Financial Markets This Week

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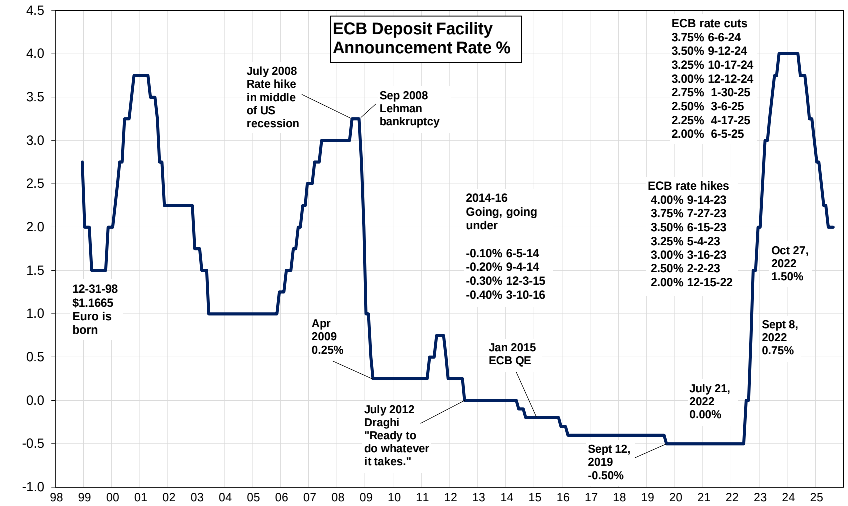
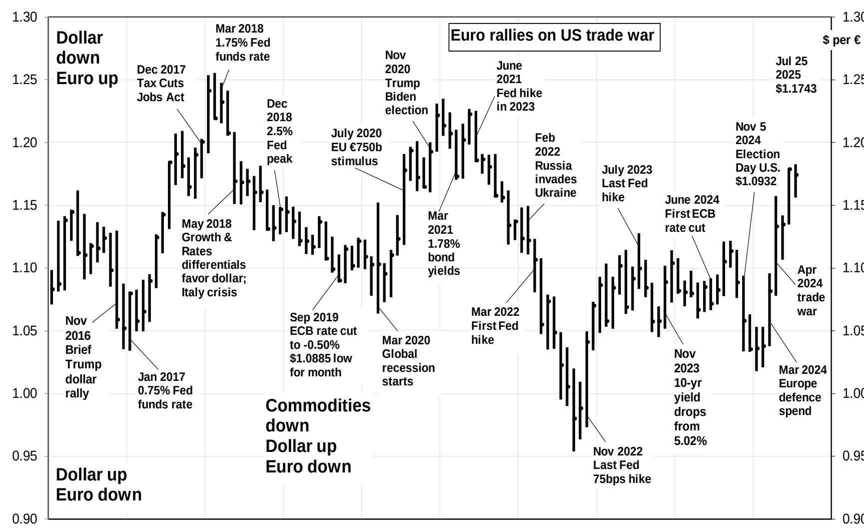
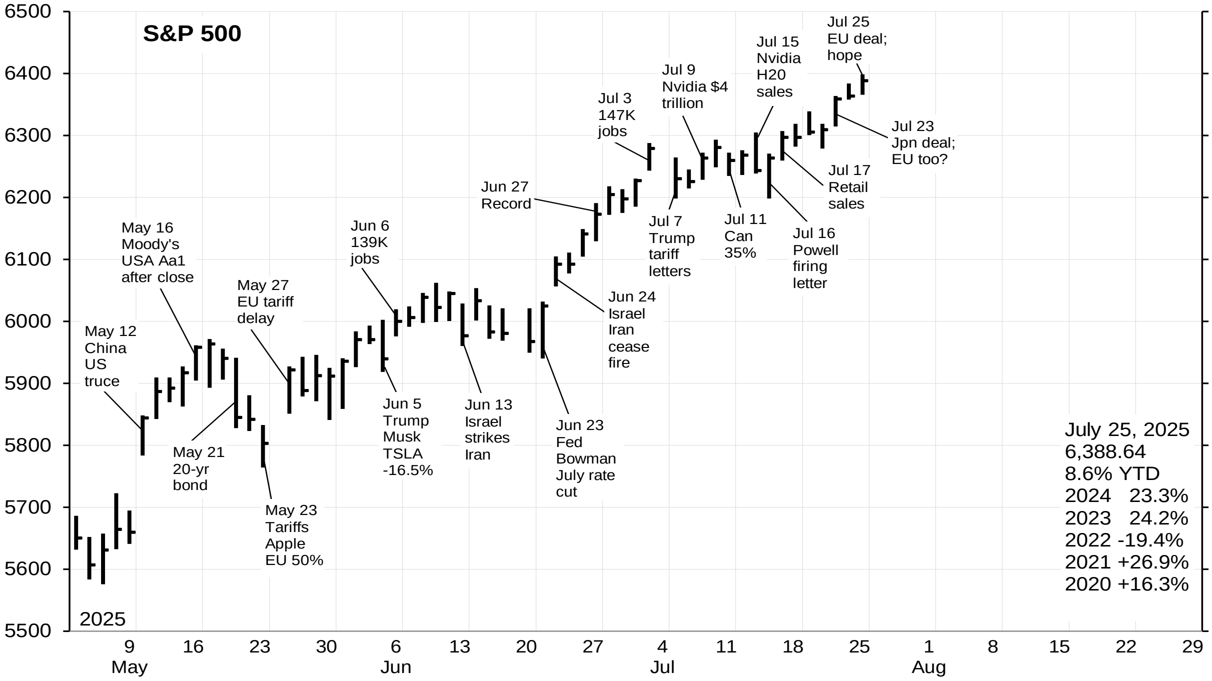
ECB PAUSE ON TRADE UNCERTAINTY



Even the ECB wouldn't cut interest rates at Thursday's meeting given the trade uncertainty. There was no EU trade deal with the Trump administration yet after the market had hopes for one following Japan's trade settlement in an announcement made Tuesday evening on social media. The ECB has been way out in front of the Fed with many interest rate cuts made after Powell stopped in December 2024 at 4.5%. From 3.0% in December, the ECB cut rates four times in 2025 to 2.0% in June, laying down their guns in July. Rate cuts are supposed to weaken a country's currency, but the Euro continues to buy more and more dollars. You would think US exporters would be glad, if there are still going to be US exporters if the EU retaliates with tariffs of their own. A lot has been talked about how the dollar is losing out in world foreign exchange markets, but the move against the Euro has not been that great yet looking back historically. Where should ECB rates go? The central bank is the poster-child for mistimed adventures, and microtuning at its worst, although they wanted to help when Draghi said they were ready to do whatever it takes when rates were already at zero in July 2012. Just looking at the rates chart here on its own, 1% could be possible, the same rate as what Trump asked Powell for in his visit to the Federal Reserve later on Thursday. Euro the currency? $1.0932 on US election Day on November 5 last year. The European need for more defence spending story at the start of March started the Euro's appreciation to the peak this year on July 1 at $1.1829. Stay tuned. US corporate manufacturers or exporters (aren't they all) never liked the Euro plummeting in short-order (look it up) from $1.40 to $1.05 in mid-2014 to early 2015 as commodities (crude oil) cratered. The outlook for the Euro depends on a trade agreement regardless of the details.



INTEREST RATES

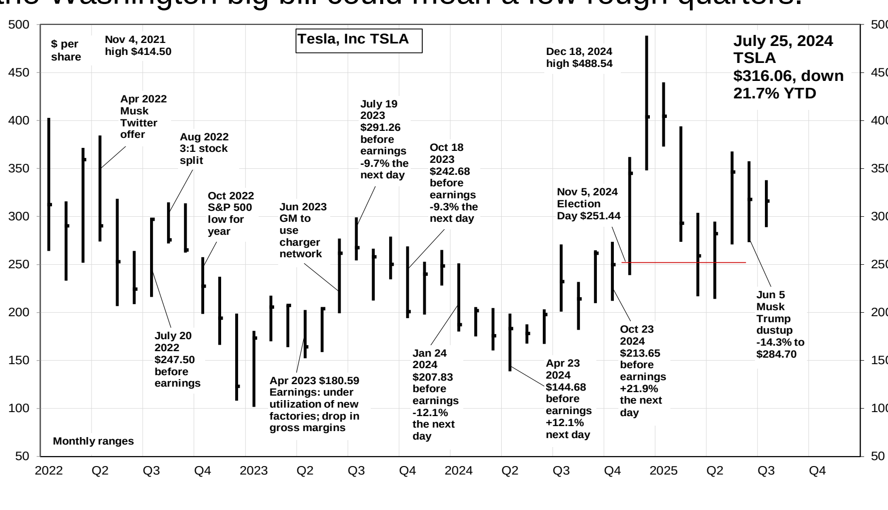


Markets give and take. Trump 2.0 seems to mean that the stock market just moves higher and higher regardless of the latest fact-based, import tariff news. The stock market's quick rebound from the recession-magnitude 21.3% “Trump tariff recession” loss after April 2 Celebration Day was one of the quickest in financial markets history. Puzzling as economists say. The bubble that never pops. Nevertheless, the good news this week of the Japan trade deal Tuesday evening was a welcome surprise, and that news, along with talk of a similar deal coming up with the EU, led stocks to record highs on Wednesday. The bond market has gone to sleep. So much for holding Congress to account for their profligate spending ways by sending yields higher in protest and revolt. We also doubt markets will crash if Powell stays or if he goes. New world. Stocks end Friday up 8.6% YTD, not hearing any complainers, bonds 4.39%

Tesla, Inc. (TSLA) down 21.7% YTD

Big lift from $251.44 on Election Day to the $488.54 peak on December 18, then completely retracing the move, even before the Trump Musk dustup that sent the stock down 14.3% on June 5, 2025. The company released earnings on Wednesday (along with GOOGL) after the bell; Tesla fell as much as 9.7% on Thursday. Revenues were down year-year again. Management tried to talk about Robotaxis and robots, but the market just heard the Washington big bill could mean a few rough quarters.

Mln $	Revenue	Operating Income	Model 3/Y Deliveries
Q1 2022	18,756	3,603	295,324
Q2 2022	16,934	2,464	238,533
Q3 2022	21,454	3,688	325,158
Q4 2022	24,318	3,901	388,131
Q1 2023	23,329	2,664	412,180
Q2 2023	24,927	2,399	446,915
Q3 2023	23,350	1,764	419,074
Q4 2023	25,167	2,064	461,538
Q1 2024	21,301	1,171	369,783
Q2 2024	25,500	1,605	422,405
Q3 2024	25,182	2,717	439,975
Q4 2024	25,707	1,583	471,930
Q1 2025	19,335	399	323,800
Q2 2025	22,496	923	373,728

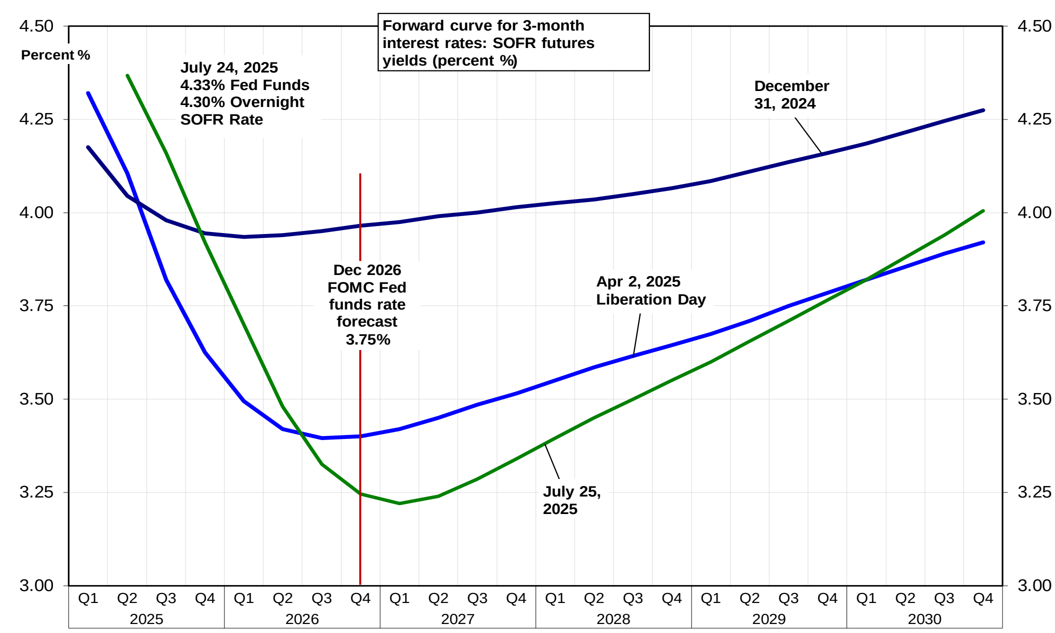


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	23-Jul	16-Jul	9-Jul	2-Jul	3/11/20*	3/11/20
Factors adding reserves						to Jul 23
U.S. Treasury securities	4206.720	4206.523	4208.526	4208.325	2523.031	1683.689
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2134.784	2138.426	2138.496	2138.496	1371.846	762.938
Repurchase agreements	0.003	0.000	0.000	0.000	242.375	-242.372
Primary credit (Discount Window)	5.242	5.230	6.131	6.354	0.011	5.231
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	1.417	1.436	1.442	1.449		
Main Street Lending Program	4.553	4.548	5.189	5.184		
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	0.084	0.063	0.055	0.037	0.058	0.026
Federal Reserve Total Assets	6708.9	6710.7	6713.2	6710.4	4360.0	2348.913
~~3-month Libor %~~ SOFR %	4.28	4.34	4.32	4.40	1.15	3.130
Factors draining reserves						
Currency in circulation	2399.077	2399.858	2403.329	2401.421	1818.957	580.120
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	333.538	312.085	311.048	372.232	372.337	-38.799
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	189.632	197.086	227.273	237.307	1.325	188.307
Federal Reserve Liabilities	3350.557	3335.633	3371.237	3453.862	2580.036	770.521
Reserve Balances (Net Liquidity)	3358.382	3375.036	3341.999	3256.502	1779.990	1578.392
Treasuries within 15 days	60.158	53.204	50.659	55.110	21.427	38.731
Treasuries 16 to 90 days	173.195	176.903	199.034	192.079	221.961	-48.766
Treasuries 91 days to 1 year	448.489	451.704	436.472	438.945	378.403	70.086
Treasuries over 1-yr to 5 years	1440.465	1440.384	1434.947	1434.865	915.101	525.364
Treasuries over 5-yrs to 10 years	510.275	510.256	516.011	515.988	327.906	182.369
Treasuries over 10-years	1574.137	1574.071	1571.403	1571.338	658.232	915.905
Note: QT starts June 1, 2022	Change	7/23/2025	6/1/2022			
U.S. Treasury securities	-1564.059	4206.720	5770.779			
Mortgage-backed securities (MBS)	-572.662	2134.784	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets July 29-30, 2025 to consider its monetary policy. It made for good political theater watching the President's visit Thursday afternoon to see the ongoing construction at Powell's Federal Reserve. But most concerning was the President's repeated calls for 1% interest rates because either the US economy is hot or because there is no inflation or to save money on the interest on the national debt. The direction in rates the President is moving in is something that could turn Fed officials' long-accepted monetary policy rules completely upside down. Trump 1.0's criticism of Fed officials may have helped with Powell's decision to cut rates three times in 2019 from 2.5% to 1.75% (why bother), but Trump 2.0 is better at getting the economic agenda done. The neutral interest rates forecast by the Federal Reserve at the June meeting were 3%. Forget about it. So much has changed down in Washington during Trump 2.0 that it would not be a surprise to see radically lower interest rate levels next year. You can watch the video of the visit as well and see that a normal analysis of monetary policy based on years of history no longer applies. Retiring baby boomers may see the interest on their savings sink soon. Won't be a frank and beans year: just beans.

Fed Policy-key variables	2025	2026	2027	Long 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 bps of a 25 bps rate cut is discounted at the September meeting.

Fed funds futures call Fed policy		
Current target: July 25 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.490	Aug 2025	Jul 30
4.330	Oct 2025	Adds Sep 17*
4.220	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

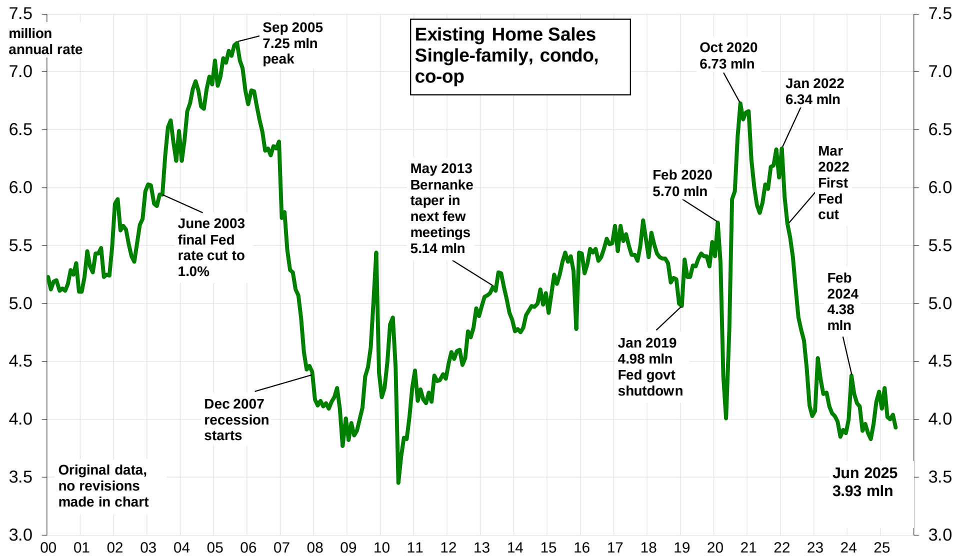
OTHER ECONOMIC NEWS

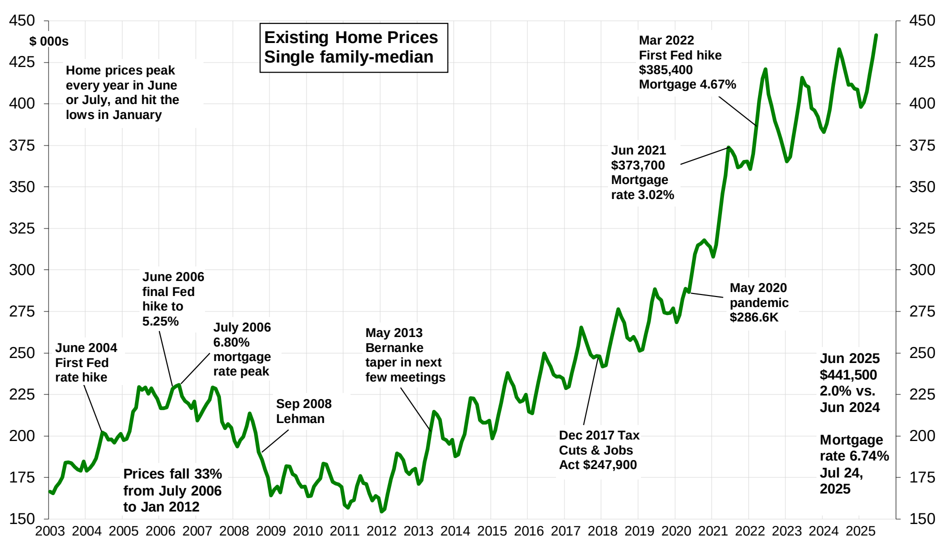
Existing home sales (Wednesday)

Breaking economy news. Existing home sales fell 2.7% in June to 3.93 million at an annual rate. Existing home sales are based on the closing data so the actual purchase decision was made 30-45 days earlier. It isn't just taking a toll on sales, mortgage rates remain too high, making purchases more costly. The talk of bringing down interest rates to help the housing market may lead to a surge in home prices, making them even more unaffordable. In the last few years, home prices in the Northeast have sped up and are now approaching the most expensive market out West. June home prices were $558,600 in the Northeast versus $651,700 in the West. Nationwide prices are 2.0% higher than a year ago. Year-on-year changes have slowed, but for how long?

Existing Home Sales

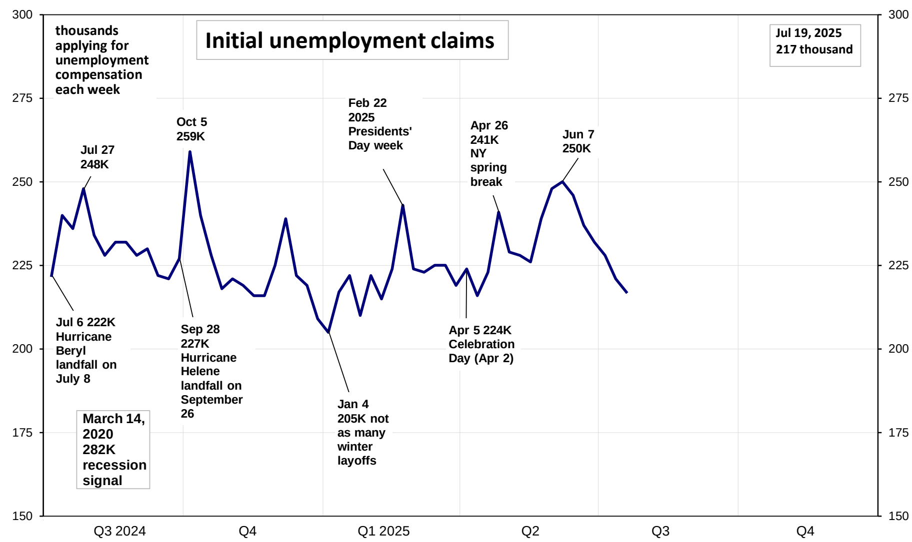
Million	Total	Northeast	Midwest	South	West
2022	5.030	0.620	1.190	2.250	0.960
2023	4.090	0.490	0.980	1.880	0.740
2024	4.060	0.490	0.960	1.850	0.760
2025					
May	4.040	0.500	0.990	1.850	0.700
Jun	3.930	0.460	0.950	1.810	0.710



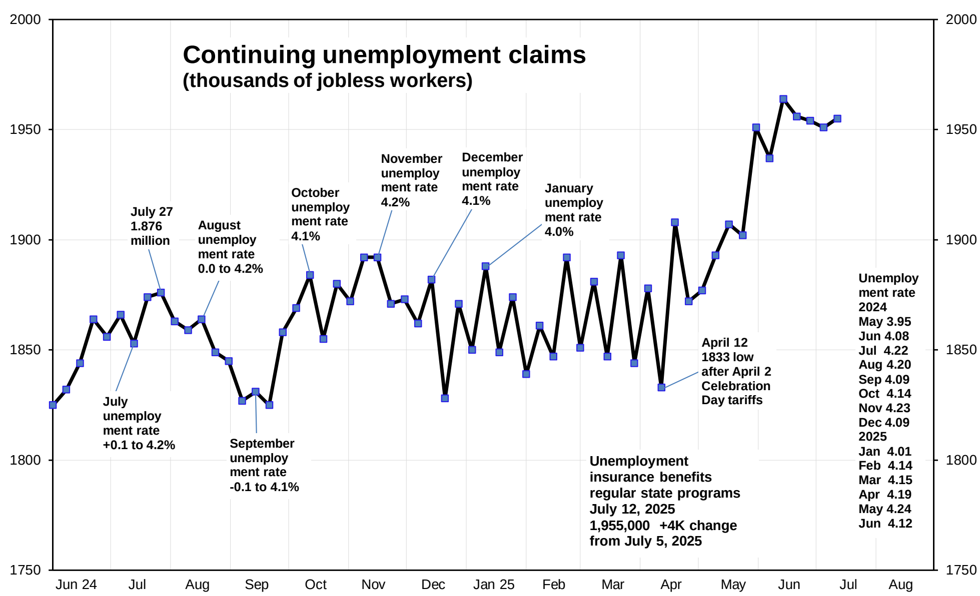


Labor market resilient (Thursday)

Breaking economy news. Unemployment claims fell further by 4K to 217K in the July 19 week. We must be past the seasonal auto plant layoffs in the first two weeks of July as not seasonally adjusted claims tumbled 45,319 to 215,792. Hard to believe the economy can be moving forward with over 200 thousand applying for first-time benefits because they have been sacked, but that is the case in a country with 342 million people. Meanwhile, continuing claims have risen to worrisome levels; the same thing happened in April-June 2024, but at least the unemployment rate went up to match the increase in jobless benefits being paid out. This year nothing. No job losses according to the BLS monthly unemployment rate.



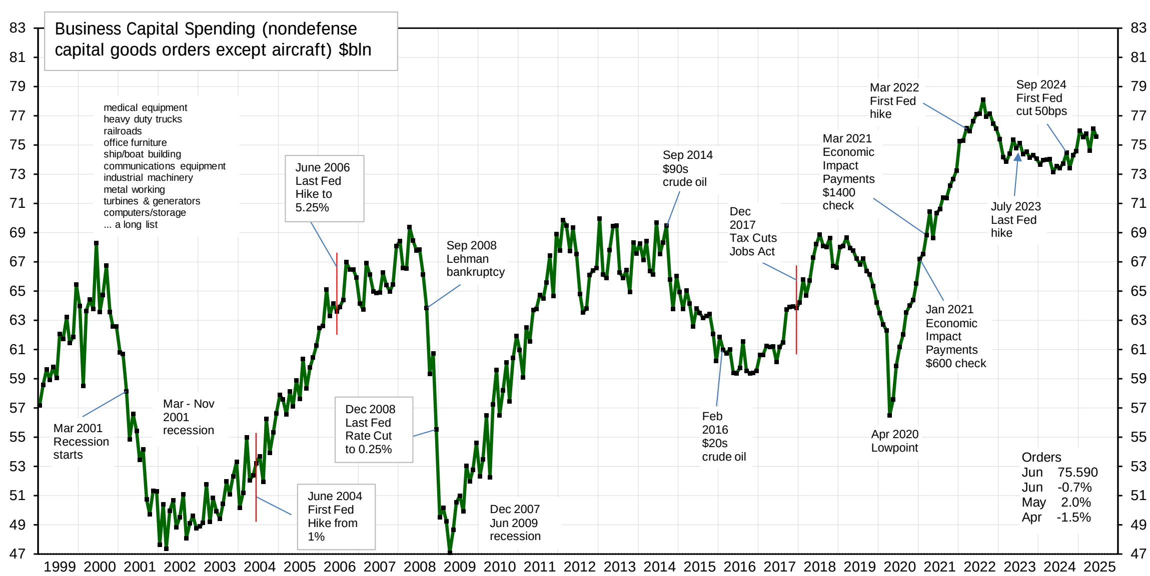
Net, net, the labor market continues to display amazing resilience in the face of volatile, daily trade war headlines and scattered reports of higher prices. Businesses are not panicking over the import-tariff inflation threat, and the job cuts made by companies are surprisingly modest given the uncertainty that still clouds the overall economic outlook. Trump 2.0 economic policies have not brought the economy to its knees yet although whether this continues to be the case going forward remains an open quesiton. Federal layoffs have ticked up and the total number of Americans on the nation's jobless rolls remains stubbornly high, but at the moment, the labor market is holding up with financial markets holding their breath. Many have remarked about the slowdown in private nonfarm payroll jobs, but there is no smoking gun confirmation from the weekly jobless claims that the economy is nearing the shores of recession. The weekly jobless claims give Fed officials no cover whatsoever if they are seriously thinking of cutting interest rates at next week's meeting.



Key durable orders just off 2025 highs (Friday)

Breaking economy news. Durable goods orders fell 9.3% in June after the 16.5% jump in May, all driven by civilian aircraft orders. Our proxy for business investment is the line in the report on nondefense capital goods orders ex-aircraft: these orders remain close to May's all-time high of $76.110 billion. Computers and related products tumbled 3.8%, but these have been volatile, possibly to avoid the tariff threat, and are relatively small at $2.387 billion in June.

Net, net, the orders for core long-lived capital goods have been volatile as businesses struggle with the uncertainty of whether import tariffs are on or off. Nondefense capital goods ex-aircraft fell 1.5% in April, jumped 2.0% in May only to fall back 0.7% in June. Some foreign trade deals announced by the Administration have included promises to make new investments in the U.S., although it is unclear what industries or projects might be targeted. Stay tuned. Although it is not a manufacturing renaissance, business leaders do appear to show greater confidence in the demand for their goods and services to make new purchases of new equipment. On the other hand, the fear of higher costs for machinery and parts caused by higher import tariffs is also driving some of the demand seen this year. Core capital goods were revised higher to new 2025 highs in May before coming back down in June. The strength seen in business investment will tell Fed policymakers that the current level of interest rates is not restrictive and is not holding back companies' purchases of new equipment. Durable goods orders are another reason to continue to hit the pause button on interest rate cuts and Fed officials are likely to look through the headline durable orders decline of 9.3% this month that was driven by nondefense aircraft and parts.



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