# Financial Markets This Week

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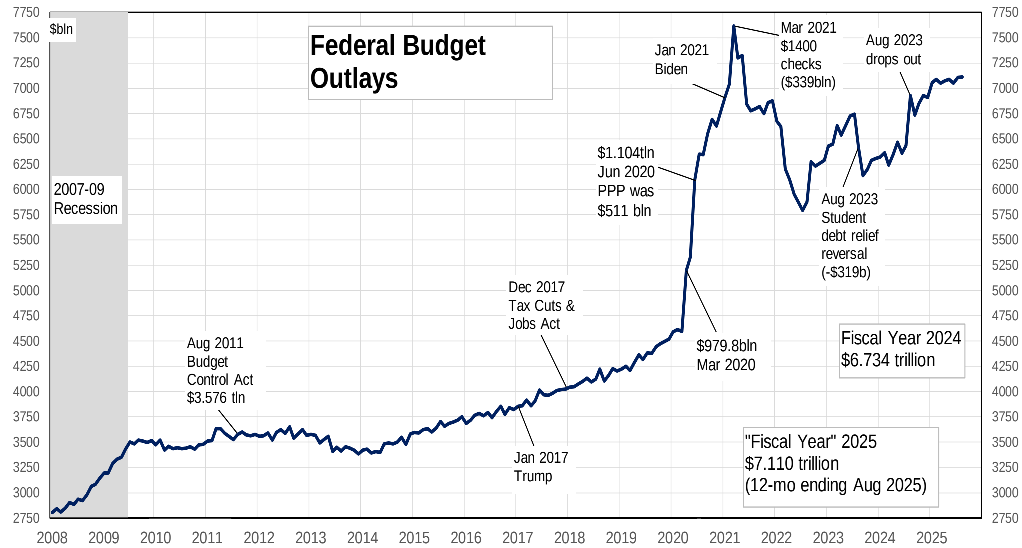
## DEFICIT SPENDING




Federal government spending and the budget deficit are not on a downward trajectory yet. The FY 2024 deficit was $1.816 trillion, and FY 2025 through August was reported at $1.973 trillion. Tariffs are not in the trillions yet, but did add $93.524 billion to revenues since January. This is the difference collected this year versus the year before, and for August alone this number was $29.503 billion. One month left to go for the deficit, and September is often a surplus month, it was last year, and had been regularly in the years before the pandemic, as it is a big corporate tax collection month. Even the $1.816 trillion FY 2024 deficit is too high for Bessent who wants to see it down to a manageable 3% of nominal GDP or $910 billion based on Q2 real GDP. Getting interest rates down would help cut costs, although it would take years to affect the average interest paid on the trillions of notes and bonds outstanding. There were $6.3 trillion of Treasury bills outstanding at the end of August, 4.5% interest on them is $283 billion, and 3% interest on them is $189 billion if the Fed cuts rates to neutral. Maybe not so much savings. No free lunch.

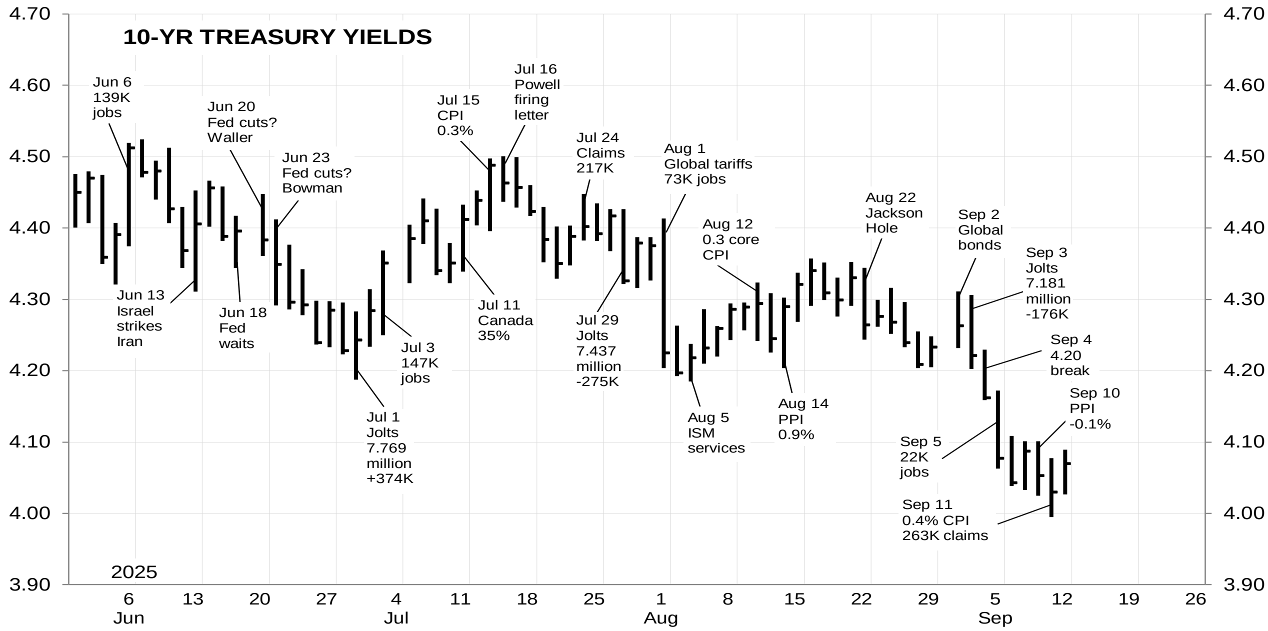
| | Marketable | |
|---|---|---|
| | Treasuries | Average |
| Aug 2025 | $trillion | Rate % |
| Bills | 6.368 | 4.283 |
| Notes | 15.206 | 3.087 |
| Bonds | 5.085 | 3.311 |

Meanwhile, social security continues to take in less in payroll taxes than it pays out to retirees month after month, year after year. That sounds like broke to us as the difference is made up by the Treasury selling more marketable debt to investors every month. Hopefully Washington won't tinker with the current formula of how these monies are paid out, like cutting old people's meager benefit checks by 20% based on the advice of accountants; we can better see if the tax collections to benefit payments red ink diff worsens as the baby boom gets completely retired at age 65 in the next several years. The baby boomers in 2025 are 61 to 79 years old. The nation will be much richer in so many ways once they are gone.

Social Security In/Out

| $ bln | Receipts | Payments | Red/Black |
|---|---|---|---|
| FY2019 | 770.282 | 888.080 | -117.798 |
| FY2020 | 825.307 | 940.221 | -114.914 |
| FY2021 | 814.034 | 982.673 | -168.639 |
| FY2022 | 911.191 | 1,063.897 | -152.706 |
| FY2023 | 1,020.442 | 1,192.149 | -171.707 |
| FY2024 | 1,076.984 | 1,293.782 | -216.798 |
| Jan 25 | 103.464 | 114.253 | -10.789 |
| Feb 25 | 87.208 | 115.022 | -27.814 |
| Mar 25 | 96.422 | 130.503 | -34.081 |
| Apr 25 | 112.803 | 118.433 | -5.630 |
| May 25 | 88.333 | 118.949 | -30.616 |
| Jun 25 | 116.384 | 121.635 | -5.251 |
| Jul 25 | 82.336 | 119.093 | -36.757 |
| Aug 25 | 84.514 | 119.694 | -35.180 |

# INTEREST RATES

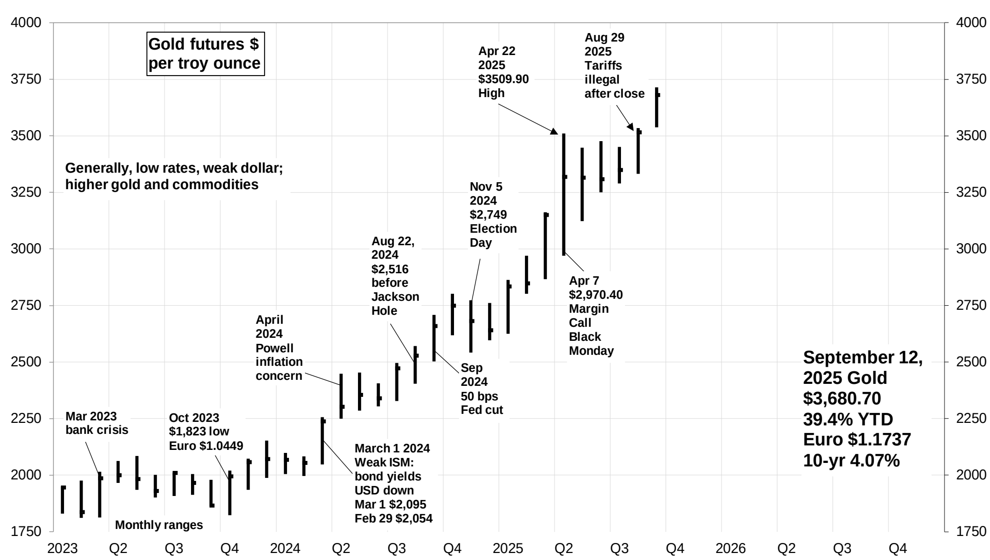



A record week for stocks. Tuesday's BLS announcement of a negative 911K revision to payroll employment came and went. It was -818K this time last year in the announcement, yet real consumer spending in the GDP reports was huge at 3.7%% in Q3 2024 and 4.0% in Q4 2024. All the changes down in Washington may be making it harder to measure the economy's progress. In any event, there will be an annual benchmark revision to those strong consumption numbers coming on Thursday, September 25. Stocks climbed Wednesday after PPI fell a tenth and Oracle jumped 35% after earnings, but stocks climbed again Thursday after CPI/Claims. Neither number looked very friendly with core CPI (0.346) and 263K recession job layoffs mostly in the boom state of Texas. Nothing holds stocks back except the 6,600 level on Friday. Bonds tested 4.00%. Stay tuned.

## Gold futures up 39.4% YTD; S&P 500 up 12.0% YTD

Gold likes chaos and turmoil in addition to a weak dollar and lower interest rates and the price of gold is up dramatically since $2,749 on November 5, 2025 election day. Gold closed at $3,516.10 on Friday, August 29 and gapped higher into the next month after Trump tariffs were ruled illegal after the close. "There's nothing like gold." Indeed.

| S&P 500 Weights | |
|---|---|
| Top 7: 34% of S&P | |
| 7.74 | NVIDIA |
| 6.67 | MSFT |
| 6.15 | AAPL |
| 3.89 | AMZN |
| 2.92 | Meta |
| 3.03 | Broadcom |
| 2.50 | GOOGL |
| 2.02 | GOOG |

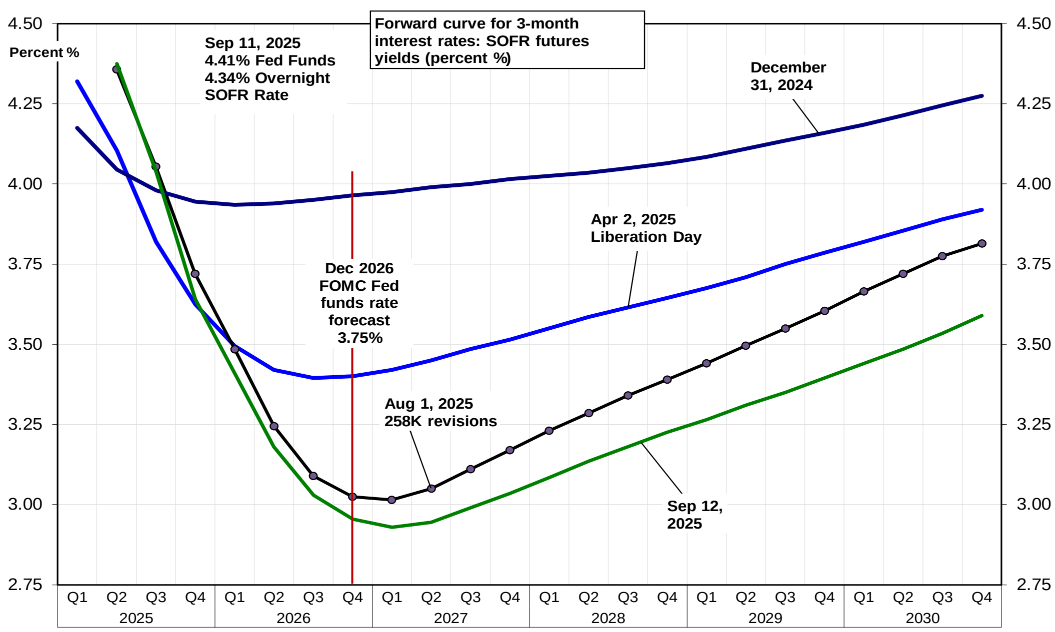


# FEDERAL RESERVE POLICY

The Fed meets September 16-17, 2025 to consider its monetary policy. With all the politics going on behind the scenes and upfront too, it is hard to know how the FOMC votes will be affected. The White House wants interest rates sharply lower, and next year under new management and with new members, the Federal Reserve may deliver on that. The labor market is soft so Powell may come out with a 50 bps rate cut, like he did a year ago, and then with 25 bps rate cuts in October and December; the Fed funds rate would end the year at 3.5%, where the current June meeting forecast did not see a 3.5% Fed funds rate until the end of 2027. The new forecasts released at 2pm ET on September 17 will extend out until 2028 for the first time. As savers we will anxiously watch to see if Fed officials forecast a Fed funds rate lower than long term "neutral" 3.0%. It does not seem to be appropriate to push interest rates lower to a so-called stimulative level that is under a 3.0% rate. Companies will not borrow any more. Stay tuned. We have never had an administration with members who favor abolishing the Fed, so the next year could be even more surprising than this year.

| **Selected Fed assets and liabilities** | | | | | | Change |
|---|---|---|---|---|---|---|
| Fed H.4.1 statistical release | | | | | | from |
| billions, Wednesday data | 10-Sep | 3-Sep | 27-Aug | 20-Aug | 3/11/20* | 3/11/20 |
| **Factors adding reserves** | | | | | | to Sep 10 |
| U.S. Treasury securities | 4200.916 | 4200.818 | 4202.351 | 4201.953 | 2523.031 | 1677.885 |
| Federal agency debt securities | 2.347 | 2.347 | 2.347 | 2.347 | 2.347 | 0.000 |
| Mortgage-backed securities (MBS) | 2102.846 | 2102.846 | 2102.846 | 2116.764 | 1371.846 | 731.000 |
| Repurchase agreements | 0.012 | 0.003 | 0.021 | 0.201 | 242.375 | -242.363 |
| Primary credit (Discount Window) | 5.374 | 4.374 | 4.191 | 4.414 | 0.011 | 5.363 |
| 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 | 1.357 | 1.406 | 1.406 | 1.407 | | |
| Main Street Lending Program | 4.263 | 4.259 | 4.254 | 4.250 | | |
| 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 | 0.049 | 0.041 | 0.040 | 0.046 | 0.058 | -0.009 |
| **Federal Reserve Total Assets** | 6657.1 | 6652.9 | 6654.2 | 6669.5 | 4360.0 | 2297.051 |
| ~~3-month Libor %~~ SOFR % | 4.39 | 4.39 | 4.36 | 4.31 | 1.15 | 3.240 |
| **Factors draining reserves** | | | | | | |
| Currency in circulation | 2411.223 | 2412.746 | 2407.523 | 2403.844 | 1818.957 | 592.266 |
| Term Deposit Facility | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| U.S. Treasury Account at Fed | 667.585 | 661.939 | 595.798 | 526.063 | 372.337 | 295.248 |
| Treasury credit facilities contribution | 2.029 | 2.029 | 2.029 | 2.029 | | |
| Reverse repurchases w/others | 29.400 | 17.923 | 34.744 | 34.999 | 1.325 | 28.075 |
| **Federal Reserve Liabilities** | 3506.164 | 3485.011 | 3437.382 | 3371.838 | 2580.036 | 926.128 |
| **Reserve Balances (Net Liquidity)** | 3150.913 | 3167.905 | 3216.851 | 3297.635 | 1779.990 | 1370.923 |
| Treasuries within 15 days | 25.923 | 21.921 | 51.346 | 54.667 | 21.427 | 4.496 |
| Treasuries 16 to 90 days | 190.640 | 195.647 | 162.597 | 158.447 | 221.961 | -31.321 |
| Treasuries 91 days to 1 year | 458.699 | 457.670 | 460.469 | 461.246 | 378.403 | 80.296 |
| Treasuries over 1-yr to 5 years | 1437.201 | 1437.140 | 1443.113 | 1442.905 | 915.101 | 522.100 |
| Treasuries over 5-yrs to 10 years | 502.447 | 502.433 | 500.833 | 500.801 | 327.906 | 174.541 |
| Treasuries over 10-years | 1586.006 | 1586.006 | 1583.994 | 1583.886 | 658.232 | 927.774 |
| Note: QT starts June 1, 2022 | Change | 9/10/2025 | 6/1/2022 | | | |
| U.S. Treasury securities | -1569.863 | 4200.916 | 5770.779 | | | |
| Mortgage-backed securities (MBS) | -604.600 | 2102.846 | 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 | | | | |




A 25 bps rate cut is discounted at the September meeting. More rate cuts are almost discounted in October and in December.

| **Fed funds futures call Fed policy** | | |
|---|---|---|
| Current target: September 12 -- 4.50% | | |
| Rate+0.17 | Contract | Fed decision dates |
| 4.230 | Oct 2025 | Sep 17* |
| 4.035 | Nov 2025 | Adds Oct 29 |
| 3.785 | 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: August PCE inflation report Friday, September 26 at 830am ET** | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Monthly | 2025 | | | | | | | 2025 | 2024 | | | | | 2024 |
| % Changes | Aug | Jul | Jun | May | Apr | Mar | Feb | Jan | Dec | Nov | Oct | Sep | Aug | Jul | Jun |
| Core CPI inflation | 0.3 | 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 |
| Core PCE inflation | | 0.3 | 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 |
| Core PCE YOY | | 2.9 | 2.8 | 2.7 | 2.6 | 2.7 | 2.9 | 2.7 | 2.9 | 2.8 | 2.8 | 2.7 | 2.7 | 2.7 | 2.6 |
| Core CPI YOY | 3.1 | 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 |

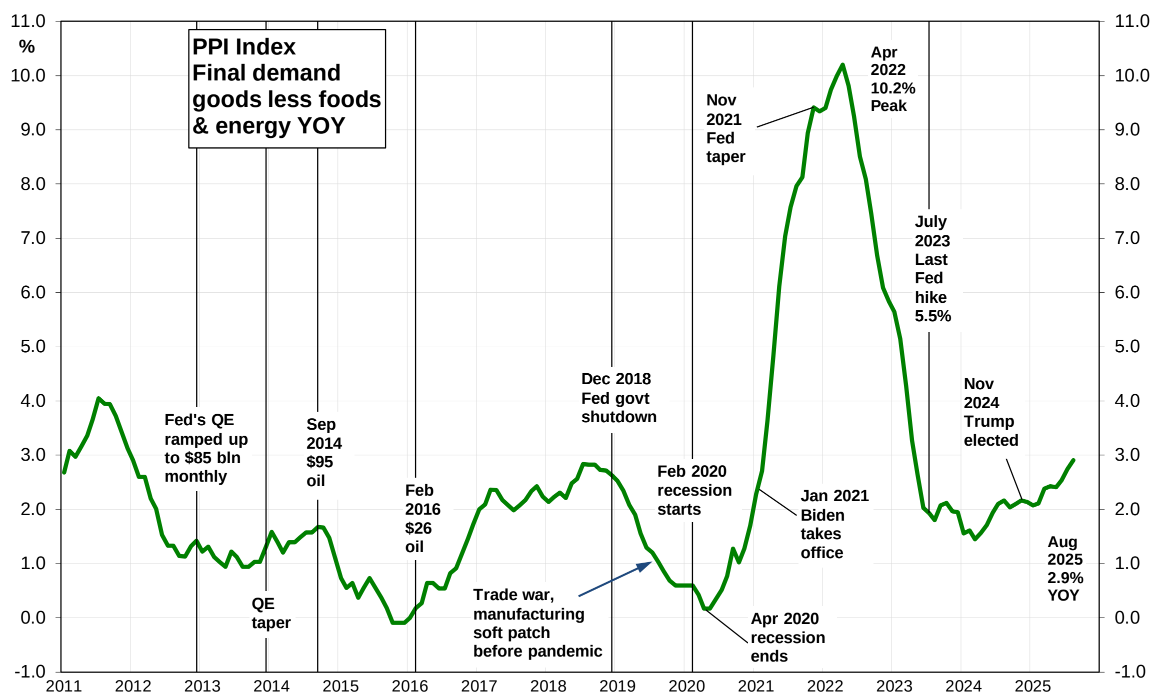
## OTHER ECONOMIC NEWS

### Inflation shock that is not (Wednesday)

Breaking economy news. Producer prices fell 0.1% in August versus expectations for a 0.3% increase and that was all the market needed to lift higher. Final demand finished consumer goods less foods and energy rose 0.4% in August; these goods have a 5.7% weight in the total index and had risen 0.2% in both June and July.

| 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 | 0.6 | 0.4 |
| Feb | 0.1 | 0.3 | 1.6 | -1.4 | 0.3 | 0.1 | -0.8 | 0.0 | 0.5 |
| Mar | -0.2 | -0.9 | -2.2 | -3.9 | 0.3 | 0.2 | 0.4 | -1.7 | 0.3 |
| Apr | -0.3 | 0.0 | -0.9 | -0.3 | 0.3 | -0.3 | -0.2 | 0.0 | -0.4 |
| May | 0.4 | 0.1 | 0.0 | -0.4 | 0.3 | 0.5 | 1.5 | 0.0 | 0.1 |
| Jun | 0.1 | 0.3 | 0.1 | 1.1 | 0.2 | -0.1 | -0.2 | -0.8 | 0.1 |
| Jul | 0.7 | 0.6 | 1.4 | 0.7 | 0.4 | 0.7 | 1.0 | 0.9 | 0.6 |
| Aug | -0.1 | 0.1 | 0.1 | -0.4 | 0.3 | -0.2 | -1.7 | 0.9 | 0.3 |
| | | **Final demand goods, less foods and energy is old-fashioned PPI | | | | | | | |

Net, net, the inflation shock that was not is rocketing markets higher as inflation barely has a heartbeat at the producer level which shows the tariff effect is not boosting across-the-board price pressures yet. Economists will still caution markets that core producer goods prices are rising significantly at the producer level so the country is not out of the woods from the inflation threat. But the warnings are falling on deaf ears as far as investors are concerned. As time goes on one has to wonder if there are slow-growth reasons and weak economic demand that is keeping inflation in check. Stay tuned. There is almost nothing to stop an interest rate cut from coming now. Savers beware. Interest rates are coming down hard over the next year.

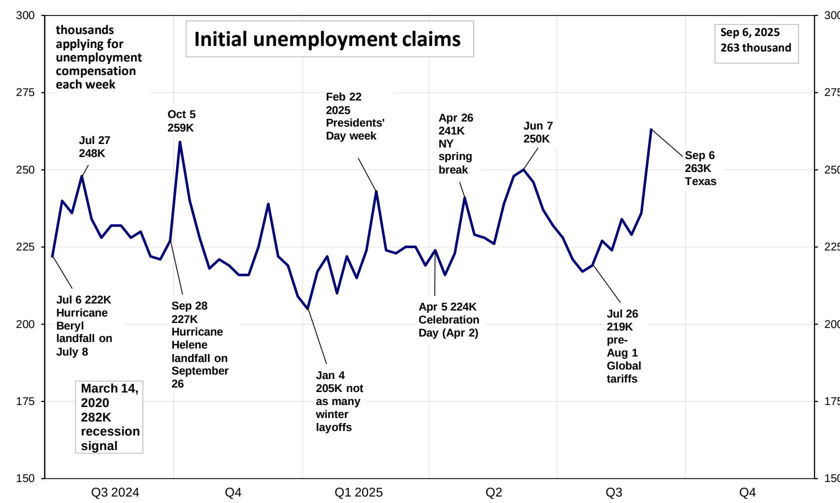


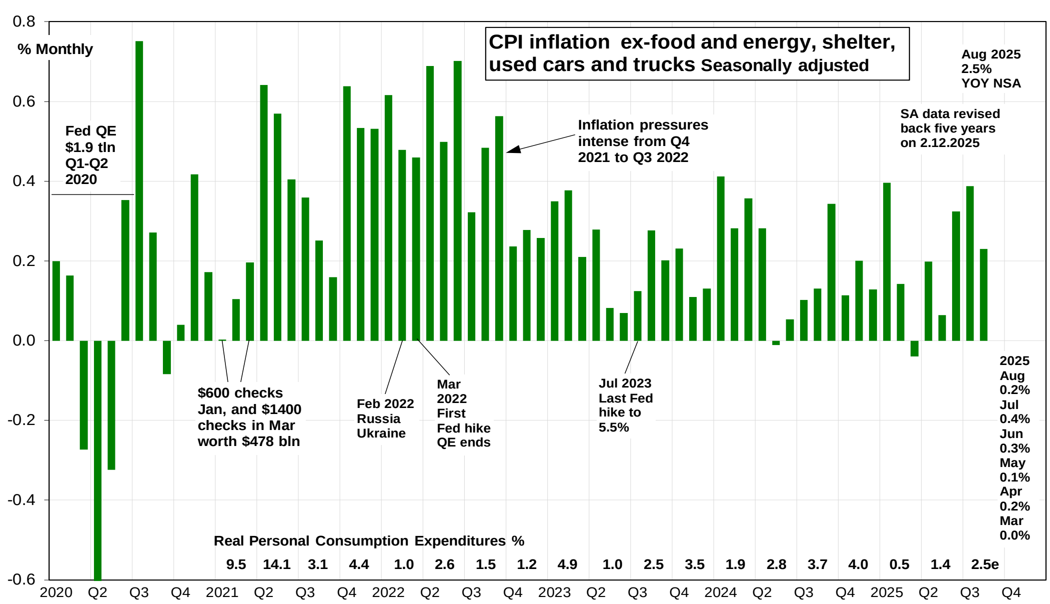
## Inflation hot or not (Thursday)

Breaking economy news. Jobless claims and CPI inflation. Headline CPI rose 0.4% in August and is 2.9% higher than a year ago, but the markets pronounced the data as benign and continue to embrace Fed rate cuts. Washington says inflation is low so that is all that matters. Jobless claims jumped 27K to 263K in the first week of September, keeping in mind the "recession-signal" before the pandemic recession was 282K in the March 14, 2020 week. Maybe the recession is just in Texas however, assuming the data still never lie.

| Jun 25 | | Monthly Percent Changes | | | YOY % |
|---|---|---|---|---|---|
| Weight | CPI inflation | Jun 2025 | Jul 2025 | Aug 2025 | Aug 2025 |
| 100.0 | Total | 0.3 | 0.2 | 0.4 | 2.9 |
| 13.691 | Food | 0.3 | 0.0 | 0.5 | 3.2 |
| 7.988 | Food at home | 0.3 | -0.1 | 0.6 | 2.7 |
| 5.646 | Food away from home | 0.4 | 0.3 | 0.3 | 3.9 |
| 6.453 | Energy | 0.9 | -1.1 | 0.7 | 0.2 |
| 2.968 | Gasoline | 1.0 | -2.2 | 1.9 | -6.6 |
| 79.914 | Ex-food & energy | 0.2 | 0.3 | 0.3 | 3.1 |
| 4.320 | New vehicles | -0.3 | 0.0 | 0.3 | 0.7 |
| 2.421 | Used cars/trucks | -0.7 | 0.5 | 1.0 | 6.0 |
| 2.493 | Clothing | 0.4 | 0.1 | 0.5 | 0.2 |
| 1.513 | Medical care goods | 0.1 | 0.1 | -0.3 | 0.0 |
| 35.418 | Shelter | 0.2 | 0.2 | 0.4 | 3.6 |
| 26.167 | Owner equiv. rent | 0.3 | 0.3 | 0.4 | 4.0 |
| 6.305 | Transportation | 0.2 | 0.8 | 1.0 | 3.5 |
| 6.750 | Medical care services | 0.6 | 0.8 | -0.1 | 4.2 |
| | Special: Where inflation might come back down to | | | | |
| 60.602 | Services ex-energy | 0.3 | 0.4 | 0.3 | 3.6 |
| 19.311 | Commodities (core) | 0.2 | 0.2 | 0.3 | 0.7 |

Net, net, consumer inflation is not red hot to the touch, but it is certainly showing no signs of a cool-down phase either any time soon. Fed officials are facing a real dilemma because it goes against central banking 101 that you cut interest rates while inflation is so far above the 2% target. There are some tariff tax effects here as well in August that are unsettling with new vehicles rising 0.3%, apparel up 0.5% and food at home is also jumping 0.6%. Core CPI rose the expected but too high 0.3% this month, but the three-decimal change of 0.346 shows it just missed a 0.4% print. Inflation is not dead, this could be still the early innings of a long game with the country facing possible months of higher and higher prices. The only saving grace in today's economic reports is the jump in layoffs from jobless claims which at 263 thousand is a level that screams recession. Markets are hoping for a better outcome for the economy however as 15,304 of the increase was just from the state of Texas, perhaps weather-related, and it was the Labor Day holiday which can make seasonal adjustment perilous. There are a lot of moving parts always, but if Texas did not rise 15,000, claims nationwide would have been about 245K.

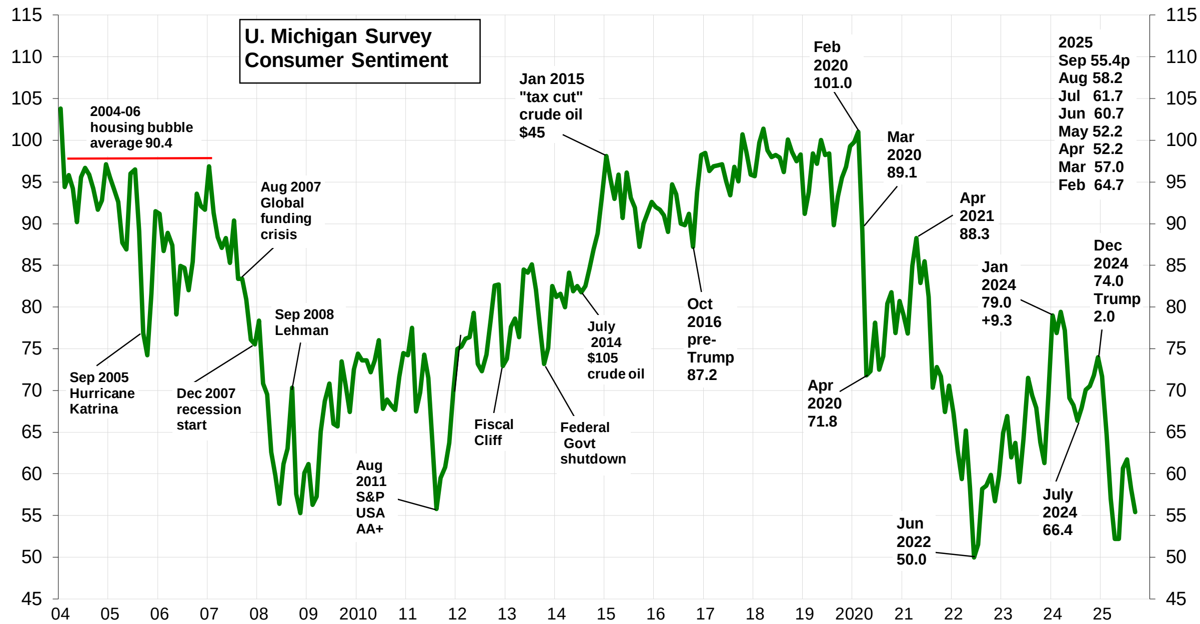


## Consumer isn't winning (Friday)

Breaking economy news. The preliminary September reading for consumer sentiment from the University of Michigan was 55.4 down from 58.2 in August. We used to believe that consumer sentiment followed along with the direction provided by the stock market, but apparently not. The final reading is Friday, September 26 at 10am ET. Year-ahead inflation expectations held at 4.8% again this month and there is a question how useful this is with August CPI inflation reported yesterday at 2.9% year-over-year.

Net, net, the hard truth out there in the country is that consumers do not think they are winning in this economy, especially those in the lower-to-middle income classes who believe business conditions and the labor markets look increasingly worrisome in early September. Tariffs are a concern and inflation expectations remain at elevated levels. Consumer spending has rebounded somewhat in the third quarter, but that recovery from a dismal first half of the year will not hold if diminished confidence makes consumers retreat from the shops and malls across America. The US economy faces risks in the view of the consumer and this makes a Fed rate cut all the more likely next week. If the consumer is not winning, the economy won't be either. Bet on it. Economic growth is set to stall.



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