

Financial Markets This Week

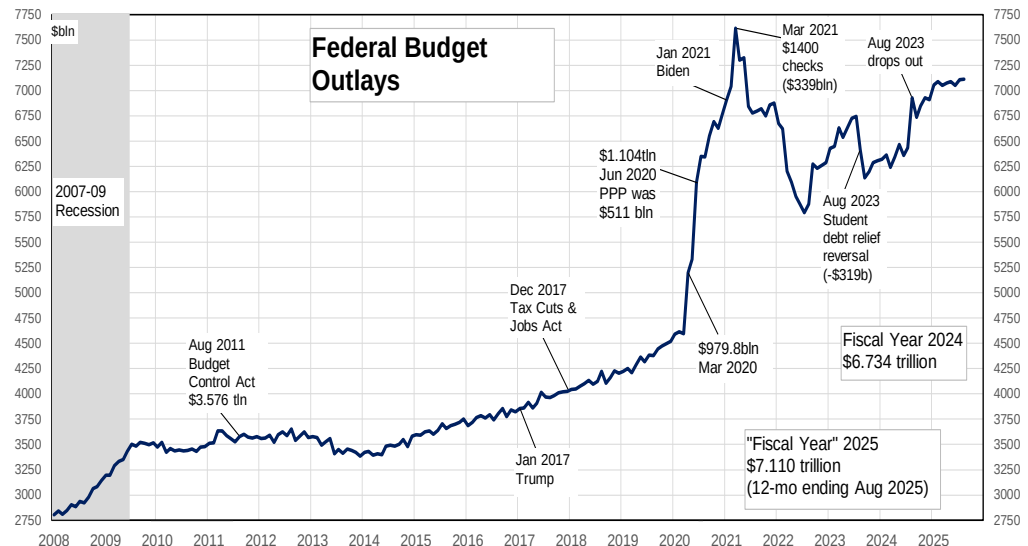
12 SEPTEMBER 2025

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

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

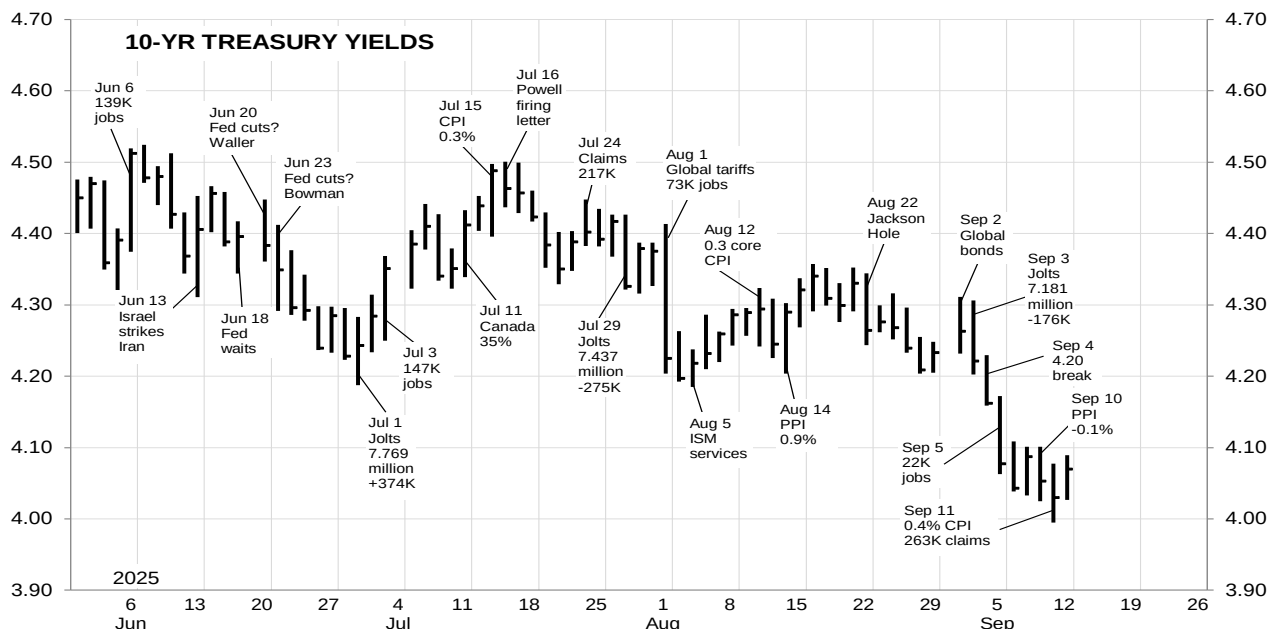
Aug 2025	\$trillion	Rate %
Bills	6.368	4.283
Notes	15.206	3.087
Bonds	5.085	3.311

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

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.

INTEREST RATES



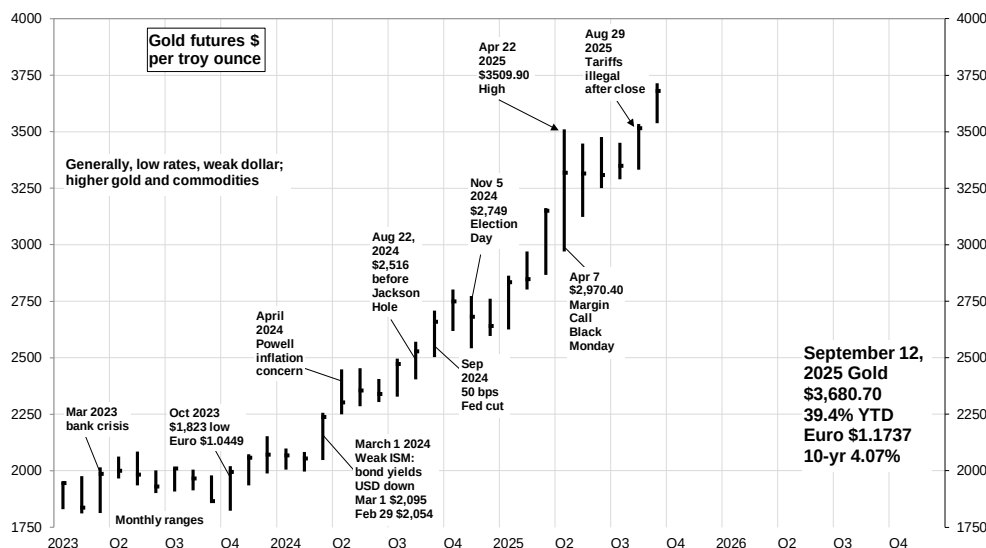
A record week for stocks. Tuesday's BLS announcement of a negative 911K revision to payroll employment came and went. It was -818K this time last year in the announcement, yet real consumer spending in the GDP reports was huge at 3.7%% in Q3 2024 and 4.0% in Q4 2024. All the changes down in Washington 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



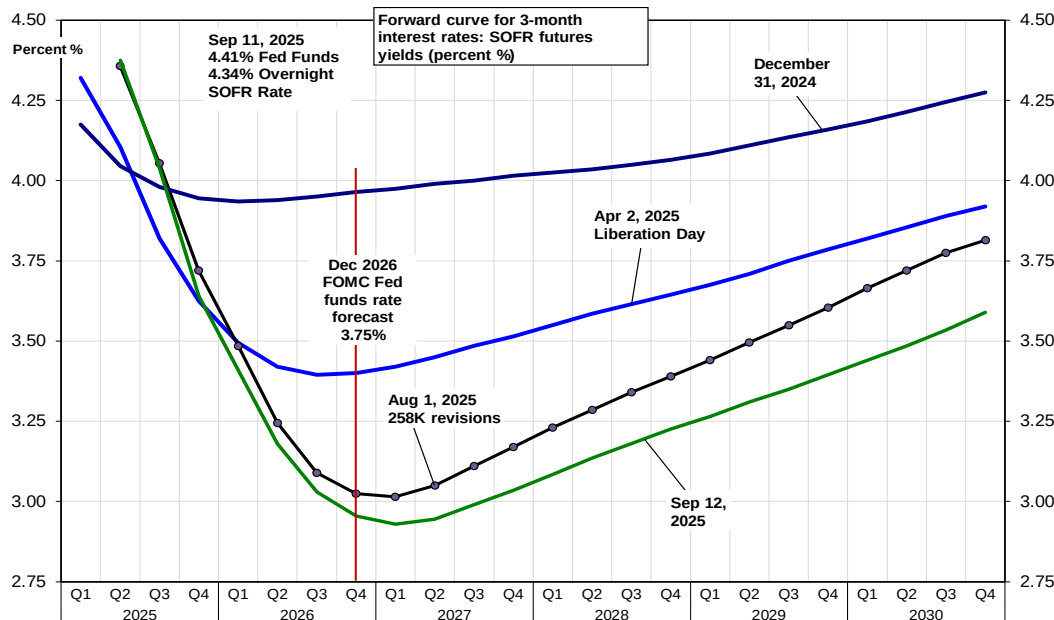
FEDERAL RESERVE POLICY

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 from 3/11/20 to Sep 10
Fed H.4.1 statistical release billions, Wednesday data	10-Sep	3-Sep	27-Aug	20-Aug	3/11/20*	1677.885
Factors adding reserves						0.000
U.S. Treasury securities	4200.916	4200.818	4202.351	4201.953	2523.031	731.000
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	-242.363
Mortgage-backed securities (MBS)	2102.846	2102.846	2102.846	2116.764	1371.846	5.363
Repurchase agreements	0.012	0.003	0.021	0.021	242.375	
Primary credit (Discount Window)	5.374	4.374	4.191	4.414	0.011	
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-yr 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 Term
	2025	2026	2027	
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	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	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)

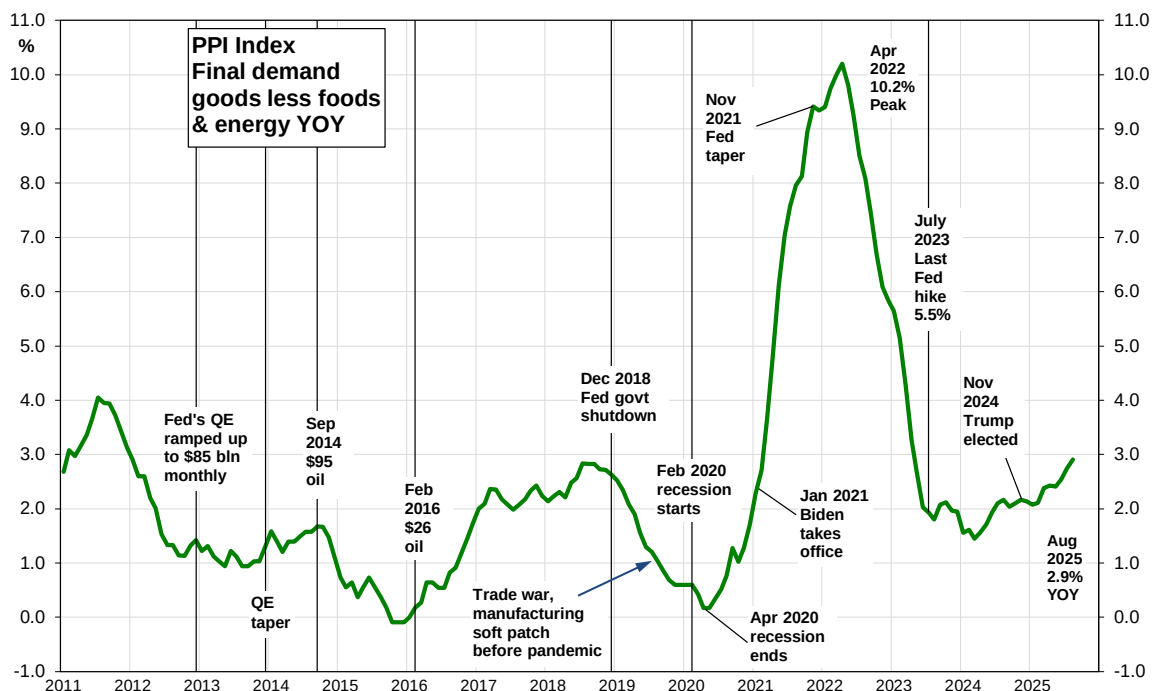
Breaking economy news. Producer prices fell 0.1% in August versus expectations for a 0.3% increase and that was all the market needed to lift higher. Final demand finished consumer goods less foods and energy rose 0.4% in August; these goods have a 5.7% weight in the total index and had risen 0.2% in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

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.

Monthly % SA Total final demand		Final demand goods				Final demand services				
		Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other	
2025	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								

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

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.



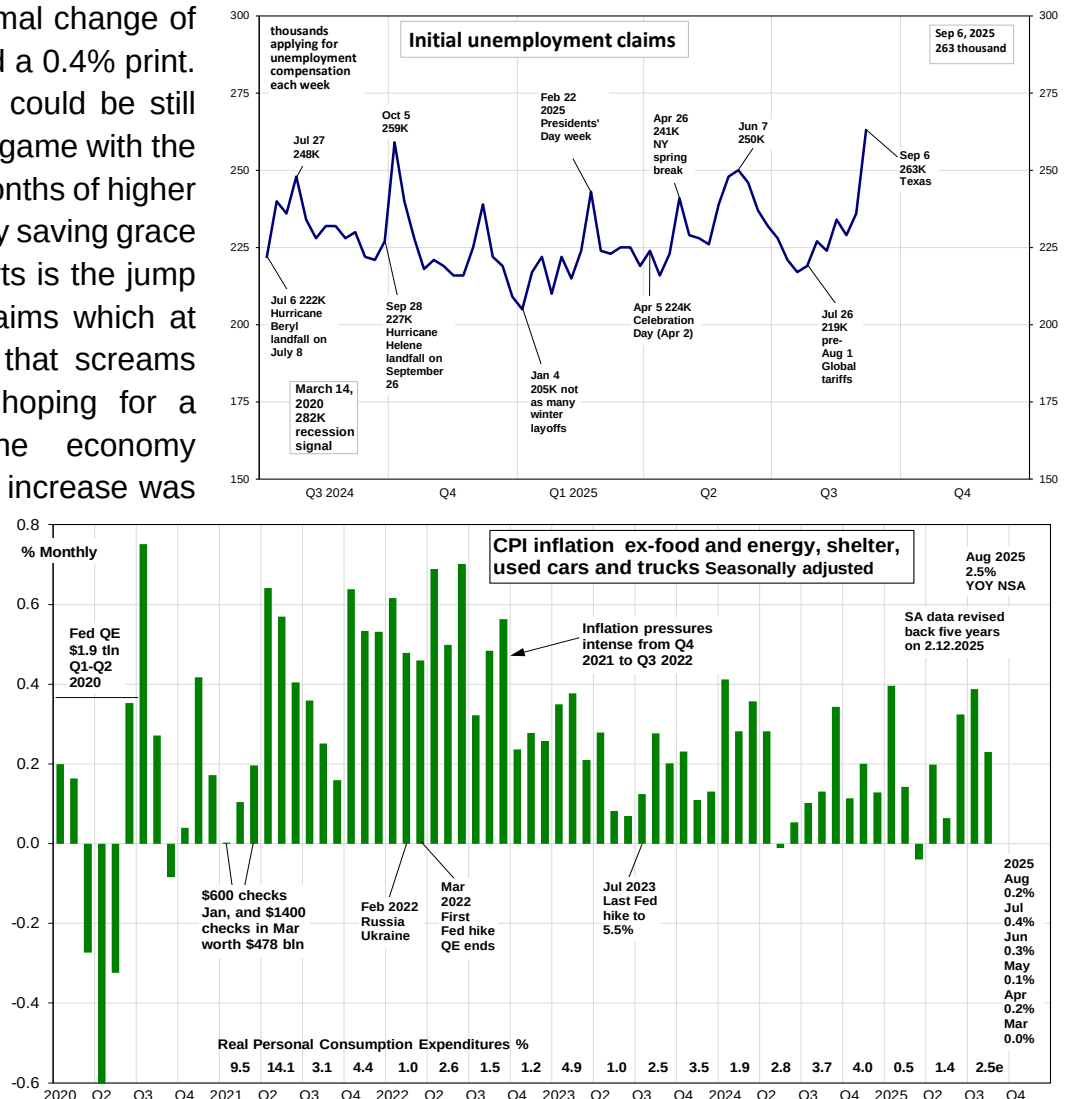
Inflation hot or not (Thursday)

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	Weight	CPI inflation	Monthly Percent Changes				YOY %
			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

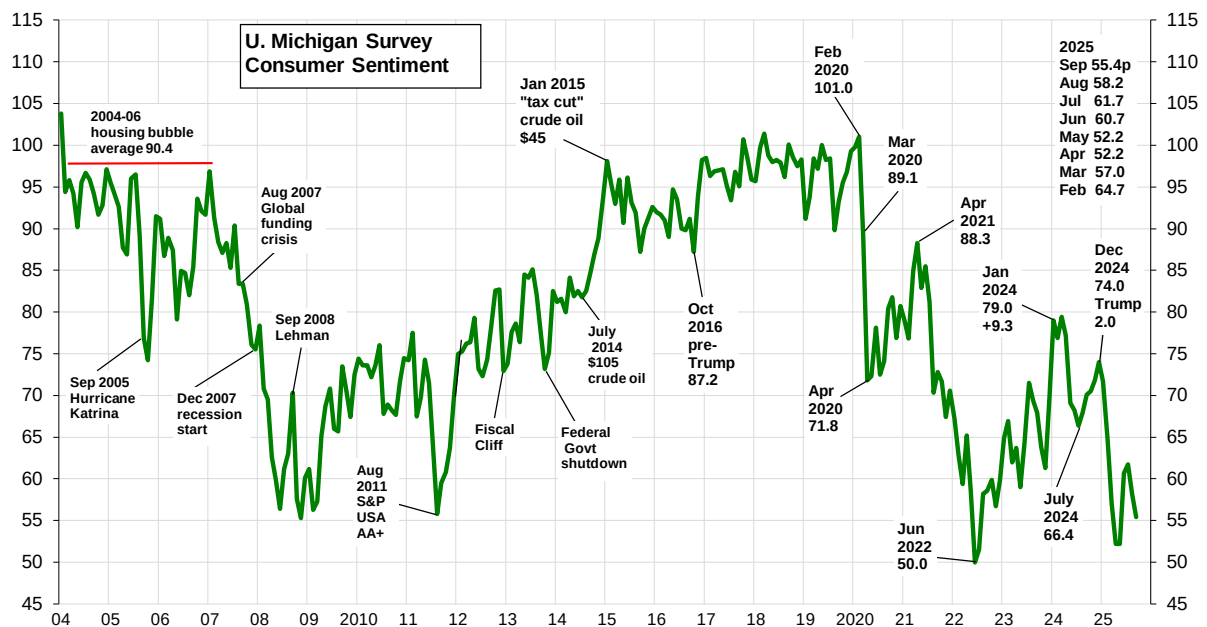
just from the state of Texas, perhaps weather-related, and it was the Labor Day holiday which can make seasonal adjustment perilous. There are a lot of moving parts always, but if Texas did not rise 15,000, claims nationwide would have been about 245K.



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.



Analyst Certification

The views expressed in this report accurately reflect the personal views of the research staff at FWDBONDS LLC, the primary analysts responsible for this report, about the subject securities or issuers referred to herein, and no part of such analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by FWDBONDS LLC should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by FWDBONDS LLC. FWDBONDS LLC hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While FWDBONDS LLC believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, FWDBONDS LLC makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that FWDBONDS LLC may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and FWDBONDS LLC is under no obligation to ensure that such other reports are brought to your attention.

Copyright 2025 FWDBONDS LLC All Rights Reserved

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor FWDBONDS LLC vouch for its accuracy, and such information may be incomplete or condensed. Neither the authors nor FWDBONDS LLC shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

Opinions, estimates, forecasts, and other views contained in this document are those of the FWDBONDS LLC research group, and does not necessarily represent the views of FWDBONDS LLC or its management. Although the Financial Markets This Week newsletter attempts to provide reliable, useful information, it does not guarantee that the information or other content in this document is accurate, current or suitable for any particular purpose. All content is subject to change without notice. All content is provided on an "as is" basis, with no warranties of any kind whatsoever. Information from this document may be used with proper attribution. Alteration of this document or its content is strictly prohibited. ©2025 by FWDBONDS LLC.

By the way, in the way of the usual disclaimers, this is a final legal reminder that there is no investment advice offered or given anywhere in this newsletter or on the fwdbonds.com website. These are just the things we would like to see before we save, invest, spend, and otherwise plan for the future, which of course is always uncertain.