Financial Markets This Week

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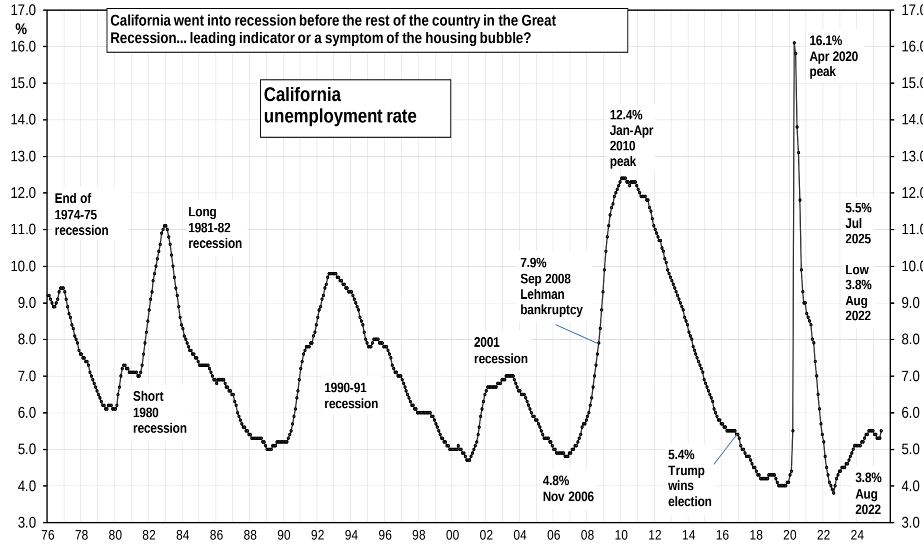
CALIFORNIA ECONOMY

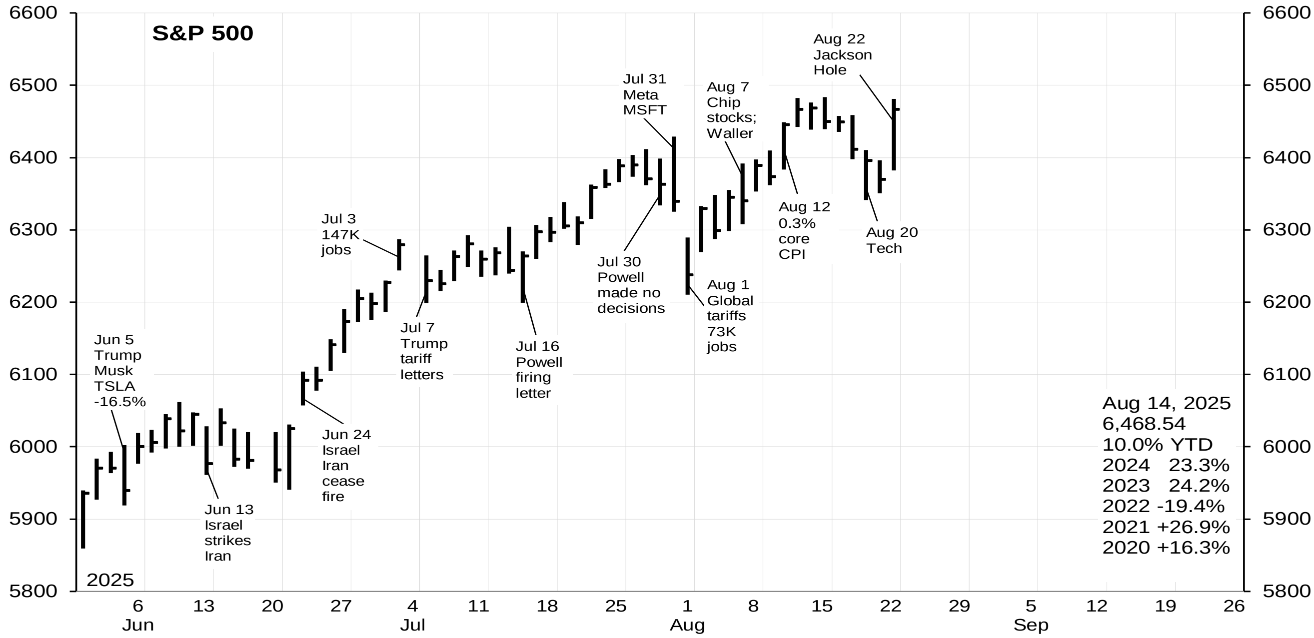


Powell said Friday that the downside risks to employment are rising, so we thought we would look at California this week. The nation's most populous state has led the country many times with job losses that signaled recession. The unemployment rate fell from 4.5% in March 2022 with the first Fed rate hike, down to the best of times 3.8% low in August 2022, and then started climbing with restrictive, higher interest rates; so far so good for economic theory and monetary policy, the economy slows when rates go up. But no nationwide recession. The California unemployment rate is back to recent highs of 5.5% in July 2025, after sticking at that level Sept-Dec 2024 which should mean considerable economic distress. The Household Survey of employment trends could increasingly prove to be unreliable; it is unclear why migrants for example would pick up the phone to respond. The BLS data this year on native-born employment versus foreign-born employment has become virtually unusable. Payroll employment is still okay despite the 258K of downward revisions and when the payroll jobs level starts declining dramatically, the broader economy has turned down into recession. For California, the population count was revised upward with the revisions late last year on "net-migration," but the employment trend (1.7%) from the Household Survey is close enough to the survey of business establishments (1.4%). The White House economic agenda is making big, potentially disruptive changes to where the jobs are in California since 2022, thinking on Education & Health and Government. Manufacturing jobs that the Administration is trying to bring back to America after they left twenty years ago are so far on the decline. Anyway we don't want to leave out where the jobs are in California if you are ready and able and don't want to build furniture in a North Carolina plant, Other Services include Repair and maintenance, laundry, religious, grantmaking (not for long), civic, professional. You know who you are.

Jobs Since Aug 2022 3.8% Unemployment low

Thousands	Aug 22	Jul 25	Change	% Chg
Population	31,146	31,798	652	2.1
Not in Labor Force	11,979	11,947	-33	-0.3
Employment	18,441	18,763	322	1.7
Unemployed	726	1,089	363	50.0
Rate	3.8	5.5	1.7	---
Payroll employment	17,770	18,023	253	1.4
Construction	915.0	895.8	-19.2	-2.1
Manufacturing	1,304.0	1,214.0	-90.0	-6.9
Trade/Trans/Utilities	3,133.4	3,072.1	-61.3	-2.0
Information	631.7	526.6	-105.1	-16.6
Financial activities	836.6	784.9	-51.7	-6.2
Professional/Business	2,912.3	2,733.2	-179.1	-6.1
Education/Health	2,951.2	3,457.9	506.7	17.2
Leisure/Hospitality	1,957.7	2,005.0	47.3	2.4
Other Services	567.3	593.4	26.1	4.6
Government	2,540.8	2,721.1	180.3	7.1

INTEREST RATES



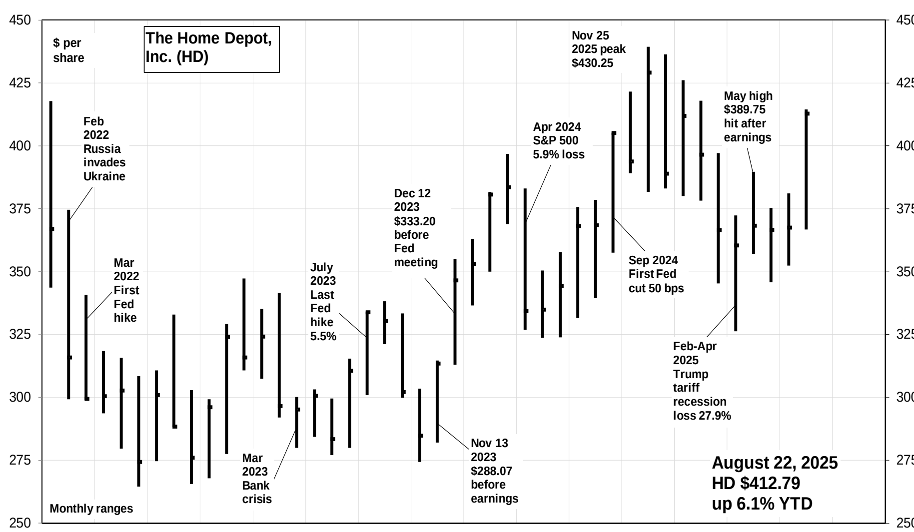
Powell signaling a September rate cut turned markets completely around this week. The S&P 500 rallied 1.5% to 6,466.91, just short of an all-time high, and 10-yr yields dropped 7 bps to 4.26%. There will have to be a couple of years of gradual Fed rate cuts to get bonds to break the 4.0% barrier, unless the labor markets weaken to the point of recession. Of course the tariff collections could knock the Federal budget deficit and financing demand lower in the meantime, but tariffs are running only $300 billion more than last year, and not enough yet to push the latest $1.832 trillion deficit for FY2024 lower. Not much to look forward to the last week in August: Powell at Jackson Hole said core PCE would be 2.9% YOY in Friday, August 29's July personal income report (June was 2.8%) and July real consumer expenditures should be somewhat stronger given retail sales. Stay tuned.

The Home Depot, Inc. (HD) up 6.1% YTD

The company released earnings for the August 3 quarter before the open on Tuesday, August 19, and jumped as much as 5.0% to $414.36. Tuesday's high more or less held on Friday's Jackson Hole rally. The company is keeping with its full year outlook. The CFO did say homeowners continue to delay purchases as they have ever since the middle of 2023, where the Fed's peak 5.5% rate was made on July 26, 2023, and mortgage rates peaked at 7.79% in October 2023.

$mln Quarter	Net sales	Operating Income	Average Ticket	Retail Sales NSA
8.3.25	45,277	6,555	$90.01	44,578
5.4.25	39,856	5,133	$90.71	38,793
2.2.25	39,704	4,495	$89.11	36,545
10.27.24	40,217	5,418	$88.65	42,435
7.28.24	43,175	6,534	$89.90	45,080
4.28.24	36,418	5,079	$90.68	38,862
1.28.24	34,786	4,143	$88.87	36,170
10.29.23	37,710	5,406	$89.36	41,675
7.30.23	42,916	6,589	$90.07	45,877

Retail sales building material/garden qtr avg NSA

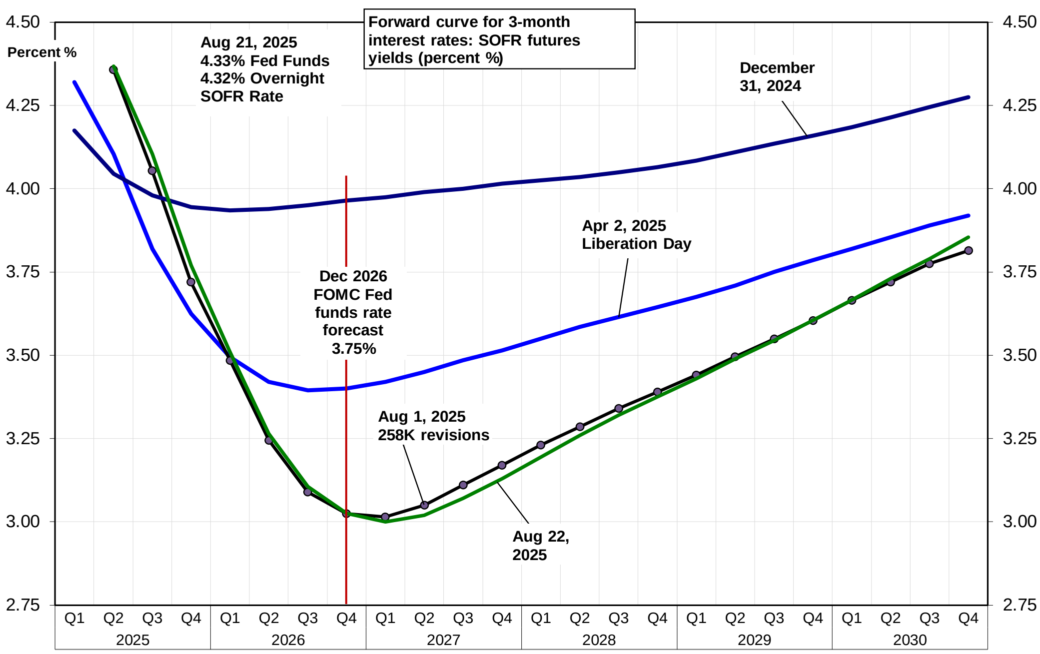


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	20-Aug	13-Aug	6-Aug	30-Jul	3/11/20*	3/11/20
Factors adding reserves						to Aug 20
U.S. Treasury securities	4201.953	4204.823	4204.501	4206.916	2523.031	1678.922
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2116.764	2120.606	2120.672	2120.672	1371.846	744.918
Repurchase agreements	0.201	0.001	0.000	0.000	242.375	-242.174
Primary credit (Discount Window)	4.414	4.623	4.856	5.595	0.011	4.403
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	1.407	1.409	1.410	1.411		
Main Street Lending Program	4.250	4.481	4.476	4.471		
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	0.046	0.046	0.050	0.057	0.058	-0.012
Federal Reserve Total Assets	6669.5	6694.6	6691.9	6692.9	4360.0	2309.447
~~3-month Libor %~~ SOFR %	4.31	4.33	4.34	4.32	1.15	3.160
Factors draining reserves						
Currency in circulation	2403.844	2403.364	2404.549	2401.980	1818.957	584.887
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	526.063	515.469	464.315	419.446	372.337	153.726
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	34.999	57.202	91.966	155.481	1.325	33.674
Federal Reserve Liabilities	3371.838	3366.277	3361.482	3393.235	2580.036	791.802
Reserve Balances (Net Liquidity)	3297.635	3328.346	3330.372	3299.696	1779.990	1517.645
Treasuries within 15 days	54.667	85.044	90.821	67.487	21.427	33.240
Treasuries 16 to 90 days	158.447	150.698	147.831	166.106	221.961	-63.514
Treasuries 91 days to 1 year	461.246	452.564	449.602	448.282	378.403	82.843
Treasuries over 1-yr to 5 years	1442.905	1426.444	1426.311	1440.549	915.101	527.804
Treasuries over 5-yrs to 10 years	500.801	514.779	514.748	510.290	327.906	172.895
Treasuries over 10-years	1583.886	1575.295	1575.189	1574.202	658.232	925.654
Note: QT starts June 1, 2022	Change	8/20/2025	6/1/2022			
U.S. Treasury securities	-1568.826	4201.953	5770.779			
Mortgage-backed securities (MBS)	-590.682	2116.764	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets September 16-17, 2025 to consider its monetary policy. Markets must have thought Powell's [Jackson Hole speech] would be about the Fed's boring "Framework Review" because the hint of a September rate cut in his remarks at 10am ET Friday sent markets soaring, or at least the S&P 500. He said, "Our policy rate is now 100 basis points closer to neutral than it was a year ago, and the stability of the unemployment rate and other labor market measures allows us to proceed carefully as we consider changes to our policy stance. Nonetheless, with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance." Guess this means the restrictive policy will be made less so at the September meeting regardless of the import-tariff clouds over the inflation outlook. His final comment before the framework discussion was that policy was not on a preset course. OK. He did mention payroll jobs had slowed to a pace of 35K over the last three months, and perhaps a stronger jobs report on Friday, September 5 could derail the market's hopes. Stay tuned. Powell is not done yet and still can surprise us.

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 3 bps of a 25 bps rate cut is discounted at the September meeting. Two rate cuts are almost discounted this year.

Fed funds futures call Fed policy		
Current target: August 22 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.280	Oct 2025	Sep 17*
4.155	Nov 2025	Adds Oct 29
4.025	Jan 2026	Adds Dec 10*
Last trade, not settlement price		
*Not strictly true, Oct 2025 and Jan 2026 contracts could be two days at a new rate		

Next up: July PCE inflation report Friday, August 29 at 830am ET														
Monthly	2025						2025	2024						2024
% Changes	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Core CPI inflation	0.3	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
Core PCE inflation	0.3e	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
Core PCE YOY	2.9e	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
Core CPI YOY	3.1	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

OTHER ECONOMIC NEWS

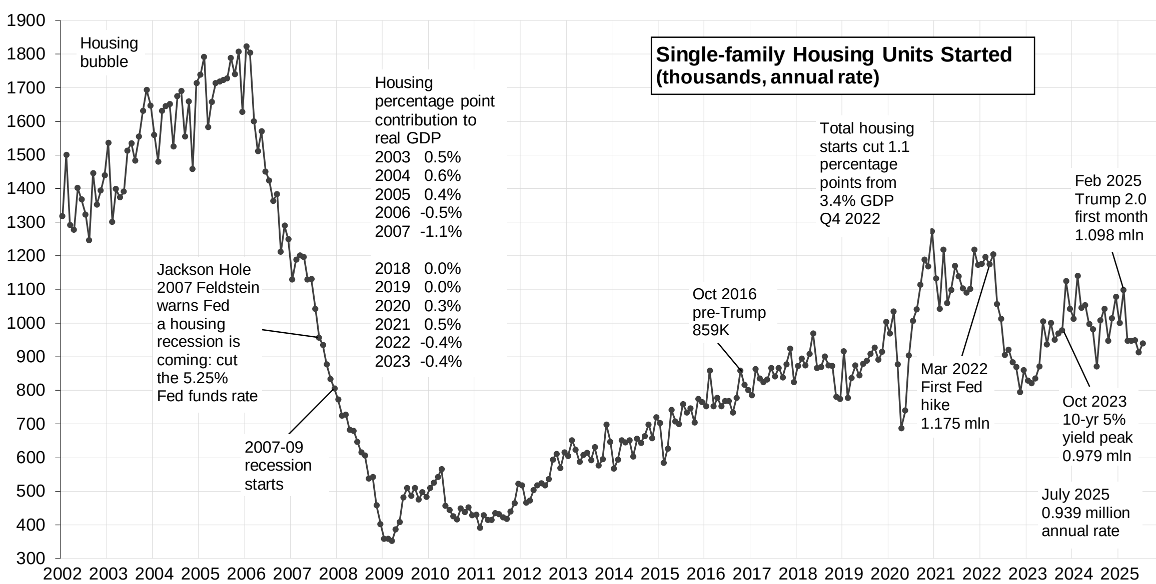
Single-family starts up in Texas and Florida (Tuesday)

Breaking economy news. Housing starts rose 5.2% in July to 1.428 million at an annual rate, the most since February. Single-family starts were revised up significantly in May (2.5%) and June (3.4%) so the picture is less dark. Permits fell 2.8% in July to 1.35 million however, so the pipeline is not encouraging. The data will reinforce the Administration's claims that interest rates are too high.

Housing Starts Total, Single-Family, Multi-Family

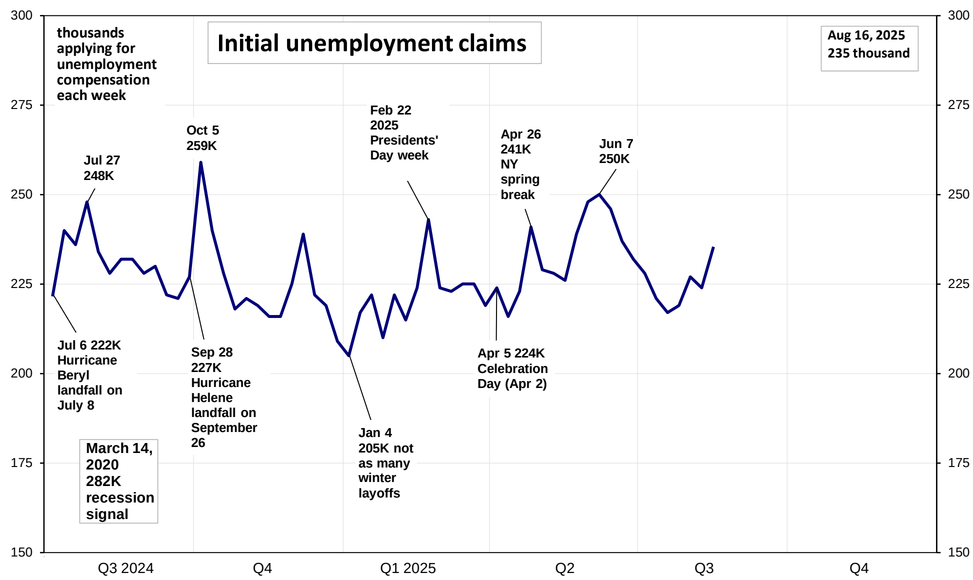
	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Jul 2025	1428	939	470	111	55	252	125	833	576	232	183
Jun 2025	1358	913	421	150	60	189	147	699	509	320	197
Jul 2024	1265	871	369	172	58	179	128	643	473	271	212
% Chgs											
Jul/Jun	5.2	2.8	…	-26.0	-8.3	33.3	-15.0	19.2	13.2	-27.5	-7.1
Jul/Jul	12.9	7.8	…	-35.5	-5.2	40.8	-2.3	29.5	21.8	-14.4	-13.7

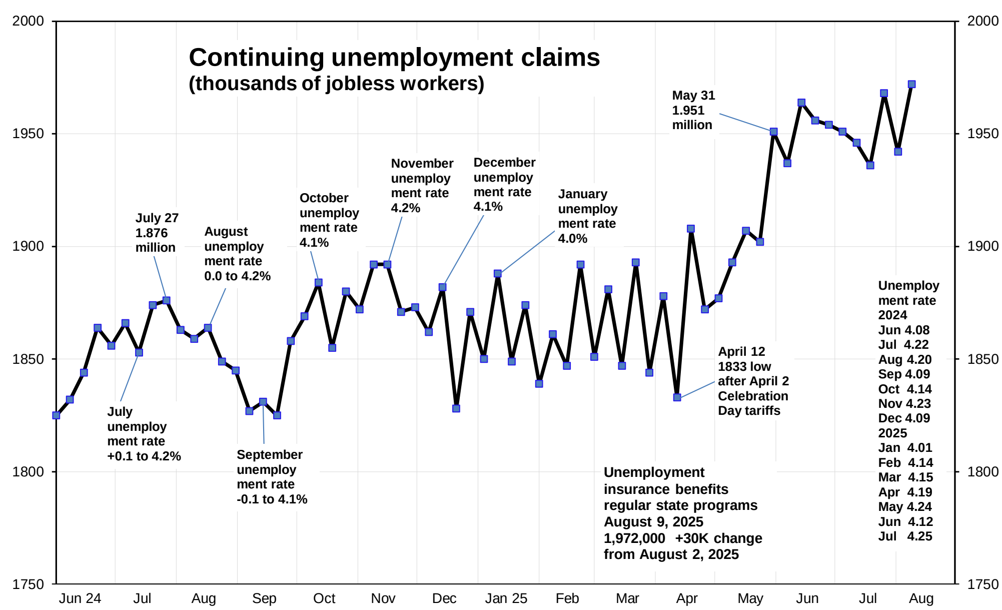
Net, net, homebuilders started more construction of single-family homes in July, although the good news was strictly a regional story where housing starts in the South soared, but fell everywhere else in the country. Mortgage rates jumped with the Fed's first rate hike in March 2022 when one-unit home starts were 1.175 million and high borrowing costs continue to pressure the homebuilding industry with single-family starts 20.1% lower at 939 thousand in July 2025. Treasury Secretary Bessent said he would start working on making homes more affordable this fall, and we are sure homebuilders and buyers will be all ears. Stay tuned. Housing is more unaffordable than ever and it will remain that way if the homebuilding industry cannot find some relief. There is pent-up demand for affordable housing from consumers, but everywhere builders look it is impossible to cut costs with import-tariffs just the latest headwind to bringing home prices under control.



Jobless claims worsen (Thursday)

Breaking economy news. The labor market is suddenly showing more signs of stress with 235 thousand more workers receiving pink slips in the middle of August which is an increase from 224 thousand claims in the August 9 week. It is a quiet time of year in the final weeks before schools start up again, and the seasonal factor pushed up the level of first-time jobless claims in the August 16 week, while the actual count fell 4,470. The only states seeing not seasonally adjusted jumps in layoffs were Iowa (1,017) and Kentucky (2,951). But Fed officials still are right to be worried about the health of the labor market as the number of Americans on the jobless rolls hit a new high this year. There is no other conclusion to be made other than the economy is slowing where companies are not hiring, so jobless workers remain stuck in the unemployment lines. Stay tuned. Powell is expected to talk about the Fed's monetary policy framework at Jackson Hole, but he would be better off aligning with the Administration and signaling a rate cut is likely at the upcoming September meeting. One thing is for certain and that is the economy will not grow if the labor market is slowing down.



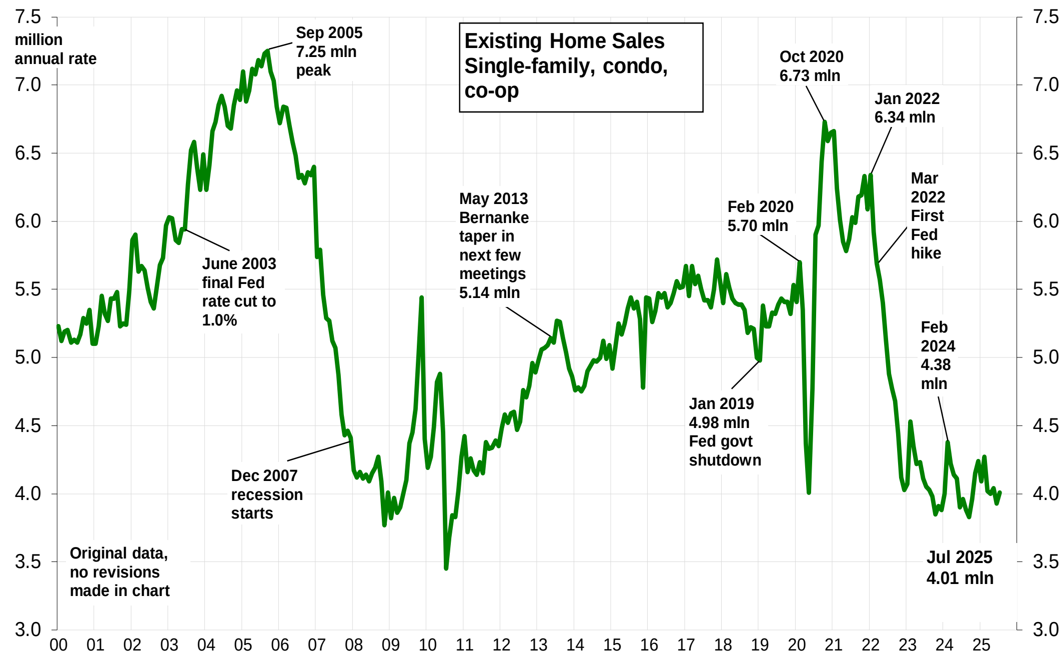


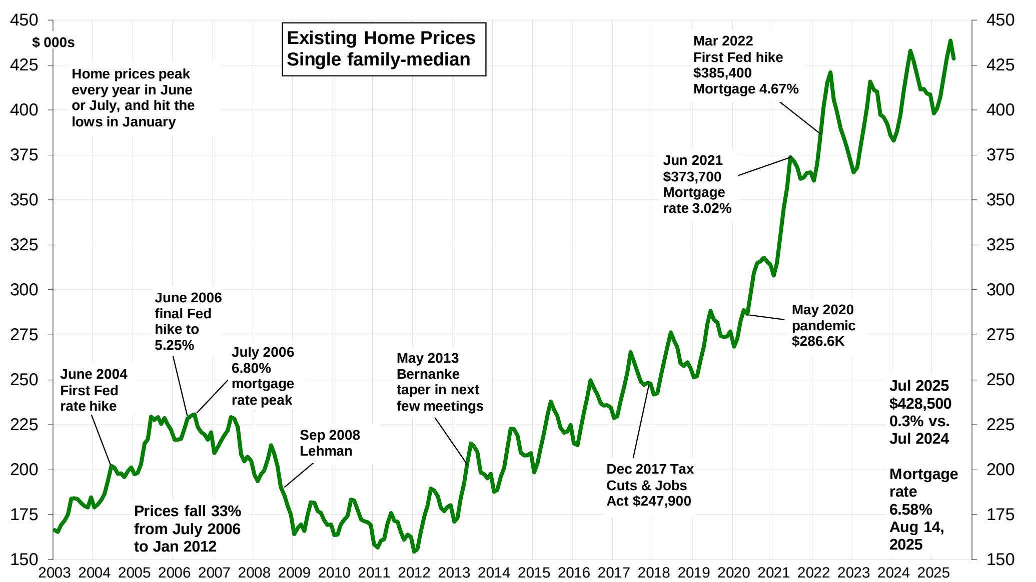
Existing home sales bounce (Thursday)

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
Jul	4.010	0.500	0.940	1.850	0.720

Breaking economy news. Existing home sales barely budged from the lows of the year in July as the 2025 summer selling season looks to be a bust and overall activity is showing a failure to thrive. Sales turnover fell to the 4.0 million level after the Fed's rate hikes started in Q1 2022 and have remained down there. The Washington economic agenda has done nothing for the housing industry or home ownership and the Administration knows it which is why they continue to chip away at the Fed's independence with calls to lower interest rates dramatically. Single-family home sales peaked this year at $438,600 in June and fell 2.3% to $428,500 in July in line with seasonal trends as the summer selling period of high activity is coming to an end. There is little relief in store for the housing sector as long as a majority of Fed officials remain on their guards for tariff-based inflation. Interest rates are going to be coming down over the next year, but those 3% mortgages from several years ago are not going to come back.





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