Financial Markets This Week

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

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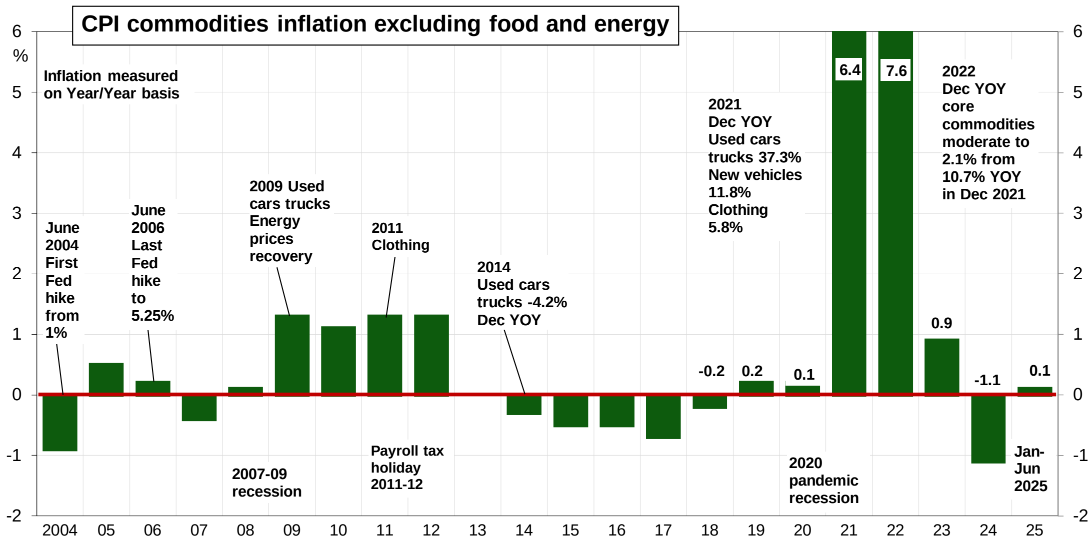
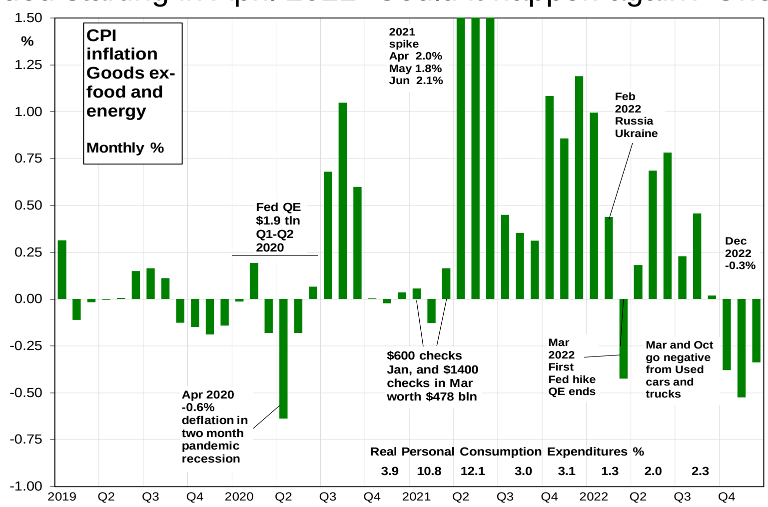
CONSUMER GOODS PRICES HEADING UP

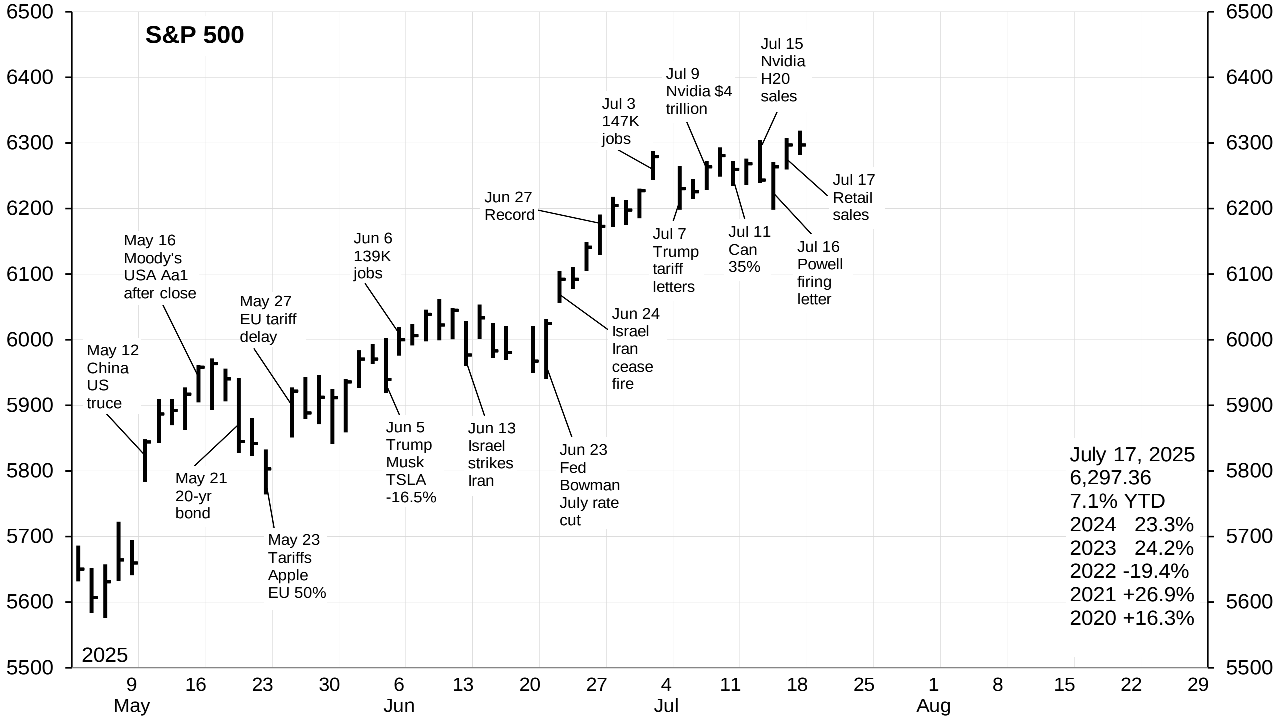


Core commodities are a key "inflation driver" which spreads price increases from one area of the economy to another. Sometimes the inflation trigger can be food prices, but most times in economic cycles the push comes from higher gasoline prices. Some Fed officials say they see signs of inflation stirring in the CPI report from commodities or goods prices. We thought we would go back and look at the explosion in goods/commodities prices coming out of the pandemic which were demand-driven where perhaps the Federal government stimulus checks put too much money in consumers hands. Maybe the $600 and $1400 stimulus checks in January 2021 and March 2021, respectively, were not entirely responsible, but CPI goods/commodities prices, yes, exploded starting in April 2021. Could it happen again? One problem with measurement is that this is the average of all goods prices with some prices lower even though it does not seem like it. The public believes the level of prices in shops and stores are much higher than the cumulative gain in core CPI commodities of 6.4% in 2021, 7.6% 2022, 0.9% in 2023 which equals 14.9%. Housing prices are much higher in the time since the pandemic with gains of about 50%. Stay tuned.



Core CPI commodities were up 0.7% in June 2025 from year ago levels even if the annual chart above averages the rise to just 0.1%. June CPI monthly changes in tariff watch favorites: Major appliances 1.9%, Clocks/lamps 1.6%, Tools/hardware 1.2%, Men's shirts/sweaters 4.3%, Women's dresses 3.9%, Men's footwear 2.6%, Watches 1.8%, Tires 0.9%, Prescription drugs 0.4%, Toys 1.8%, Computers 1.4%.

INTEREST RATES



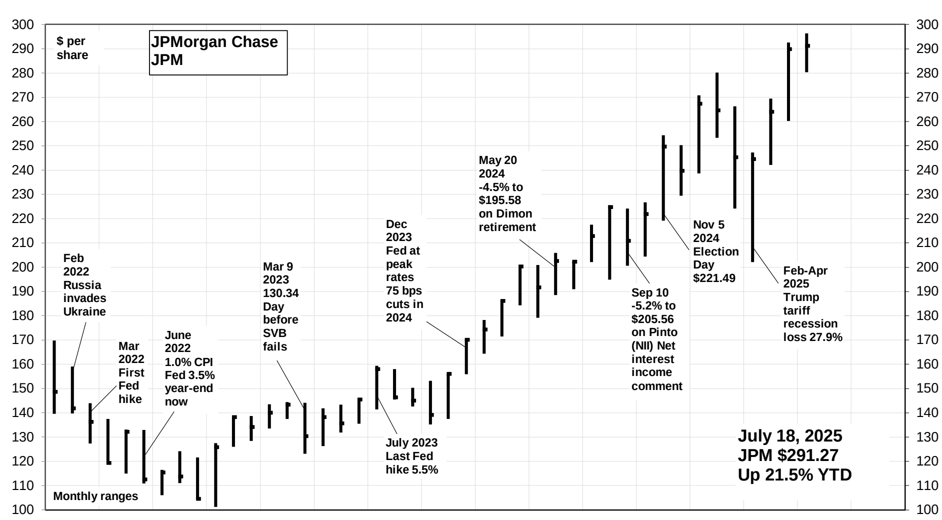
Stocks held near Thursday's high on Friday which was/is up 7.1% despite the week's tariffs and Powell news. The Administration just won't let up on Powell, with selling on Wednesday to the low of the week on news Trump had shown Powell's "firing letter" to Senators only for the President to come out shortly after denying it. We are not sure Powell's real firing would hold the stock market down for much longer, certainly not more than a day or so. Earnings reports were supportive this week as well, and the S&P 500 is trying to close above 6,300. The tariff announcements come and go, and the Mexico and Canada 30% tariffs last Saturday did not hold stocks down for very long on Monday. 10-year yields finally decided the CPI report on Tuesday had some tariff-flation in it with goods prices starting to move a little. The inflation sell-off for bonds held at 4.50%, with yields closing Friday at 4.42%.

JPMorgan Chase (JPM) up 21.5% YTD

The stock hit a new record Thursday, July 3 before getting hit after the weekend with tariff letters news (Japan Korea 25%), and a sharp 3.1% drop Tuesday, July 8 to $280.31 after an analyst caution note on "larger banks." Earnings before the bell Tuesday were strong; net income is down from a year ago when the extraordinary $7.9 billion Visa shares gain was recognized.

JPM results (billions)

Quarter	Net Income	Provision for Credit Losses	Stock price Qtr end
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
12.31.2023	9.307	2.762	170.10
9.30.2023	13.151	1.384	145.02
6.30.2023	14.472	2.899	145.44

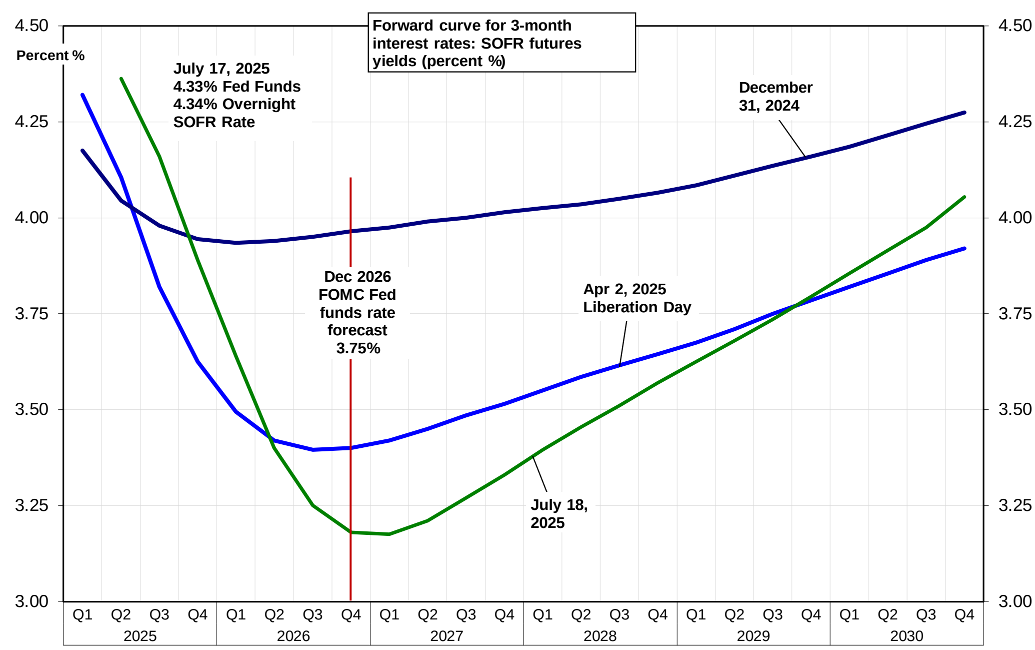


FEDERAL RESERVE POLICY

The Fed meets July 29-30, 2025 to consider its monetary policy. Powell is still there. Hard to believe there could be more drama this week, but on Wednesday, markets fell on stories Trump had written a draft of a letter firing Powell, but then he came out and said he was not going to “highly unlikely” fire Powell. This serves as a reminder of the radical changes coming the Federal Reserve’s way in the next couple of years. The long-term neutral Fed funds rate is 3.0% in their forecasts, and there would not be a lot of votes to push for rates lower than that unless there are recession-magnitude job losses. Fed Governor Waller keeps throwing his hat in the ring, much like Powell did in Trump 1.0, to be Fed Chairman. [His remarks Thursday evening] still include his call for a rate cut on July 30th. He also laid out a novel interpretation of how much inflation might move up with the tariffs where the pass-through won’t be one-to-one: consumers will pay only one-third of the increase, and the other two-thirds of the tariff increase will be split between foreign suppliers and U.S. importers. Oh, and he was worried about the weak private payroll jobs increase of 74K last month. Stay tuned.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	16-Jul	9-Jul	2-Jul	25-Jun	3/11/20*	3/11/20
Factors adding reserves						to Jul 16
U.S. Treasury securities	4206.523	4208.526	4208.325	4212.617	2523.031	1683.492
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2138.426	2138.496	2138.496	2138.496	1371.846	766.580
Repurchase agreements	0.000	0.000	0.000	0.016	242.375	-242.375
Primary credit (Discount Window)	5.230	6.131	6.354	6.308	0.011	5.219
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	1.436	1.442	1.449	1.673		
Main Street Lending Program	4.548	5.189	5.184	5.179		
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	0.063	0.055	0.037	0.019	0.058	0.005
Federal Reserve Total Assets	6710.7	6713.2	6710.4	6713.5	4360.0	2350.643
~~3-month Libor %~~ SOFR %	4.34	4.32	4.40	4.36	1.15	3.190
Factors draining reserves						
Currency in circulation	2399.858	2403.329	2401.421	2395.195	1818.957	580.901
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	312.085	311.048	372.232	334.579	372.337	-60.252
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	197.086	227.273	237.307	210.879	1.325	195.761
Federal Reserve Liabilities	3335.633	3371.237	3453.862	3366.184	2580.036	755.597
Reserve Balances (Net Liquidity)	3375.036	3341.999	3256.502	3347.274	1779.990	1595.046
Treasuries within 15 days	53.204	50.659	55.110	64.395	21.427	31.777
Treasuries 16 to 90 days	176.903	199.034	192.079	194.397	221.961	-45.058
Treasuries 91 days to 1 year	451.704	436.472	438.945	422.659	378.403	73.301
Treasuries over 1-yr to 5 years	1440.384	1434.947	1434.865	1449.600	915.101	525.283
Treasuries over 5-yrs to 10 years	510.256	516.011	515.988	511.577	327.906	182.350
Treasuries over 10-years	1574.071	1571.403	1571.338	1569.989	658.232	915.839
Note: QT starts June 1, 2022	Change	7/16/2025	6/1/2022			
U.S. Treasury securities	-1564.256	4206.523	5770.779			
Mortgage-backed securities (MBS)	-569.020	2138.426	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables				Long
	2025	2026	2027	Term
Fed funds	3.9	3.6	3.4	3.0
PCE inflation	3.0	2.4	2.1	2.0
Core inflation	3.1	2.4	2.1	
Unemployed	4.5	4.5	4.4	4.2
GDP	1.4	1.6	1.8	1.8
June 2025 median Fed forecasts				



All but 8.5 bps of a 25 bps rate cut is expected at the September meeting.

Fed funds futures call Fed policy		
Current target: July 18 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.490	Aug 2025	Jul 30
4.335	Oct 2025	Adds Sep 17*
4.210	Nov 2025	Adds Oct 29
Last trade, not settlement price		
*Not strictly true, Oct 2025 could be 2 days at a new rate		

Next up: June PCE inflation report Thursday, July 31 at 830am ET															
Monthly	2025					2025	2024								2024
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Core CPI inflation	0.2	0.1	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
Core PCE inflation		0.2	0.1	0.1	0.5	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3
Core PCE YOY	2.8e	2.7	2.6	2.7	2.9	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9
Core CPI YOY	2.9	2.8	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

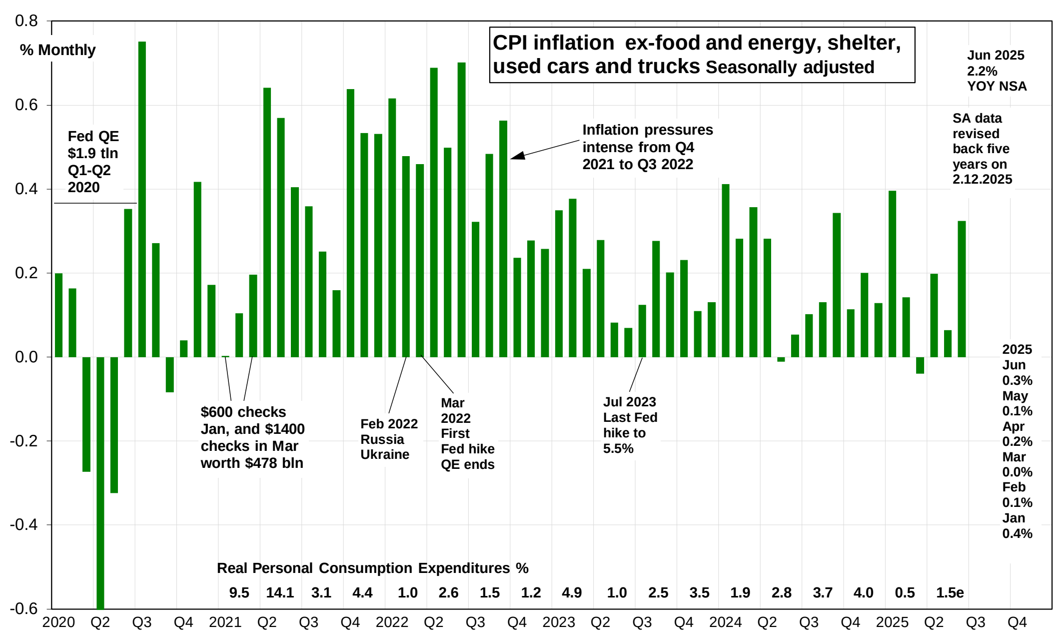
OTHER ECONOMIC NEWS

Core commodities prices most since February (Tuesday)

Breaking economy news. CPI inflation in June rose 0.3% to 2.7% year-on-year. Core CPI inflation increased 0.2%, less than the 0.3% expected, and stocks tried to rally but then fell back. Some “goods” or “commodities” prices are firming, but the odds are still continuing to favor a first 2025 Fed rate cut at the September meeting. Bond yields kept moving higher throughout the day reflecting the risks of tariff-based inflation.

Dec 24		Monthly Percent Changes			YOY %
Weight	CPI inflation	Apr 2025	May 2025	Jun 2025	Jun 2025
100.0	Total	0.2	0.1	0.3	2.7
13.691	Food	-0.1	0.3	0.3	3.0
5.648	Food away from home	0.4	0.3	0.4	3.8
6.216	Energy	0.7	-1.0	0.9	-0.8
2.902	Gasoline	-0.1	-2.6	1.0	-7.9
80.094	Ex-food & energy	0.2	0.1	0.2	2.9
4.393	New vehicles	0.0	-0.3	-0.3	0.2
2.391	Used cars/trucks	-0.5	-0.5	-0.7	2.8
2.480	Clothing	-0.2	-0.4	0.4	-0.5
1.527	Medical care goods	0.4	0.6	0.1	0.2
35.483	Shelter	0.3	0.3	0.2	3.8
26.282	Owner equiv. rent	0.4	0.3	0.3	3.8
6.305	Transportation	0.1	-0.2	0.2	3.4
6.747	Medical care services	0.5	0.2	0.6	3.4
	Special: Where inflation might come back down to				
60.705	Services ex-energy	0.3	0.2	0.3	3.6
19.388	Commodities (core)	0.1	0.0	0.2	0.7

Net, net, the markets breathed a collective sigh of relief that the tariff import effect remains modest for now. Core CPI commodities prices increased 0.2% in June, the most since February, but some notable prices that consumers shop for like new vehicles actually declined 0.3%. With yet another trade deadline for August 1 staring markets in the face, it would be foolish for bond and stock investors to believe the tariff inflation risks have suddenly disappeared. The cost of goods sitting on American store shelves will certainly move higher if the new tariffs from 25 to 30 percent proposed for many US major trading partners become reality, so the inflation risks cannot be easily dismissed. Rather than giving the economy a clean bill of health, Fed policymakers are likely to view today’s CPI report as a one-off and they will continue to be on the edge of their seats in watch and wait mode. Only the White House economists will see today’s inflation report as vindication that their economic policies are on the right course. Stay tuned. Import prices are going to increase the cost of consumer goods in the second half of the year in the absence of trade agreements. Or maybe even with them. Bet on it.



PPI prices heating up, industrial production jumps (Wednesday)

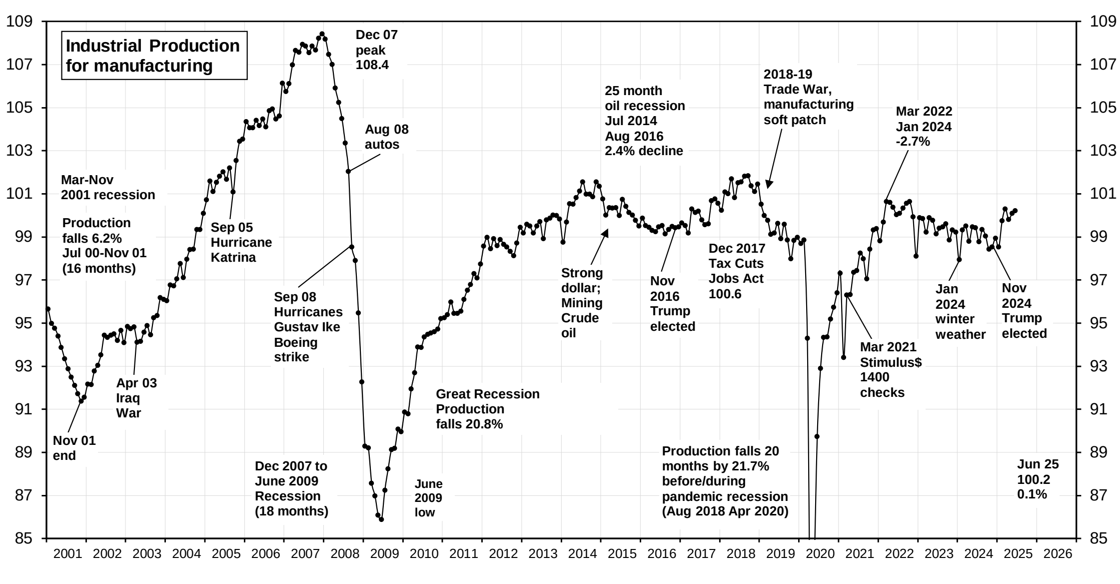
Breaking economy news. Total PPI final demand prices were unchanged in June where the market consensus was for a 0.2% increase, so of course bonds and stocks moved up. Of course. But inflation pressures from the White House economic agenda continue to build with old-fashioned PPI, PPI final demand goods less foods and energy, rose 0.3% this month. The inflation story cannot be dismissed.

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
Jan	0.7	0.7	1.0	2.0	0.2	0.7	1.2	0.6	0.4
Feb	0.1	0.3	1.6	-1.4	0.3	0.1	-0.8	0.0	0.5
Mar	-0.1	-0.9	-2.1	-3.9	0.3	0.2	0.5	-0.9	0.3
Apr	-0.3	0	-0.9	-0.3	0.3	-0.3	-0.4	0.1	-0.4
May	0.3	0.1	0.0	-0.3	0.2	0.4	1.1	-0.2	0.0
Jun	0.0	0.3	0.2	0.6	0.3	-0.1	0.0	-0.9	0.0

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

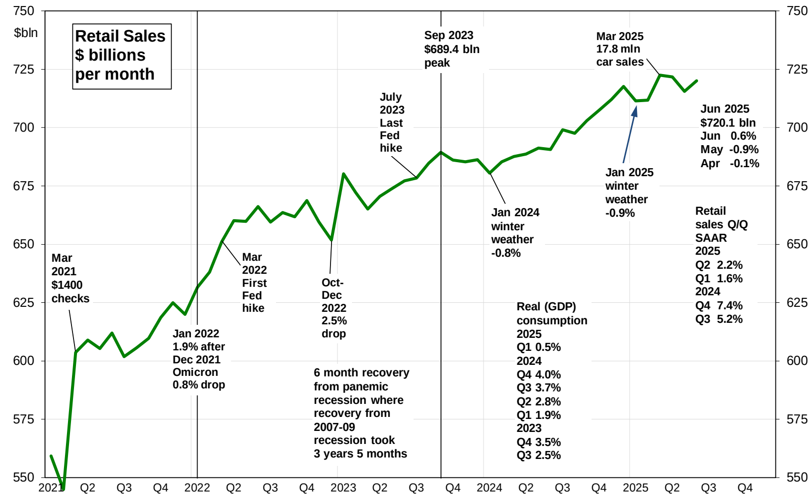
Net, net, the drumbeat is growing louder that tariffs are pushing up the prices producers pay for goods and it is just a matter of time before the inflation fires turn the consumer's way. And this is before we see the final outcome of the Trump tariff letters with a new final deadline of August 1. Final demand PPI goods less foods and energy have risen 0.3% in four out of six months this year. The inflation threat is alive and very real and if this does not put a Fed rate cut in July out of the question, then nothing will. Inflation is heating up, not cooling down, and Fed officials are unlikely to push for interest rate cuts unless they are trying to curry favor with the President. Stay tuned.

Meanwhile the Fed's data on production was released at 915am ET. An odd-hour for release which may change with a new Fed Chairman. Industrial production rebounded in June after being stuck in a rut for the prior three months. Overall production rose 0.3%, but most of the increase was related to a 2.8% increase in utility output which has seen violent weather-related swings this year. Factory output was only 0.1% higher in June and is just 0.8% higher than a year ago. Seeing as the Trump tariffs are largely meant to bring manufacturing back to American shores, this is not the data the Administration is looking for. Markets will need to continue to monitor this production data closely to see whether the promises made by companies and countries to invest more in America really pays off. Stay tuned. Story developing. Manufacturing seems to be going backwards not forwards for many industries with big declines noted for electrical equipment and appliances as well as motor vehicle production.



Modest improvement, retail sales and jobless claims (Thursday)

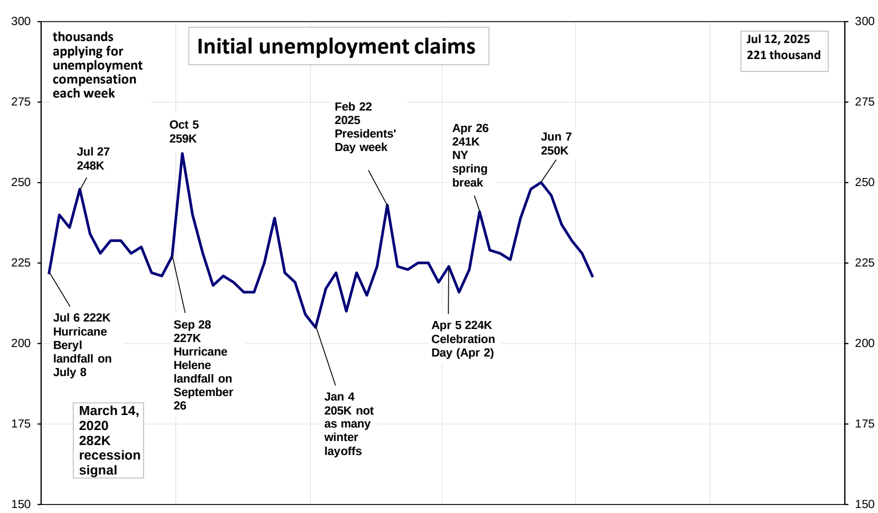
Breaking economy news. Retail sales rose 0.6% in June, more than the 0.1% consensus forecast, which is all the stock market cares about, although "the recovery from adverse tariff news" leaves spending short of the March 2025 peak when sales jumped 1.5% on the huge 17.8 million cars bought (annual rate) that month in the panic to beat the import tariffs. Quarterly retail sales are not all that robust at 2.2% Q2 the same as 1.6% in Q1 when real consumption expenditures in real GDP were weak at just 0.5%. A lot depends on consumer services spending which is not in the retail sales report except for the line on bar/restaurant sales. Q2 real GDP data are due Wednesday, July 30, so no need to return from the beach before then.



Net, net, the economy is showing modest signs of improvement with retail sales rebounding in June from the May downdraft and jobless claims moving lower after some elevated job loss readings at the start of June. The economy is not out of the woods yet, but the extreme uncertainty around the deployment of the import tariffs is starting to move from the unknown to the known stage even if the ultimate effects on economic growth and inflation have yet to be felt. It is summertime and the consumer is less uneasy and even starting to dine out again with bars and restaurants seeing a 0.6% rise in sales after a 0.1% decline in May. Clothing and sporting goods purchases have seen significant gains over the last two months which shows the consumer is less concerned about the future as job layoffs fade somewhat and financial markets strengthen. Stay tuned. The economy's ship is steadying for now. The tariff threat is not keeping shoppers away from stores at the mall at the start of summer.

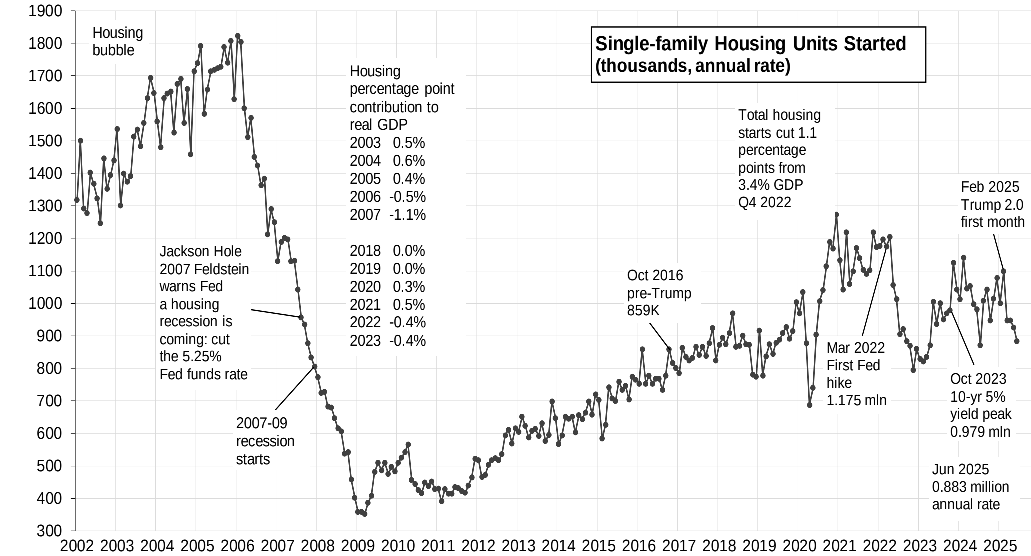
Retail spending, actual dollars, each month

	$million Jun	% to Total	Percent Changes % Jun	May	Year/year
Total Retail Sales	720,106	100.0	0.6	-0.9	3.9
Motor vehicles/parts	136,780	19.0	1.2	-3.8	6.5
Furniture/furnishings	11,467	1.6	-0.1	-0.6	4.5
Electronics/appliances	7,615	1.1	-0.1	-0.3	-0.2
Building materials/garden	40,120	5.6	0.9	-2.7	-1.1
Food & beverage	84,322	11.7	0.5	-0.5	2.5
Health/personal care	39,035	5.4	0.5	-0.1	8.3
Gasoline stations	50,291	7.0	0.0	-1.3	-4.4
Clothing/accessories	26,342	3.7	0.9	0.3	3.9
Sporting goods, books	7,990	1.1	0.2	1.0	1.6
General merchandise	77,250	10.7	0.5	0.1	3.2
Department stores	3,202	0.4	-0.8	-0.3	-3.6
Miscellaneous retailers	14,847	2.1	1.8	3.6	8.5
Nonstore retailers (internet)	125,311	17.4	0.4	0.6	4.5
Eating & drinking places	98,736	13.7	0.6	-0.1	6.6
[Total ex-autos/gas]	533,035	74.0	0.6	0.0	4.1



Apartment building covers up weak data (Friday)

Breaking economy news. Residential housing starts rose 4.6% in June, but the increase in multifamily starts more than offset the drop in single-family starts. Same story for permits although the results were bolstered by multifamily permits in the South.



Net, net, you don't need a survey to find homebuilders are downright pessimistic as single family home starts plunged 4.6% in June to the lowest level in over two years. Everywhere builders look there are reasons to delay or scrap projects from the Administration's immigration agenda that limits the supply of labor, to the import tariffs that will soon lift construction costs of basic materials to unaffordable levels, to sky-high mortgage rates that cool the public's demand for single-family homes. We cannot blame geography or storms this month as single-family housing starts fell in every region of the country. Don't be fooled by the headline rise of 4.6% in total housing starts powered by a 30.6% rise in the construction of 5 units or more, with almost all the rise in the Northeast; the nation's housing market outlook has never looked this troublesome. Ironically, about the only thing that can turn around housing construction is the President's call for a 1% interest rate from Fed officials. Stay tuned. This could actually end quite badly for the economy. Apartment construction soared in the Northeast in June, but this looks like a correction from the severe drop in May where the weather was one of the wettest on record.

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
Jun 2025	1321	883	414	182	66	179	139	674	483	286	195
May 2025	1263	926	317	105	68	189	141	679	509	290	208
May 2024	1327	981	329	119	70	176	117	741	593	291	201
% Chgs											
Jun/May	4.6	-4.6	…	73.3	-2.9	-5.3	-1.4	-0.7	-5.1	-1.4	-6.3
Jun/Jun	-0.5	-10.0	…	52.9	-5.7	1.7	18.8	-9.0	-18.5	-1.7	-3.0

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