day up 0.7% to 5958.38 which is up 1.3% YTD. But Moody's announced shortly before 5pm that they would downgrade the U.S. to Aa1 from AAA. The SPY ETF fell 1.0% in after hours trading. Budget-busting revenue estimates for the big, beautiful bill down in Washington appear to be the problem. When S&P first tried this U.S. downgrade also late on a Friday, on August 5, 2011, it was quite a shock as the market was dealing with yet another European debt crisis with stocks tumbling 4.8% on Thursday, August 4. As it happened stocks fell 6.7% more on Monday, August 8, 2011 and that was the low-close for that credit event. Whew. Ratings agencies have their own complex metrics, but we note the Federal debt to GDP ratio was 92.2% in Q2 2011 and is now 121.9% in Q4 2024.

Walmart Inc. (WMT) up 8.7% YTD Tariffs are coming

The company reported earnings Thursday morning before the open on May 15, with CFO comments on the wires about higher costs from import tariff price hikes being imminent "It's unavoidable, double-digit in some departments." Comp sales driven by health and wellness and groceries.

Bln $	Revenue	Operating Income	Same-store Sales YOY *	13-weeks ending *
Q1 2023	152.3	6.2	7.3%	4/28/2023
Q2 2023	161.6	7.3	6.3%	7/28/2023
Q3 2023	160.8	6.2	4.7%	10/27/2023
Q4 2023	173.4	7.3	3.9%	1/26/2024
Q1 2024	161.5	6.8	3.9%	4/26/2024
Q2 2024	169.3	7.9	4.3%	7/26/2024
Q3 2024	169.6	6.7	5.5%	10/25/2024
Q4 2024	180.6	7.9	4.9%	1/31/2025
Q1 2025	165.6	7.1	4.8%	5/2/2025

* US comparable sales, incl. Sam's Club, ex-fuel

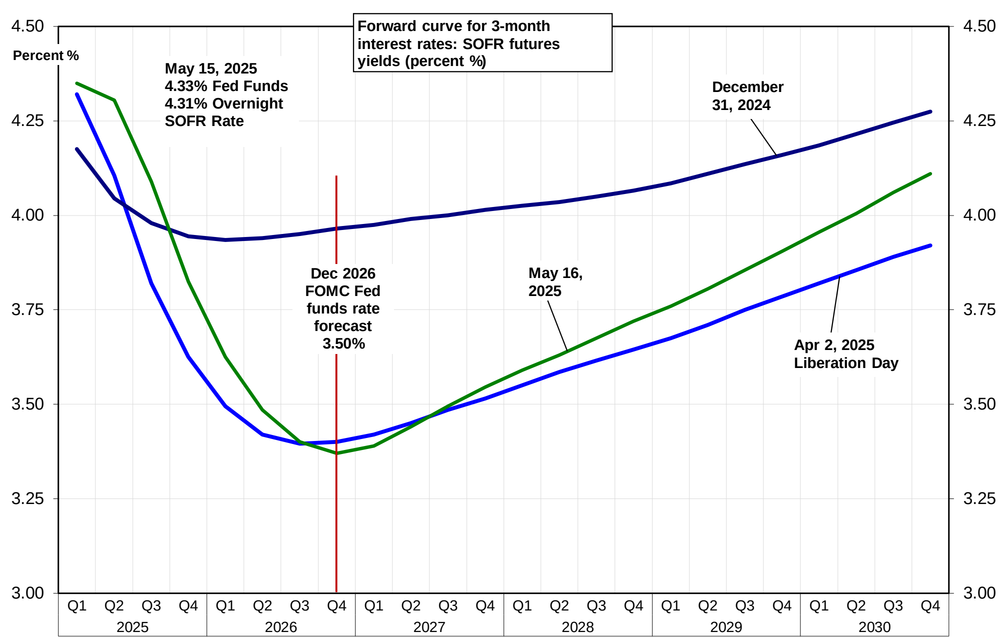


FEDERAL RESERVE POLICY

The Fed meets June 17-18, 2025 to consider its monetary policy. Fed funds futures don't see a rate cut happening, so we don't either. Powell headlines of his [opening remarks] at a conference at 840am Thursday. Nothing really market-moving and he talked about the Fed's review of its Statement of Longer-Run Goals and Monetary Policy Strategy. The first Statement was in 2012 under Bernanke, and it seems less operational or at least markets don't need the Fed's "reaction function" spelled out in black and white. The decision is to raise or lower interest rates by 25 bps or do nothing. We wish others down in Washington were more in the do-nothing camp. What the Statement cannot clarify is where the Fed funds rate should go, where is neutral, and the interest rates effect is less knowable after rates went sky-high to 5.5% recession-magnitude levels and yet the economy did not stop. So, let's talk about it anyway at a conference before Doge cuts tear the Fed apart. Powell is a lame duck this year. The one thing we wish they would rule out is pushing rates to zero again to try and get the economy moving. If inflation returns to 2%, cut interest rates to 3% and then stop trying to recalibrate it.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	14-May	7-May	30-Apr	23-Apr	3/11/20*	3/11/20
Factors adding reserves						to May 14
U.S. Treasury securities	4216.393	4216.103	4215.813	4217.694	2523.031	1693.362
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2172.945	2172.945	2172.945	2185.406	1371.846	801.099
Repurchase agreements	0.001	0.007	0.111	1.000	242.375	-242.374
Primary credit (Discount Window)	2.194	2.462	3.485	3.112	0.011	2.183
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	1.786	1.793	1.806	1.807		
Main Street Lending Program	6.829	6.822	6.812	7.072		
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	0.030	0.060	0.062	0.073	0.058	-0.028
Federal Reserve Total Assets	6764.4	6762.1	6759.9	6778.0	4360.0	2404.391
~~3-month Libor %~~ SOFR %	4.29	4.30	4.41	4.28	1.15	3.140
Factors draining reserves						
Currency in circulation	2383.870	2384.812	2381.886	2379.809	1818.957	564.913
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	562.433	595.860	677.657	576.159	372.337	190.096
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	165.024	154.859	250.601	171.780	1.325	163.699
Federal Reserve Liabilities	3528.702	3561.453	3759.573	3569.114	2580.036	948.666
Reserve Balances (Net Liquidity)	3235.715	3200.619	3000.277	3208.915	1779.990	1455.725
Treasuries within 15 days	97.073	97.996	100.454	59.090	21.427	75.646
Treasuries 16 to 90 days	179.232	173.191	149.087	208.978	221.961	-42.729
Treasuries 91 days to 1 year	424.807	429.892	451.428	420.627	378.403	46.404
Treasuries over 1-yr to 5 years	1460.872	1420.173	1420.087	1434.924	915.101	545.771
Treasuries over 5-yrs to 10 years	496.410	536.922	536.897	537.249	327.906	168.504
Treasuries over 10-years	1557.999	1557.929	1557.859	1556.827	658.232	899.767
Note: QT starts June 1, 2022	Change	5/14/2025	6/1/2022			
U.S. Treasury securities	-1554.386	4216.393	5770.779			
Mortgage-backed securities (MBS)	-534.501	2172.945	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2025	2026	2027	Long Term
Fed funds	3.9	3.4	3.1	3.0
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.8	2.2	2.0	
Unemployed	4.4	4.3	4.3	4.2
GDP	1.7	1.8	1.8	1.8
March 2025 median Fed forecasts				



June is unlikely. One 25 bps rate cut is expected by the September meeting.

Fed funds futures call Fed policy		
Current target: May 16 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.470	Jul 2025	Jun 18*
4.270	Oct 2025	Adds Jul 30, Sep 17*
Last trade, not settlement price		
*Not strictly true, Jul 2025 could be 1 day at a new rate; 2 days new rate for Oct 2025		

Next up: April PCE inflation report Friday, May 30 at 830am ET

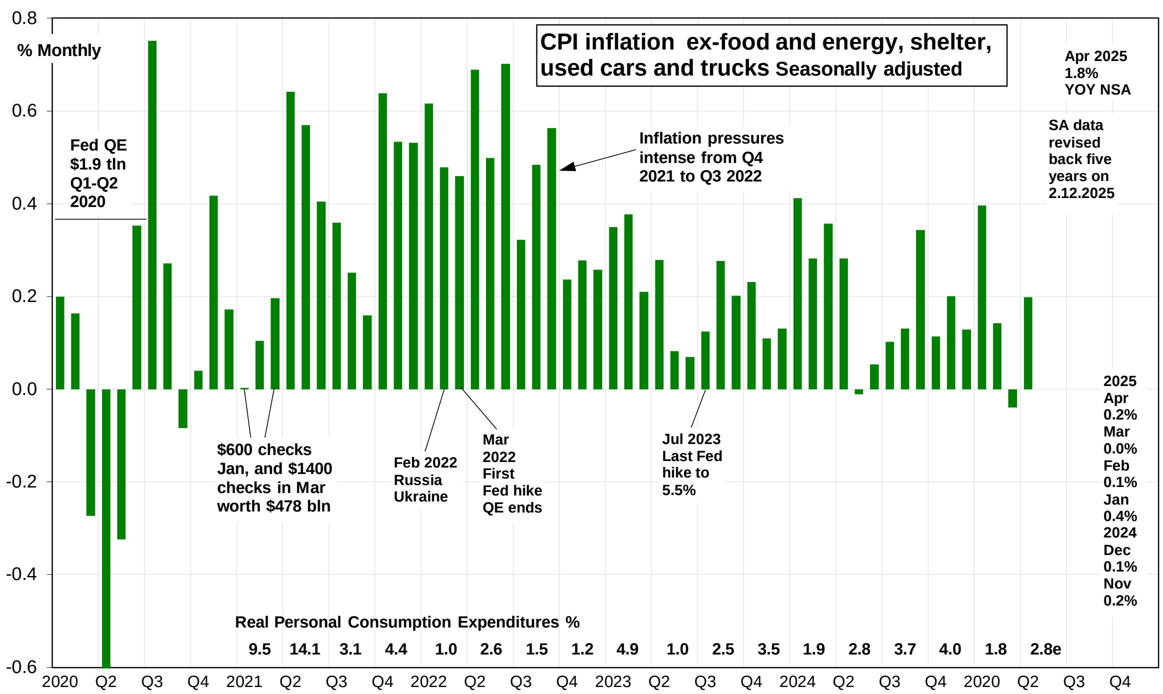
Monthly	2025				2024										2024
% Changes	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb
Core CPI inflation	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3	0.4	0.4
Core PCE inflation		0.0	0.5	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2
Core PCE YOY		2.6	3.0	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9
Core CPI YOY	2.8	2.8	3.1	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8

OTHER ECONOMIC NEWS

CPI inflation steadies at 2.8% year-on-year (Tuesday 830am ET)

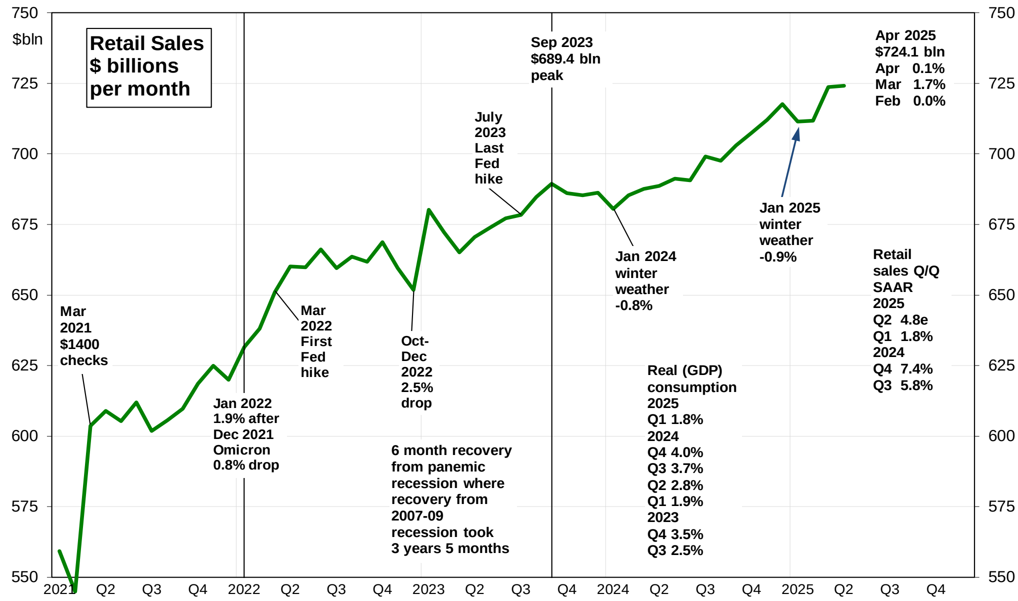
Dec 24		Monthly Percent Changes			YOY %
Weight	CPI inflation	Feb 2025	Mar 2025	Apr 2025	Apr 2025
100.0	Total	0.2	-0.1	0.2	2.3
13.691	Food	0.2	0.4	-0.1	2.8
5.648	Food away from home	0.4	0.4	0.4	3.9
6.216	Energy	0.2	-2.4	0.7	-3.7
2.902	Gasoline	-1.0	-6.3	-0.1	-11.8
80.094	Ex-food & energy	0.2	0.1	0.2	2.8
4.393	New vehicles	-0.1	0.1	0.0	0.3
2.391	Used cars/trucks	0.9	-0.7	-0.5	1.5
2.480	Clothing	0.6	0.4	-0.2	-0.7
1.527	Medical care goods	0.1	-1.1	0.4	1.0
35.483	Shelter	0.3	0.2	0.3	4.0
26.282	Owner equiv. rent	0.3	0.4	0.4	4.3
6.305	Transportation	-0.8	-1.4	0.1	2.5
6.747	Medical care services	0.3	0.5	0.5	3.1
	Special: Where inflation might come back down to				
60.705	Services ex-energy	0.3	0.1	0.3	3.6
19.388	Commodities (core)	0.2	-0.1	0.1	0.1

Breaking economy news. The U.S. cut its tariff on China from 145% to 30% on Monday for it looks like a 90-day truce of sorts in the trade war. 30% will still be enough to push up consumer goods prices of things like the desk lamp we are writing under and the T-shirt on our back. But for April, core CPI rose 0.2% and the year-on-year sticks at 2.8% for a second month. During the inflation outbreak the Fed missed following the pandemic, core commodities (commodities less food and energy commodities) rose 6.4% in 2021 and 7.6% in 2022. Something like that could happen again with the import tariffs adding to the cost of goods consumed in the USA, but these prices rose just 0.1% in April after declining 0.1% in March. Wait for it.



Sales slow with PPI deflation. Jobless claims and industrial production released as well (Thursday)

Breaking economy news. Retail sales rose just 0.1% in April to start the second quarter after jumping 1.7% in March with auto sales at unheard of levels to try to beat the higher costs from import tariffs. Because of the March increase, retail sales are running nearly 5% in the second quarter which should keep real consumption at levels high enough to stave off a recession, although auto sales appear to be dropping rapidly after the import tariff storm surge. Producer prices dropped 0.5% in April, rallying the bond market, but goods prices minus food and energy rose 0.4% so the import tariff inflation is still coming so to speak.



Monthly % SA 2025	Total final demand	Final demand goods: Total	Foods	Energy	Less foods and energy	Final demand services: Total	Trade	Transportation and warehousing	Other
Jan	0.7	0.7	1.0	2.0	0.2	0.7	1.2	0.5	0.4
Feb	0.2	0.3	1.7	-1.4	0.3	0.1	-0.7	0.0	0.5
Mar	0.0	-0.9	-2.1	-3.8	0.3	0.4	1.2	-1.1	0.3
Apr	-0.5	0.0	-1.0	-0.4	0.4	-0.7	-1.6	-0.4	-0.3

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

Still waiting for economic weakness to emerge, meaning companies jettison workers. Besides the 229,000 who applied for unemployment benefits in the May 10 week which was the same number of different folks who filed for jobless benefits in the May 3 week. Not high enough to paint a picture black with darkening skies.

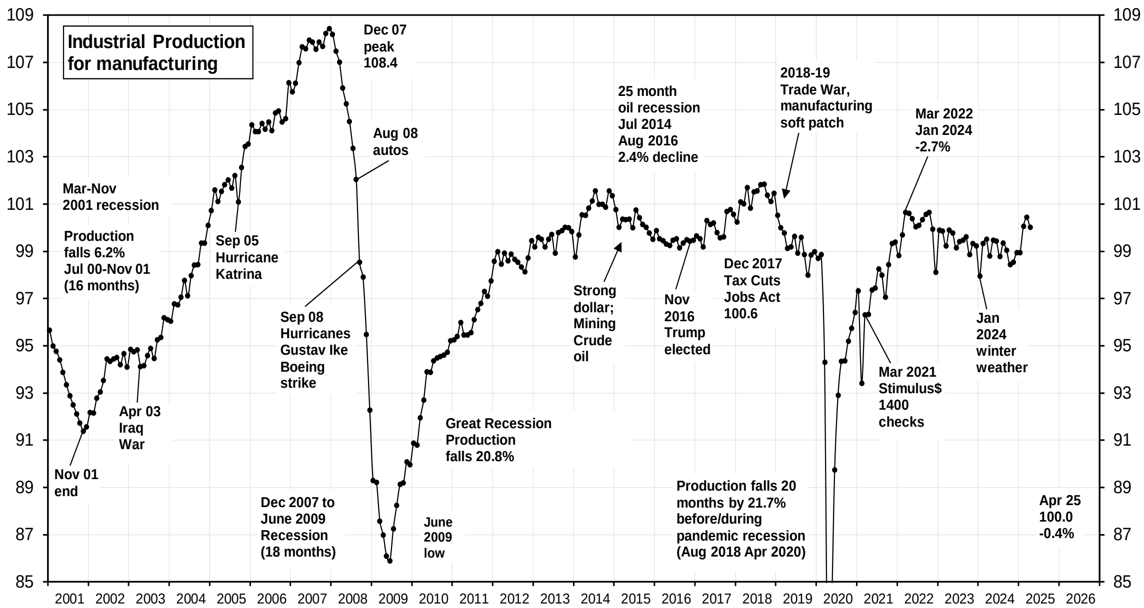
Retail spending, actual dollars, each month

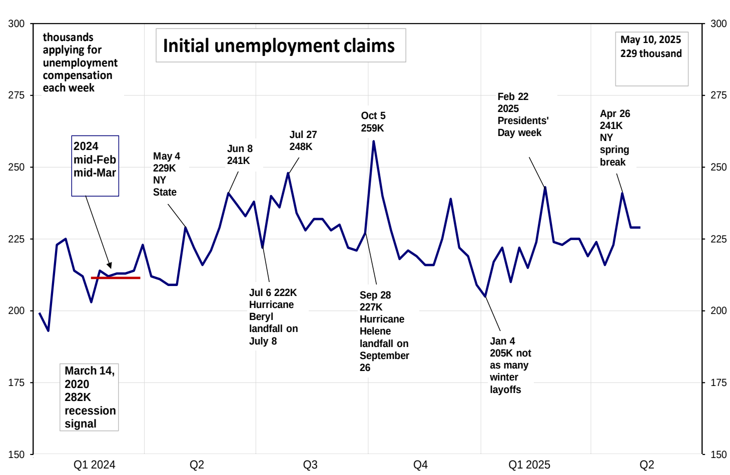
	$million Apr	% to Total	Percent Changes % Apr	Mar	Year/year
Total Retail Sales	724,131	100.0	0.1	1.7	5.2
Motor vehicles/parts	141,625	19.6	-0.1	5.5	9.4
Furniture/furnishings	11,553	1.6	0.3	-0.1	7.8
Electronics/appliances	7,666	1.1	0.3	1.5	0.1
Building materials/garden	41,363	5.7	0.8	2.9	3.2
Food & beverage	84,383	11.7	0.0	0.0	2.7
Health/personal care	38,872	5.4	-0.2	1.0	8.5
Gasoline stations	51,050	7.0	-0.5	-2.5	-6.8
Clothing/accessories	25,837	3.6	-0.4	1.1	3.5
Sporting goods, books	7,927	1.1	-2.5	3.8	1.7
General merchandise	76,933	10.6	-0.2	0.5	2.8
Department stores	3,252	0.4	-1.4	0.4	-3.4
Miscellaneous retailers	14,290	2.0	-2.1	1.4	6.0
Nonstore retailers (internet)	123,539	17.1	0.2	0.1	7.5
Eating & drinking places	99,093	13.7	1.2	3.0	7.8
[Total ex-autos/gas]	531,456	73.4	0.2	1.1	5.4

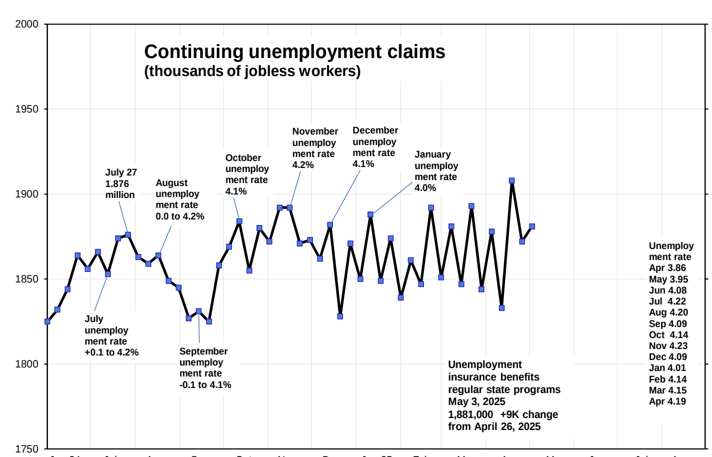
What else today? Industrial production. Manufacturing industrial production fell 0.4% in April, and it was still down 0.3% if we subtract out motor vehicle production. There have been a lot of false alarm falls in production that did not lead to recession in the broader economy.

Net, net, retail sales slowed to a crawl in April amid signs of deflation at least in the headline PPI number today. Today's report card on the economy looks like the trade tariffs are not leading to more inflation yet, and the 90-day China-US truce may kick the can down the road a few more months when it comes to the sharply higher costs that consumers are expected to pay for store-bought goods due to the trade war. Producer prices for food and energy and services were all lower, but core final demand goods prices shot up 0.4% which means the import tariff effect is not completely absent. The retail sales report was full of surprises with consumers apparently drowning their sorrows by going out and spending a lot at restaurants and bars after a long winter. They rushed out to beat the tariffs and bought 5.5% more cars in March, but in April the motor vehicle sales fell back a slight 0.1%. Stay tuned. The consumer sat the month out in April with a slight increase in overall spending, but it could have been much weaker given the rock-bottom confidence surveys and other data showing a reduction in credit card spending. Internet sales, so-called "nonstore retailers," showed virtually no new sales the last two months. The good news is that the consumer is still spending and the worries about recession after negative real GDP growth in the first quarter look misplaced. A steeper downturn in the economy in the current quarter is not in the cards for now.

			Industrial Production		
Percent changes			April 2025		
Feb	Mar	Apr	YOY		Weight
0.9	-0.3	0.0	1.5	Total Index	100.0
1.1	0.4	-0.4	1.2	Manufacturing	74.8
1.2	1.1	-0.3	0.7	Mining	14.4
-0.9	-6.2	3.3	4.3	Utilities	10.9
			Manufacturing payroll jobs 12.8 million -82K YOY 9.4% of Private Payroll Jobs		







Single-family housing permits down, import prices up (Friday)

Breaking economy news. Housing permits fell 4.7% in April to 1.412 million at an annual rate, and single-family permits fell 5.1% to 922 thousand at an annual rate. Housing starts rose 1.6% to 1.361 million thanks to multifamily units of 5 or more jumping 11.1% to 420 thousand. Nonfuel import prices rose 0.4% in April, could be the start of tariff war adjustments, although the index rose 0.6% oddly in April 2024.

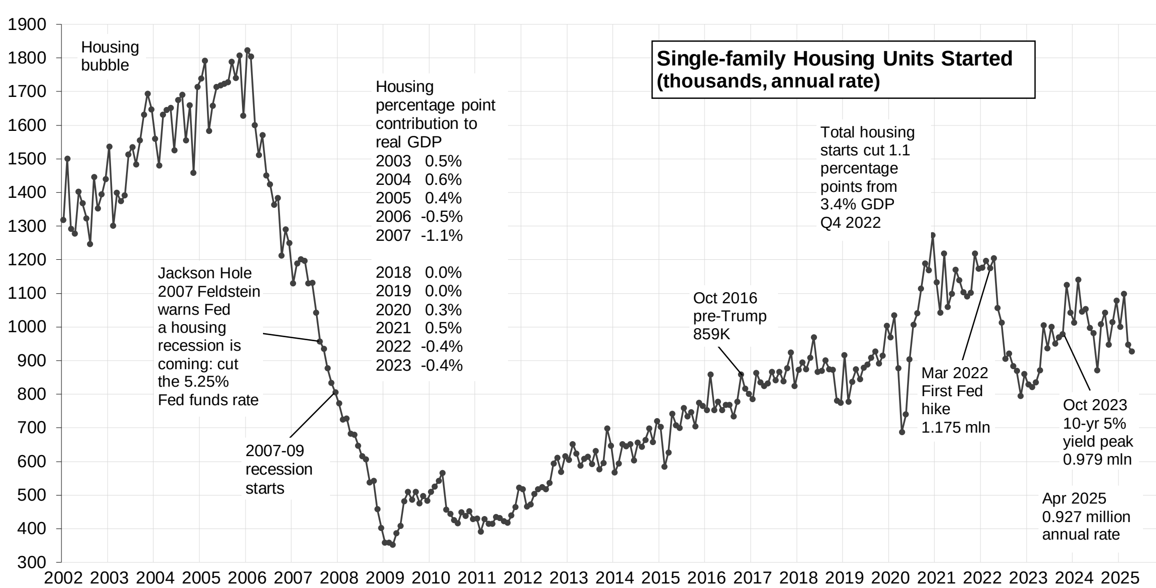
Nonfuel Imports prices-- Monthly Percent Changes NSA

	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	0.4								

Net, net, the trade tariff uncertainty is taking a toll on single-family home construction with starts down, and new permits for future starts plummeting. There is a nationwide shortage of affordable housing, but builders are pulling back in part because homebuyers may be stepping back with financing costs and the pandemic surge in home prices being obstacles to making the purchase of a new home. Political uncertainty in Washington is making homebuilders cautious and they are sensing that the public sees this is not the best time to be in the market for a new home unless you're desperate. The only thing going up are the permits for multifamily housing units which are surging even if the increase is centered in the biggest housing market in the South that includes the fast-growing states of Texas and Florida. Stay tuned. You have to be very confident to go out and purchase a new home, and right now, builders sense homebuyers will remain cautious until the talk of recession and inflation from the ongoing trade war starts to die down. Trade tariff uncertainty is disrupting the housing market. Bet on it. The only certainty is that this is not the time to build or buy a new home.

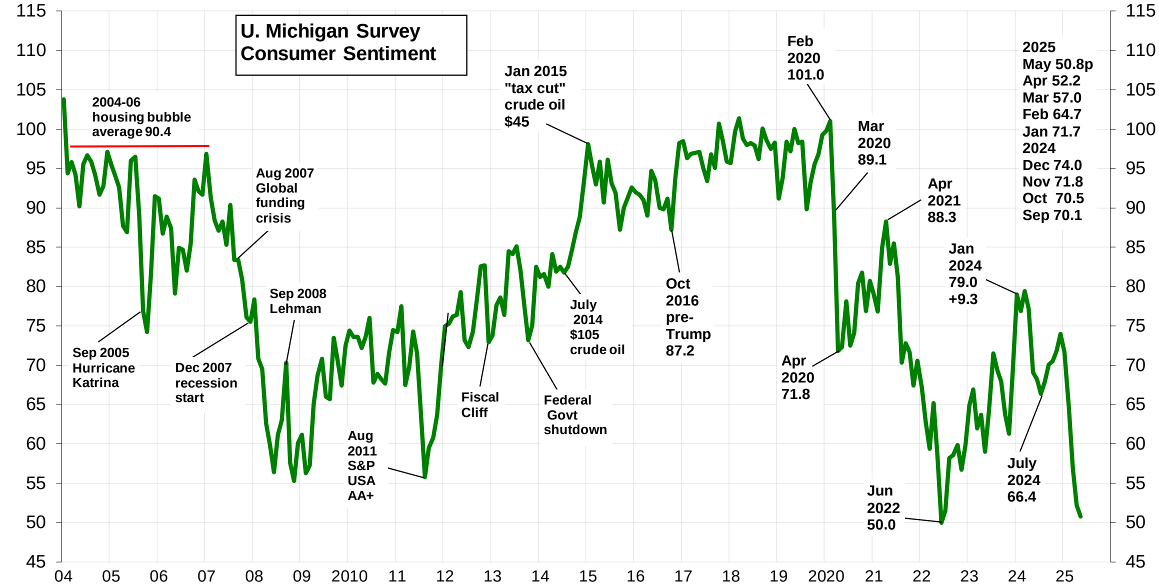
Housing Permits Total, Single-Family, Multi-Family

	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Apr 2025	1412	922	431	136	60	192	123	754	539	330	200
Mar 2025	1481	972	451	119	69	209	129	834	570	319	204
Apr 2024	1459	983	420	152	59	170	121	836	593	301	210
% Chgs											
Apr/Mar	-4.7	-5.1	…	14.3	-13.0	-8.1	-4.7	-9.6	-5.4	3.4	-2.0
Apr/Apr	-3.2	-6.2	…	-10.5	1.7	12.9	1.7	-9.8	-9.1	9.6	-4.8

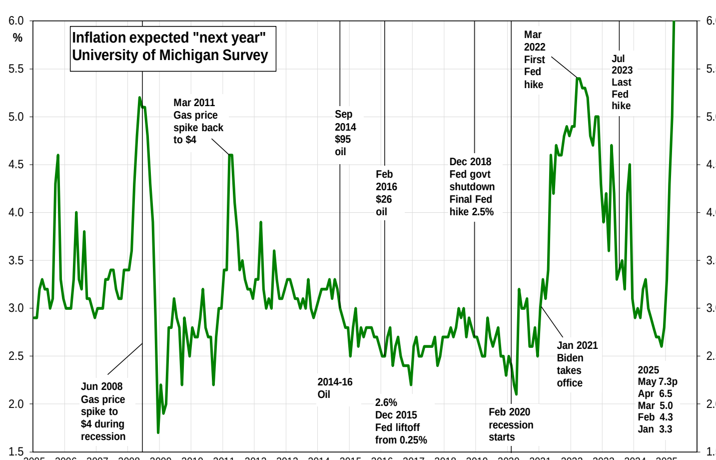


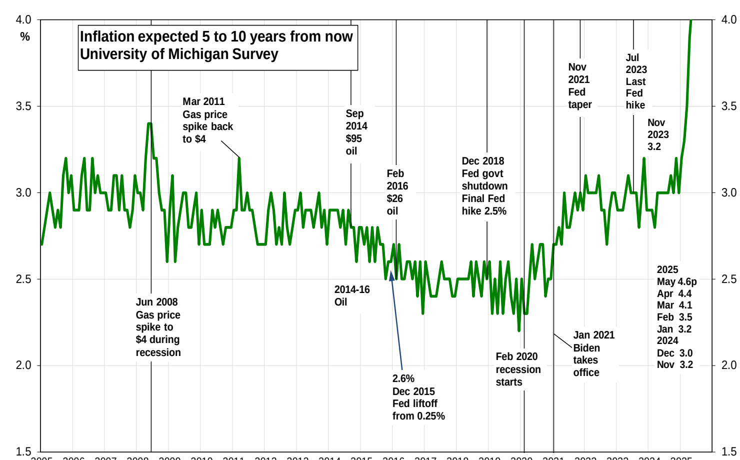
Tariffs on my mind (Friday 10am ET)

Breaking economy news. Another consumer how-are-you-doing survey from the University of Michigan which is twice a month versus the Conference Board consumer confidence survey the last Tuesday of every month. The Michigan consumer survey fell to 50.8 in May where the low was 50.0 in June 2022 after Russia invaded Ukraine and the Fed started its rate hikes to curb inflation. It is not the level so much as the drop from 74.0 in December that is worrying, and reminiscent of the pandemic panic. The concern is inflation from the tariffs. Inflation expectations are off the charts.



Net, net, consumers are finding it impossible to stop thinking about tariffs which they fear will make goods more expensive, and leaving them less real income to spend on other budget items like services. Retail sales slowed to nearly zero in April and now the new drop in sentiment for May argues for little to no spending for a second month meaning the whole quarter's economic growth could be in jeopardy. Inflation expectations on the part of the public have soared to levels that economists could have never imagined, and the actual price of goods sitting on store shelves have not even gone up significantly yet. The consumer is plainly worried and reading between the lines it is not just price increases that are worrying, it is the fact that many goods may be impossible to find as the reduction in port activity means shortages could develop within months. Stay tuned. The outlook continues to darken and one wonders how long this can continue before the economy actually slips over the edge into recession.





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