Financial Markets This Week

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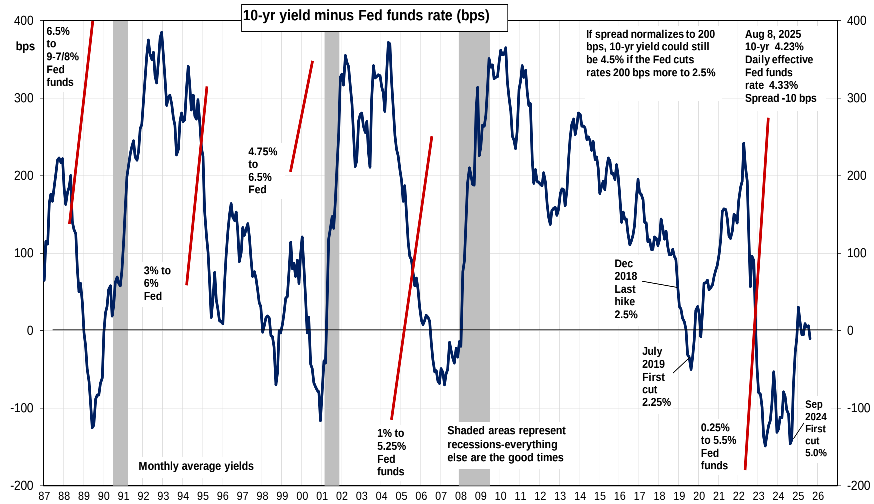
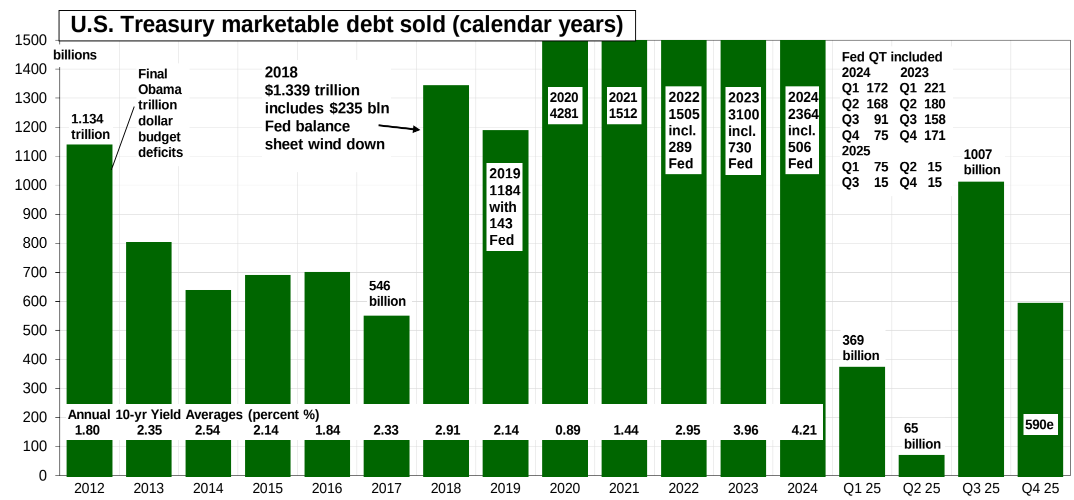
MORTGAGE RATES 3%

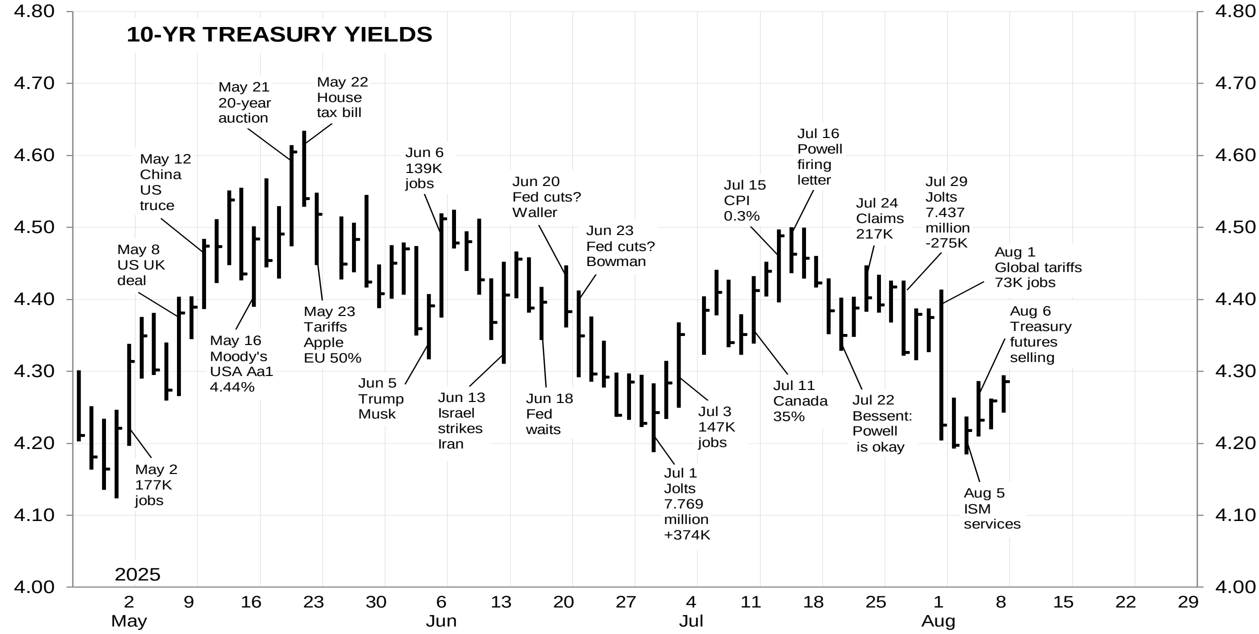


That's where they were before the Fed's delayed first rate hike in March 2022 in response to the worst inflation outbreak since the 80s. The President wants lots of Fed rate cuts, and there will have to be a lot of them to bring mortgage rates down sharply because normally the yield curve steepens when the Fed cuts rates. It is easy to believe economic history has not been repealed even under Trump 2.0 and that the Fed funds rate to 10-year Treasury yield spread will move out to a positive slope of at least 100 bps as the yield curve normalizes with the Fed's policy rate reductions. The 30-year mortgage yield was 6.63% in the Thursday, August 7 week for a spread of 241 bps above the 4.22% 10-year yield. Bessent looks to get 10-year yields down with Treasury new cash needs being met with T-bill issuance. Maybe he should work to get banks to cut the spread.



The big bill budget implications won't be known for sure for quite a while, but the Treasury's latest quarterly refunding estimates for the new cash that needs to be raised by debt auctions are roughly the same. The Fed's QT peaked at $730 billion in 2023, so that will lessen the overall new cash need; QT is currently just $15 billion per quarter under the Powell Fed. The 2025 new cash minus QT is estimated at $1.911 trillion versus $1.858 trillion under Biden in 2024. 2022 and 2023 averaged $1.793 trillion which adjusts for a weak 2022 stock market, and higher year-end Treasury cash balance in 2023. Same story. Nominal GDP in Q2 2025 grew 5.0% SAAR and 4.5% year-over-year. The Federal budget deficit or Treasury borrowing has to stay under $1.8 trillion then to keep the debt/GDP level stable and manageable. It appears that U.S. Government borrowing will not put too much upward pressure on yields… for now.

INTEREST RATES

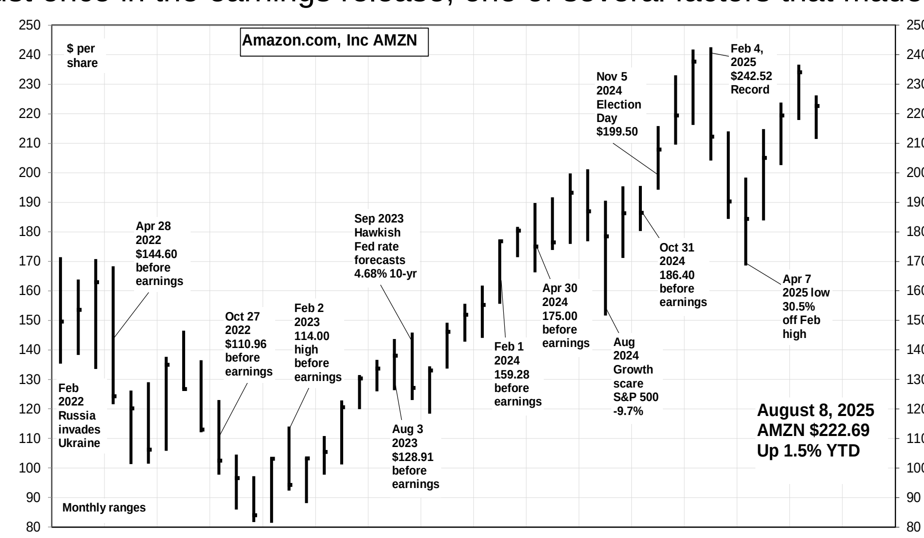


Hard to believe stocks fell at 10am ET Tuesday with the ISM services index dropping from 51.5 expected to 50.1, or barely expanding above the 50-dividing line between a services economy that is increasing as opposed to one that is in outright decline. The service sector is bigger than manufacturing, and the market is nervous about a broader economic slowdown after the latest payroll jobs report with 258K of downward revisions. It is also hard to believe that stocks fell around 10am ET on Thursday on a news story saying Fed Governor Waller was the leading candidate for Fed Chair. The overall stock market high was made after Wednesday's almost final tariff announcement where it looked like Chip stocks and Apple would make it through largely unscathed. Bonds closed the week little changed at 4.29%, up 7 bps with the 3/10/30s auctions. The S&P 500 closed just short of record.

Amazon.com Inc. (AMZN) up 1.5% YTD, after earnings hit

Amazon reported Thursday, July 31 along with Apple, but the stock sank like a stone. It fell 8.3% on Friday, August 1 to $214.75 with the massive 258K jobs report revisions a big problem as well. Basically, Amazon sank over 8% as AWS was disappointing (sales +17.5% YOY), and there were signs the company trails its cloud rivals' earnings as well. Q3 2025 sales expected to be $174.0-179.5 billion. The word "tariff" appeared just once in the earnings release, one of several factors that made the forecast uncertain.

Calendar Year Mln $	Net Sales	Operating Income	AWS Sales	AWS Income	Income minus AWS
Q2 2025	167,702	19,171	30,873	10,160	9,011
Q1 2025	155,667	18,405	29,267	11,547	6,858
Q4 2024	187,792	21,203	28,786	10,632	10,571
Q3 2024	158,877	17,411	27,452	10,447	6,964
Q2 2024	147,977	14,672	26,281	9,334	5,338
Q1 2024	143,313	15,307	25,037	9,421	5,886
Q4 2023	169,961	13,209	24,204	7,167	6,042
Q3 2023	143,083	11,188	23,059	6,976	4,212
Q2 2023	134,383	7,681	22,140	5,365	2,316
Q1 2023	127,358	4,774	21,354	5,123	-349
Q4 2022	149,204	2,737	21,378	5,205	-2,468
Q3 2022	127,101	2,525	20,538	5,403	-2,878
Q2 2022	121,234	3,317	19,739	5,715	-2,398

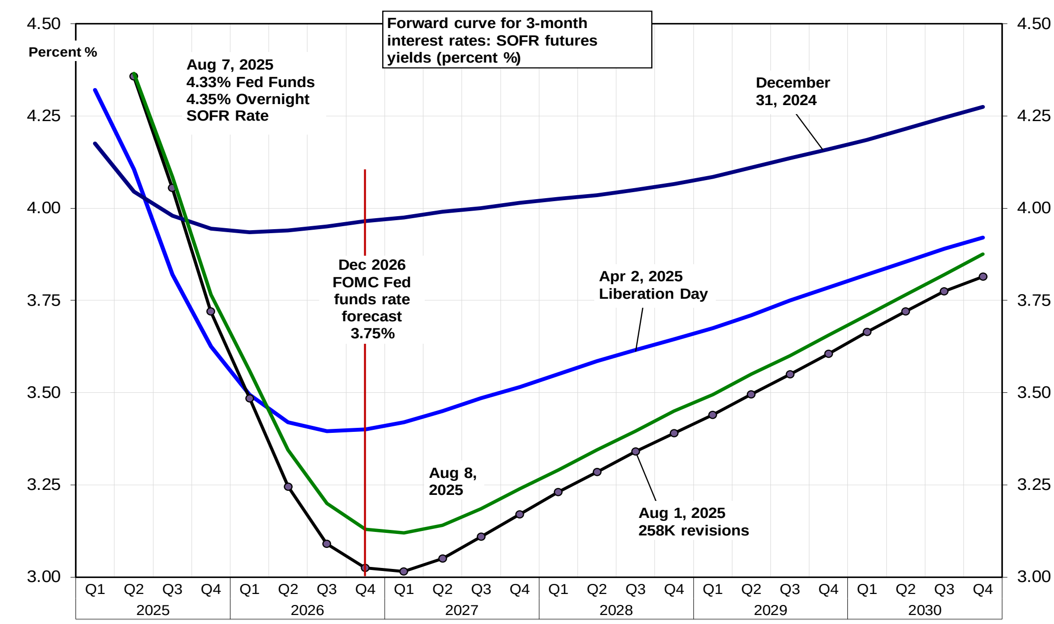


FEDERAL RESERVE POLICY

The Fed meets September 16-17, 2025 to consider its monetary policy. Several notable Fed voices talking about rate cuts this week, probably helped along by the Trump Powell-bashing, and steered by Fed funds futures looking for a September 25 bps rate cut to 4.25% after the jobs report with huge downward revisions. The June meeting forecasts looked for two 25 bps rate cuts this year, which if still valid would mean September and December meeting cuts. On Thursday, Chairman of the Council of Economic Advisors Stephen Miran was appointed to fill Fed Governor Kugler's spot after she resigned. This came just hours after a news story that Fed Governor Waller was the favorite for Fed Chair, impressing the White House staff apparently by wanting to cut rates on forecasts as opposed to actual data or something like that. Hasn't been this much intrigue since Volcker's final hours as Fed Chairman after a push. No matter who wins the prize that Powell thought he won eight years ago, the Fed's normal "Long Term" Fed funds rate forecast is 3.0% and the President wants 1% interest rates. Wonder who will win on rates? Kind of makes us want to buy a ladder of 2-yrs, 3-yrs, 5-yrs, 7-yrs 10-yrs Treasuries to hold onto our money market fund 4% interest a while longer.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	6-Aug	30-Jul	23-Jul	16-Jul	3/11/20*	3/11/20
Factors adding reserves						to Aug 6
U.S. Treasury securities	4204.501	4206.916	4206.720	4206.523	2523.031	1681.470
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2120.672	2120.672	2134.784	2138.426	1371.846	748.826
Repurchase agreements	0.000	0.000	0.003	0.000	242.375	-242.375
Primary credit (Discount Window)	4.856	5.595	5.242	5.230	0.011	4.845
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	1.410	1.411	1.417	1.436		
Main Street Lending Program	4.476	4.471	4.553	4.548		
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	0.050	0.057	0.084	0.063	0.058	-0.008
Federal Reserve Total Assets	6691.9	6692.9	6708.9	6710.7	4360.0	2331.828
~~3-month Libor %~~ SOFR %	4.34	4.32	4.28	4.34	1.15	3.190
Factors draining reserves						
Currency in circulation	2404.549	2401.980	2399.077	2399.858	1818.957	585.592
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	464.315	419.446	333.538	312.085	372.337	91.978
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	91.966	155.481	189.632	197.086	1.325	90.641
Federal Reserve Liabilities	3361.482	3393.235	3350.557	3335.633	2580.036	781.446
Reserve Balances (Net Liquidity)	3330.372	3299.696	3358.382	3375.036	1779.990	1550.382
Treasuries within 15 days	90.821	67.487	60.158	53.204	21.427	69.394
Treasuries 16 to 90 days	147.831	166.106	173.195	176.903	221.961	-74.130
Treasuries 91 days to 1 year	449.602	448.282	448.489	451.704	378.403	71.199
Treasuries over 1-yr to 5 years	1426.311	1440.549	1440.465	1440.384	915.101	511.210
Treasuries over 5-yrs to 10 years	514.748	510.290	510.275	510.256	327.906	186.842
Treasuries over 10-years	1575.189	1574.202	1574.137	1574.071	658.232	916.957
Note: QT starts June 1, 2022	Change	8/6/2025	6/1/2022			
U.S. Treasury securities	-1566.278	4204.501	5770.779			
Mortgage-backed securities (MBS)	-586.774	2120.672	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 1.5 bps of a 25 bps rate cut is discounted at the September meeting. Two rate cuts are fully discounted this year.

Fed funds futures call Fed policy		
Current target: August 8 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.265	Oct 2025	Sep 17*
4.120	Nov 2025	Adds Oct 29
3.910	Jan 2026	Adds Dec 10
Last trade, not settlement price		
*Not strictly true, Oct 2025 could be 2 days at a new rate		

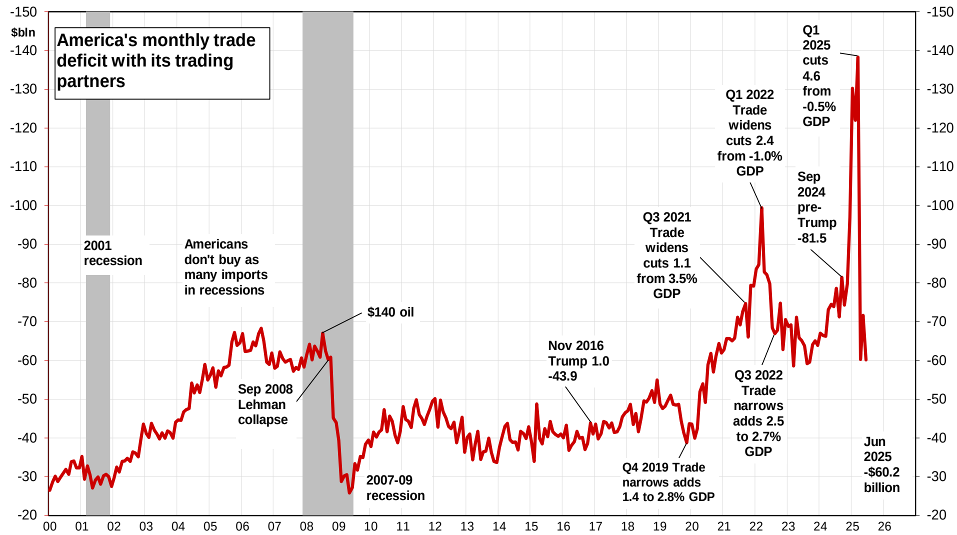
Next up: July CPI inflation report Tuesday, August 12 at 830am ET														
Monthly	2025					2025	2024							2024
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Core CPI inflation	0.2	0.1	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3
Core PCE inflation	0.3	0.2	0.2	0.1	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	2.8	2.8	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

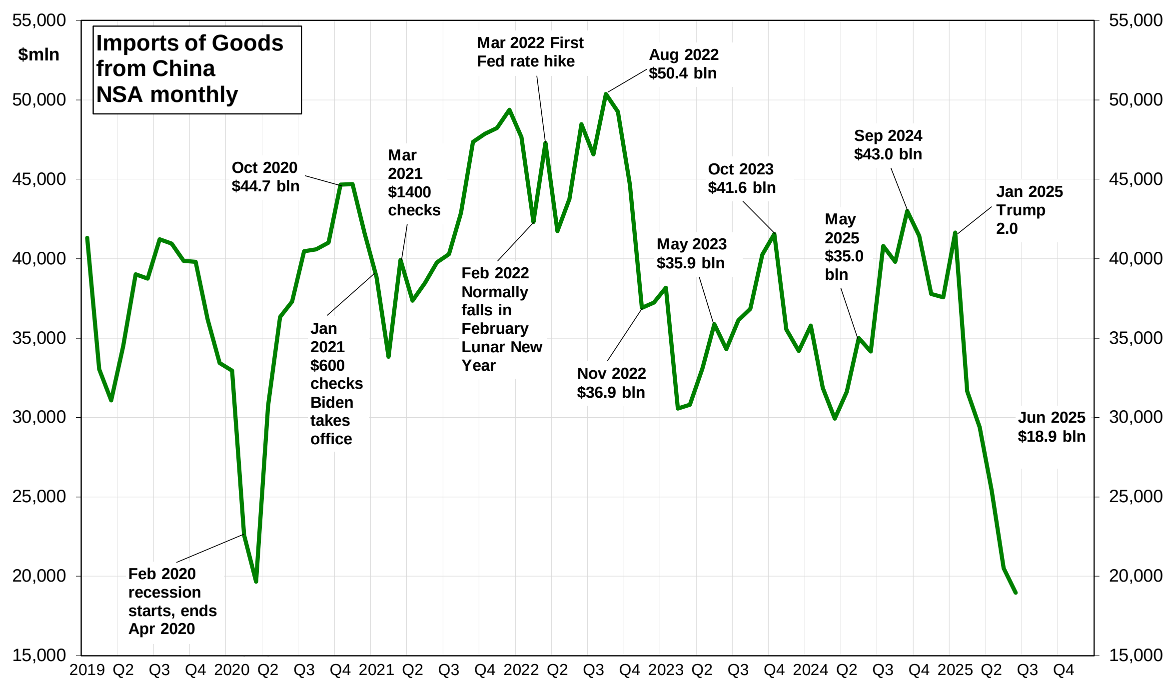
OTHER ECONOMIC NEWS

Trade deficit shows U.S. is winning (Tuesday)

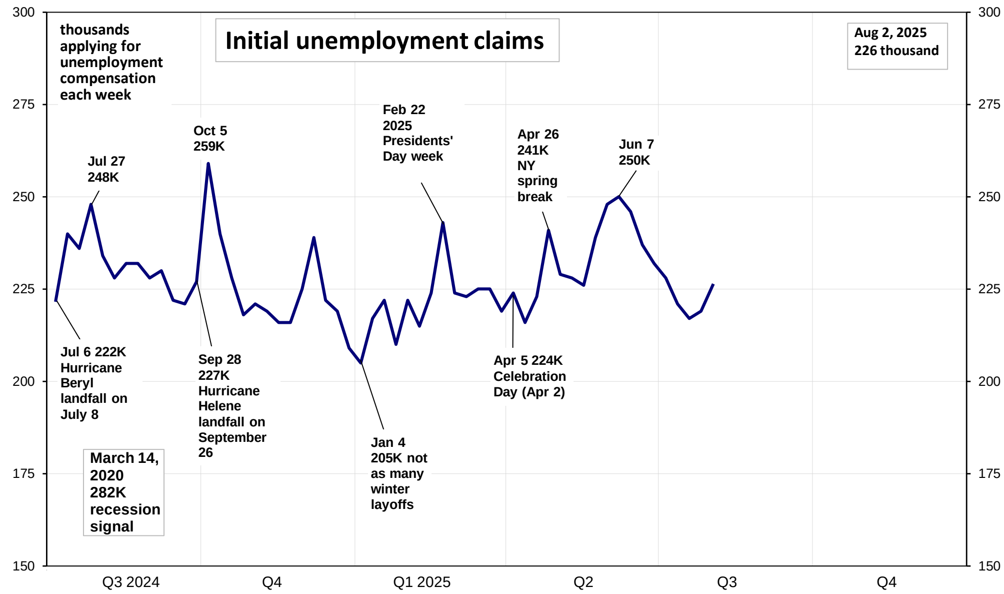
$mln	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
May 2025	-71,664	-97,303	25,639	278,646	180,303	98,343	350,310	277,606	72,704
Jun 2025	-60,177	-85,879	25,702	277,298	179,113	98,186	337,475	264,992	72,483
Change	11,487	11,424	63	-1,348	-1,190	-157	-12,835	-12,614	-221

Breaking economy news. The U.S. trade data. In the news this year, but we were still shocked by the dropoff in U.S. imports of goods from China in June. Okay, so the headline news was the overall trade deficit fell further to $60.2 billion in June from the tariff-avoidance import surge in the first quarter. Exports of goods are holding at the moment with no retaliation from America's trading partners yet. It is still early days however with the final Trump tariffs not being put in place until midnight on Thursday, August 7.

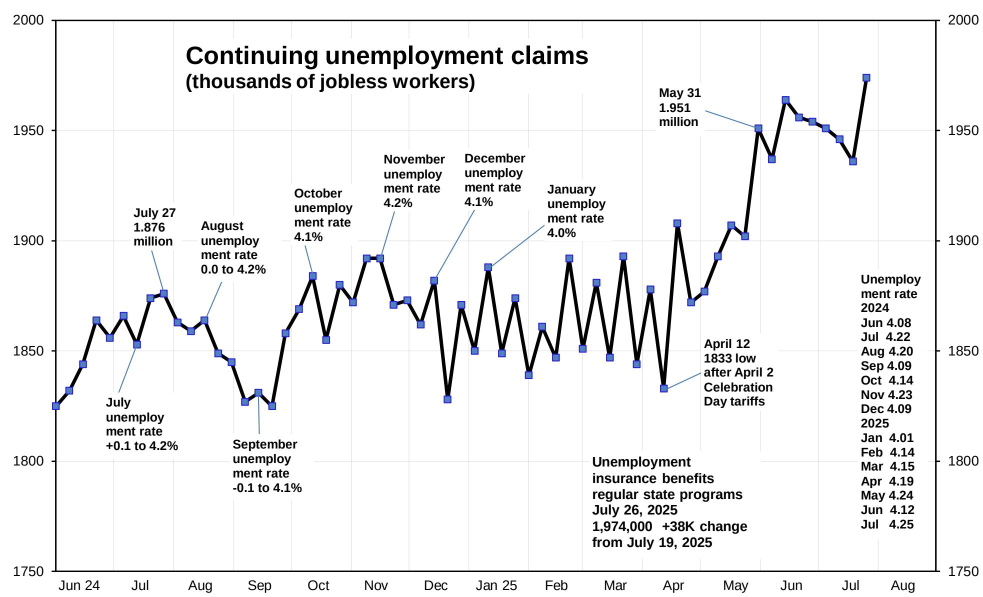




226K weekly jobless claims (Thursday)



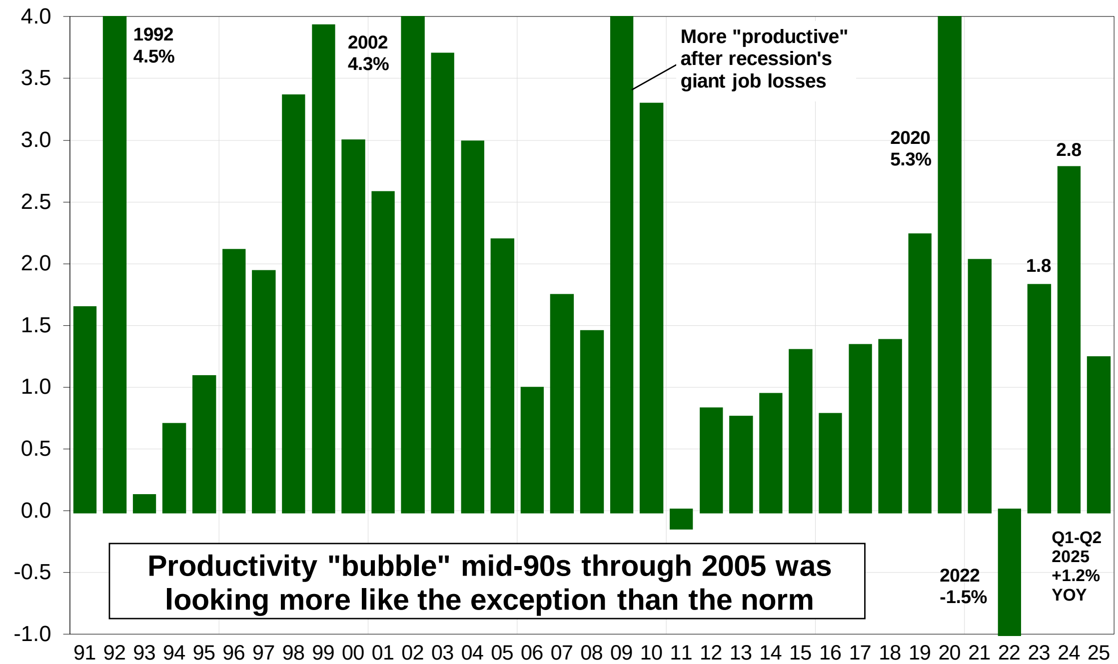
Breaking economy news. The latest weekly jobless claims do not show a serious deterioration in the labor markets despite the constant trade war headlines. Summertime is often a quiet period for company layoffs, if you want to try to call the 6K increase in initial claims to 226K in the August 2 week quiet. Not seasonally adjusted claims were 194,988 so the seasonal factors boosted this lower number for August 2. Not seasonally adjusted filings were up notably in states like Massachusetts, New Jersey, Oregon, and Texas, but declines elsewhere kept the nationwide total change from the prior week very low. Federal Employees applications were 7,831 in the July 19 week, up 424 from the week before and from 4,769 the year before. There are news stories about the Challenger Gray monthly survey of layoffs this year finding almost a million jobs lost, highest count since the pandemic, but it is important to remember that 226K lost their jobs just this one week, so the total churn of layoffs is normally quite high without necessarily meaning a recession is nearby.



Reading the tea leaves is admittedly not very easy with the new 2025 high of 1.974 million in the July 26 week for the total number receiving unemployment benefits. This would ordinarily be consistent with the unemployment rate climbing in the August payroll jobs report due Friday, September 5. Continuing claims have been elevated since May 31, and are difficult to explain.

Q2 Productivity follows real GDP report higher (Thursday)

Breaking economy news. Productivity bounced in the second quarter with a 2.8% gain after the Q1 2025 drop of 1.8%. [Real GDP Q1 -0.5%, Q2 3.0%.] The year-on-year gains are steadying at 1.2% in Q1 and 1.3% in Q2 2025. Wages are still running surprisingly fast, maybe check your weekly paystubs, with hourly compensation of a 4.0% annual rate in Q2, 5.0% in Q1, and the increase was 5.3% for all of 2024. Who knew. Wages running above productivity means unit labor costs are increasing, a cost for businesses that sometimes is thought to weigh on corporate profitability, but no problems for corporate profits currently. Trade war or not. Stay tuned.



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