

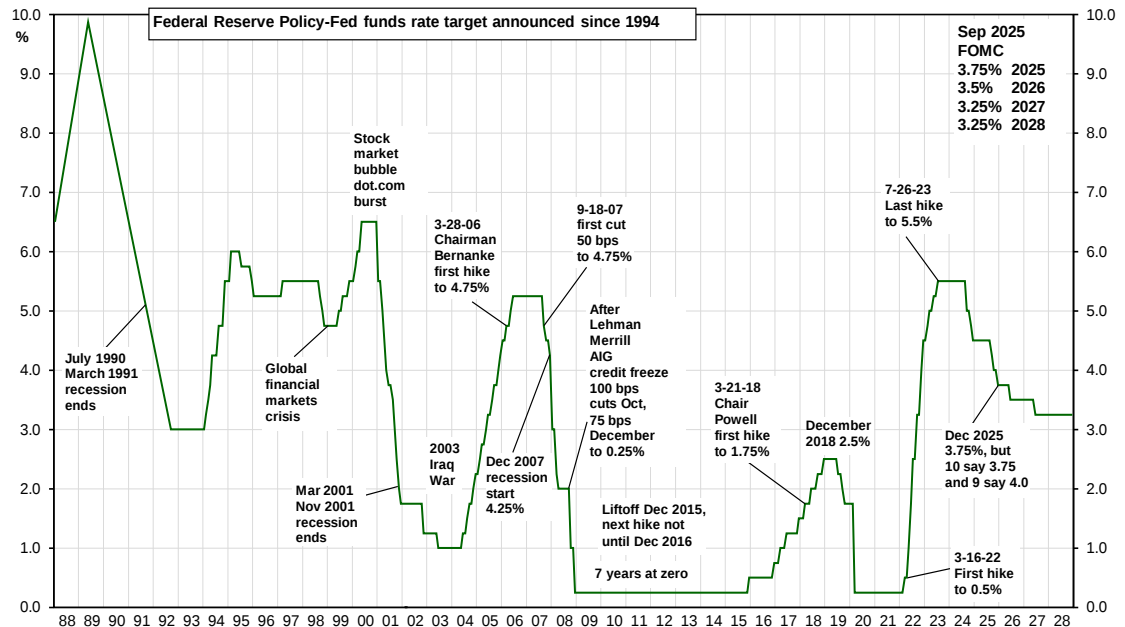
Financial Markets This Week

19 SEPTEMBER 2025

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FED CUTS RATES

It's not the journey, it's the destination. The Fed cut rates 25 bps to 4.25% on Wednesday 2pm ET, although the market reaction was volatile and confusing for bonds and stocks. Coming into the meeting Fed funds futures had almost completely discounted 25 bps cuts at the three remaining FOMC meetings this year to 3.75%. That's what we got in the Fed's announcement, but the vote is split with just 10 votes for 3.75% and nine for 4%, which is as narrow as you can get. It's not the journey, it's the destination. Fed forecasts see neutral rates at 3% with the funds rate still 3.25% at the end of 2028. Fed Chair wannabe Bullard says neutral is 3.25%, probably dooming his candidacy. Trump administration's man Stephen Miran joining this FOMC meeting the first time; apparently his new dot in the dot plot forecast was for 150 bps of cuts in 2025 to 3.0%, and perhaps 2.5% at the end of 2027. We guess this shows the way forward once the President makes whatever radical changes to the FOMC that he has in mind over the next year when Powell is gone. Fed funds futures on Friday still looking for two more cuts this year, the same as before the meeting.



Fed Individual Forecasts					
Fed funds rate at year-end					Longer
Votes	2025 End	2026 End	2027 End	2028 End	run
1	2.875	2.625	2.375	2.625	2.625
2	3.625	2.625	2.625	2.625	2.625
3	3.625	2.875	2.625	2.625	2.625
4	3.625	2.875	2.875	2.750	2.750
5	3.625	2.875	2.875	2.875	2.750
6	3.625	3.125	2.875	2.875	2.875
7	3.625	3.125	3.125	2.875	3.000
8	3.625	3.125	3.125	2.875	3.000
9	3.625	3.125	3.125	3.125	3.000
10	3.625	3.375	3.125	3.125	3.000
11	3.875	3.375	3.125	3.125	3.125
12	3.875	3.625	3.125	3.125	3.125
13	4.125	3.625	3.125	3.125	3.250
14	4.125	3.625	3.375	3.375	3.375
15	4.125	3.625	3.375	3.375	3.375
16	4.125	3.625	3.625	3.625	3.500
17	4.125	3.625	3.625	3.625	3.625
18	4.125	3.875	3.875	3.875	3.750
19	4.375	3.875	3.875	3.875	3.875
Median	3.625	3.375	3.125	3.125	3.000
Meeting	Sep 25	Sep 25	Sep 25	Sep 25	Sep 25

Fed funds futures call Fed policy

Current target: September 19 -- 4.25%

Rate+0.17	Contract	Fed decision dates
4.235	Oct 2025	Sep 17*

Rate+0.17	Contract	Fed decision dates
4.020	Nov 2025	Adds Oct 29

Rate+0.17	Contract	Fed decision dates
3.790	Jan 2026	Adds Dec 10*

*Not strictly true, Oct 2025 and Jan 2026 contracts could be two days at a new rate

Fed funds futures call Fed policy

Current target: September 12 -- 4.50%

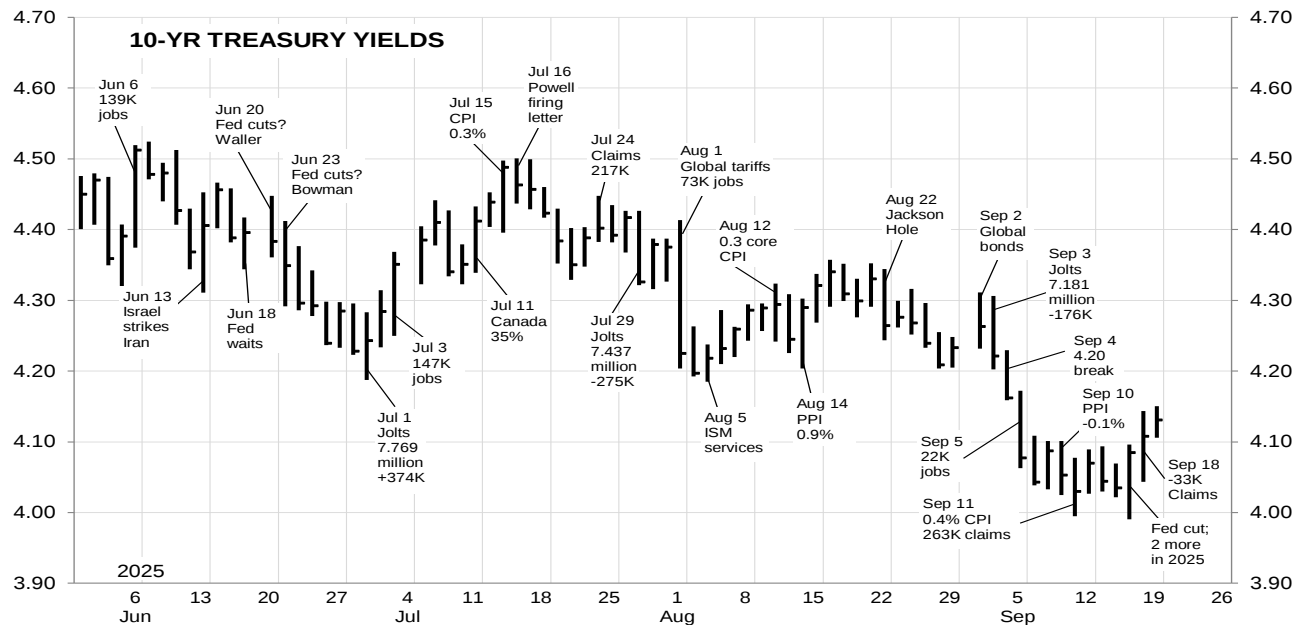
Rate+0.17	Contract	Fed decision dates
4.220	Oct 2025	Sep 17*

Rate+0.17	Contract	Fed decision dates
4.025	Nov 2025	Adds Oct 29

Rate+0.17	Contract	Fed decision dates
3.780	Jan 2026	Adds Dec 10*

*Not strictly true, Oct 2025 and Jan 2026 contracts could be two days at a new rate

INTEREST RATES

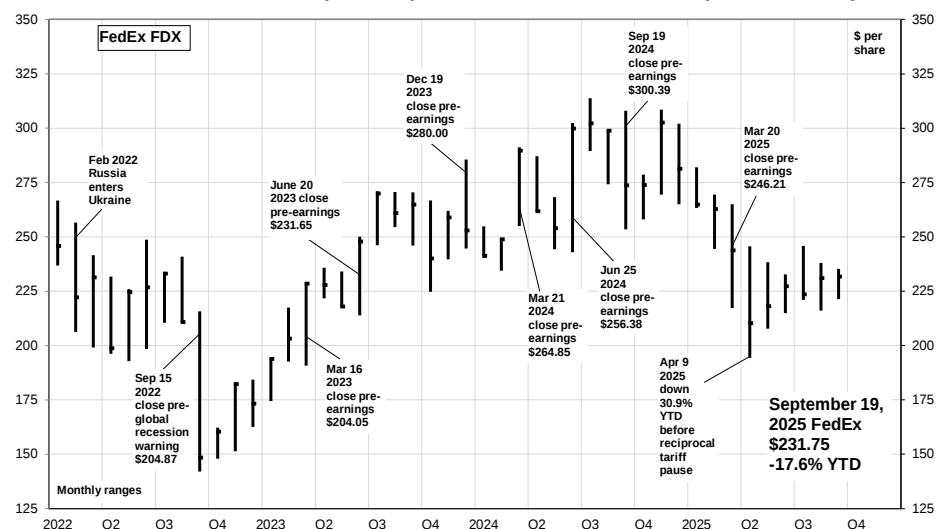


A confusing week for everyone except the stock market with the Friday S&P 500 record closing up 13.3% year to date. Tariff hikes will hit inflation any day now, but in the meantime the Fed cut rates 25 bps to 4.25% on Wednesday. Maybe 3.75% at the end of the year. Thanks a lot. That will leave a mark on the interest paid on retirees' savings accounts. Meanwhile, bond yields rose after the Fed rate cut, maybe in part as they are not sure how many more Fed rate cuts are coming. Bonds love a recession where the Fed lowers the boom on short-term interest rates and Powell isn't thinking of recession. Realistically bonds closed Friday at 4.13%, the new Fed target is 4.25%, why get out in front of where the Fed thinks it is going assuming the Fed still thinks. We used to wonder whether the bond market thinks. Next week we will be looking at benchmark GDP revisions Thursday. Stay tuned.

FedEx (FDX) earnings are okay, but the stock is down 17.6% YTD

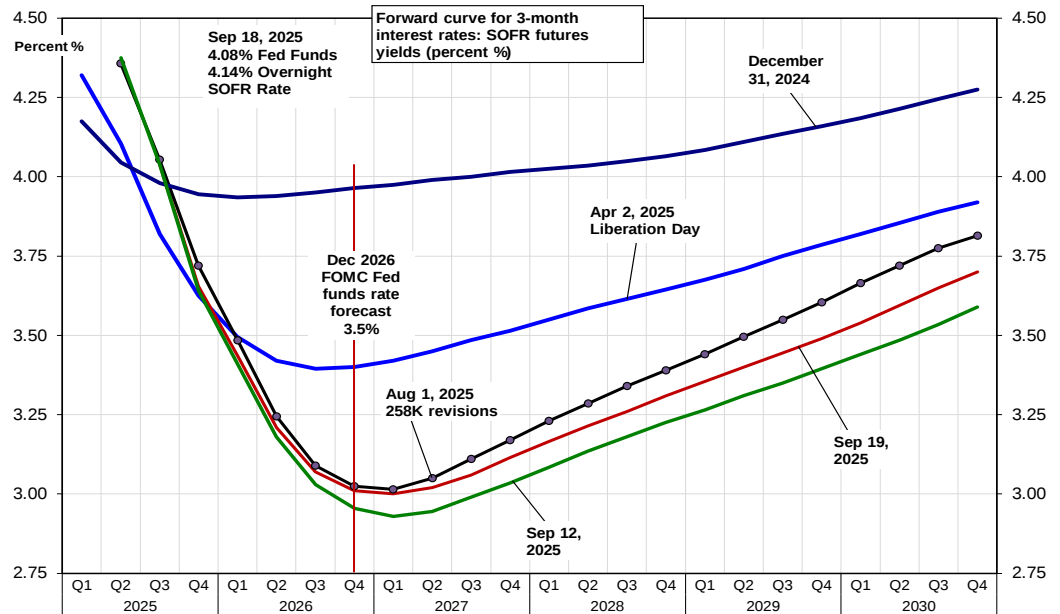
On Friday, the stock rallied 2.3% after earnings on Thursday evening (better than the 3.3% drop on last quarter's earnings). The share price is still down in the dumps this year. The year-to-date low on April 9 was down 30.9% before Trump announced the reciprocal tariff pause in the early afternoon. Earnings mostly had positive write-ups. The tariffs will hit earnings this year (8.31.25 is first fiscal quarter), but it offered a full year forecast for revenues up 4-6 percent, where last quarter they said they could not give an annual forecast due to the uneven tariff roll-out.

Quarter	Operating Income \$bln			
	Total	Federal Express	FedEx Freight	Other; layoffs
8.31.25	1.186	1.138	0.360	-0.312
5.31.25	1.793	1.586	0.477	-0.270
2.28.25	1.292	1.294	0.261	-0.263
11.30.24	1.052	1.052	0.312	-0.312
8.31.24	1.080	0.953	0.439	-0.312
5.31.24	1.555	1.305	0.507	-0.257
2.29.24	1.243	1.173	0.341	-0.271



FEDERAL RESERVE POLICY

The Fed met September 16-17, 2025 to consider its monetary policy. The press statement had long said the committee is attentive to the risks on both sides of its dual mandate, and this week's [press statement](#) shifted to adding that "downside risks to employment have risen," so they cut rates 25 bps to 4.25%. Minor tweaks to core PCE inflation forecasts at 3.1% in Q4 2025; Powell said next week's August core PCE would be 2.9%.



Selected Fed assets and liabilities						Change from 3/11/20 to Sep 17
Fed H.4.1 statistical release billions, Wednesday data						
	17-Sep	10-Sep	3-Sep	27-Aug	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4201.064	4200.916	4200.818	4202.351	2523.031	1678.033
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2102.783	2102.846	2102.846	2102.846	1371.846	730.937
Repurchase agreements	0.001	0.012	0.003	0.021	242.375	-242.374
Primary credit (Discount Window)	5.533	5.374	4.374	4.191	0.011	5.522
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	0.948	1.357	1.406	1.406		
Main Street Lending Program	4.151	4.263	4.259	4.254		
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	0.051	0.049	0.041	0.040	0.058	-0.007
Federal Reserve Total Assets	6659.4	6657.1	6652.9	6654.2	4360.0	2299.340
3-month Libor % SOFR %	4.38	4.39	4.39	4.36	1.15	3.230
Factors draining reserves						
Currency in circulation	2409.267	2411.223	2412.746	2407.523	1818.957	590.310
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	807.142	667.585	661.939	595.798	372.337	434.805
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	13.963	29.400	17.923	34.744	1.325	12.638
Federal Reserve Liabilities	3639.013	3506.164	3485.011	3437.382	2580.036	1058.977
Reserve Balances (Net Liquidity)	3020.352	3150.913	3167.905	3216.851	1779.990	1240.362
Treasuries within 15 days	51.513	25.923	21.921	51.346	21.427	30.086
Treasuries 16 to 90 days	164.849	190.640	195.647	162.597	221.961	-57.112
Treasuries 91 days to 1 year	458.924	458.699	457.670	460.469	378.403	80.521
Treasuries over 1-yr to 5 years	1437.262	1437.201	1437.140	1443.113	915.101	522.161
Treasuries over 5-yr to 10 years	502.462	502.447	502.433	500.833	327.906	174.556
Treasuries over 10-years	1586.055	1586.006	1586.006	1583.994	658.232	927.823
Note: QT starts June 1, 2022	Change	9/17/2025	6/1/2022			
U.S. Treasury securities	-1569.715	4201.064	5770.779			
Mortgage-backed securities (MBS)	-604.663	2102.783	2707.446			

**March 11, 2020 start of coronavirus lockdown of country

Fed Policy-key variables

	2025	2026	2027	2028	Long Term
Fed funds	3.6	3.4	3.1	3.1	3.0
PCE inflation	3.0	2.6	2.1	2.0	2.0
Core inflation	3.1	2.6	2.1	2.0	
Unemployed	4.5	4.4	4.3	4.2	4.2
GDP	1.6	1.8	1.9	1.8	1.8
September 2025 median Fed forecasts					

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				

Next up: August PCE inflation report Friday, September 26 at 830am ET

Monthly	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	2.9e	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

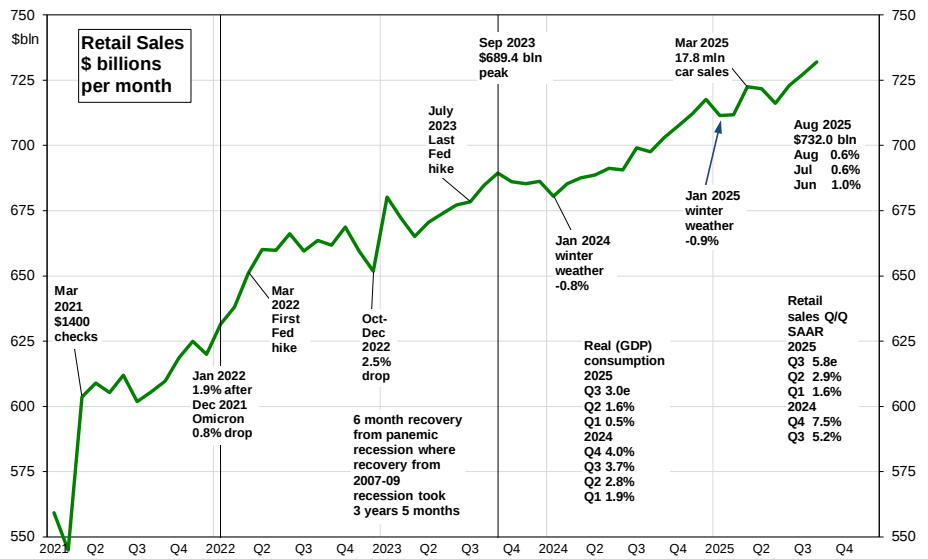
OTHER ECONOMIC NEWS

Consumer stays strong for now (Tuesday)

Breaking economy news. Retail sales has picked up after the tariff-related downturns in April and May. The stock market is at record highs and consumers are spending more than one would think given the downbeat consumer sentiment and confidence surveys. 0.6% retail sales increases in July and August are solid. Retail sales are up 5.8% in the third quarter so far with one more month to go, and this strength is consistent with the strong real consumption figures in Q3 2024 (3.7%) and in Q4 2024 (4.0%). We forecast real consumer spending in Q3 2025 (to be reported on Thursday October 30) will increase 3.0%. No tariff effect yet, unless you think strong clothing sales the last two months were tariff-beater sales..

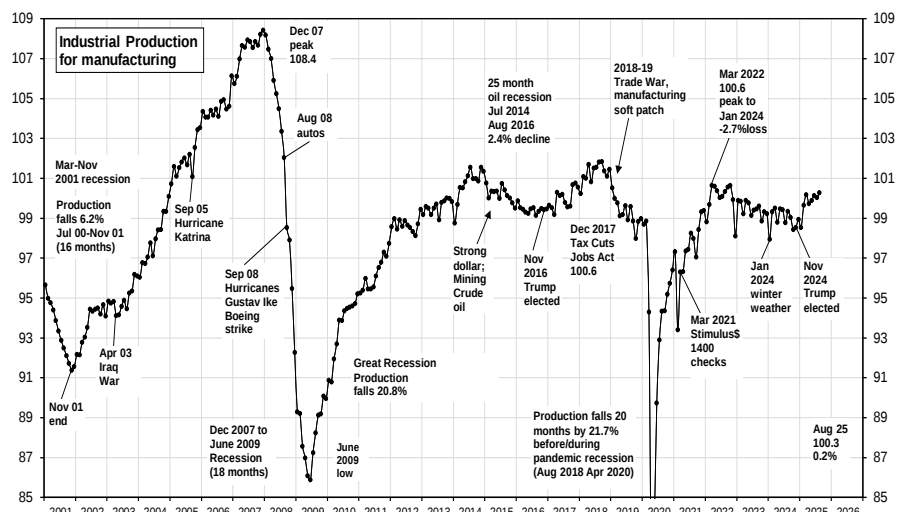
Net, net, the consumer hasn't pulled the plug on the economy yet, and until they do, growth will continue to chug along at a moderate pace that seems to defy gravity in the face of rising tariff costs and store-bought prices. Economic growth close to 3% this quarter makes one wonder why the Federal Reserve is considering cutting interest rates at all. If it ain't broke, don't fix it. The economy seems to be doing just fine for now and perhaps the slow-down in payroll jobs is one gigantic head fake when it comes to forecasting the economy. Consumer spending is resilient. Interest rate cuts do not need to be adjusted as the economy is sailing along just fine.

Manufacturing production peaked at 100.6 in March 2022, and is moving higher after the Boeing strike last September, with a jump in auto production in February.



Retail spending, actual dollars, each month

	\$million	% to	Percent Changes %		
	Aug	Total	Aug	Jul	Year/year
Total Retail Sales	732,010	100.0	0.6	0.6	5.0
Motor vehicles/parts	139,752	19.1	0.5	1.7	5.6
Furniture/furnishings	11,645	1.6	-0.3	1.6	5.2
Electronics/appliances	7,754	1.1	0.3	1.2	3.7
Building materials/garden	39,961	5.5	0.1	-0.9	-2.3
Food & beverage	85,175	11.6	0.3	0.5	3.2
Health/personal care	39,644	5.4	-0.1	0.4	5.1
Gasoline stations	51,673	7.1	0.5	0.9	-0.7
Clothing/accessories	27,183	3.7	1.0	1.4	8.3
Sporting goods, books	8,144	1.1	0.8	1.6	4.7
General merchandise	76,778	10.5	-0.1	0.0	1.9
Department stores	3,213	0.4	-0.8	1.1	-1.0
Miscellaneous retailers	14,976	2.0	-1.1	-0.2	10.7
Nonstore retailers (internet)	129,805	17.7	2.0	0.6	10.1
Eating & drinking places	99,520	13.6	0.7	-0.1	6.5
[Total ex-autos/gas]	540,585	73.8	0.7	0.3	5.4

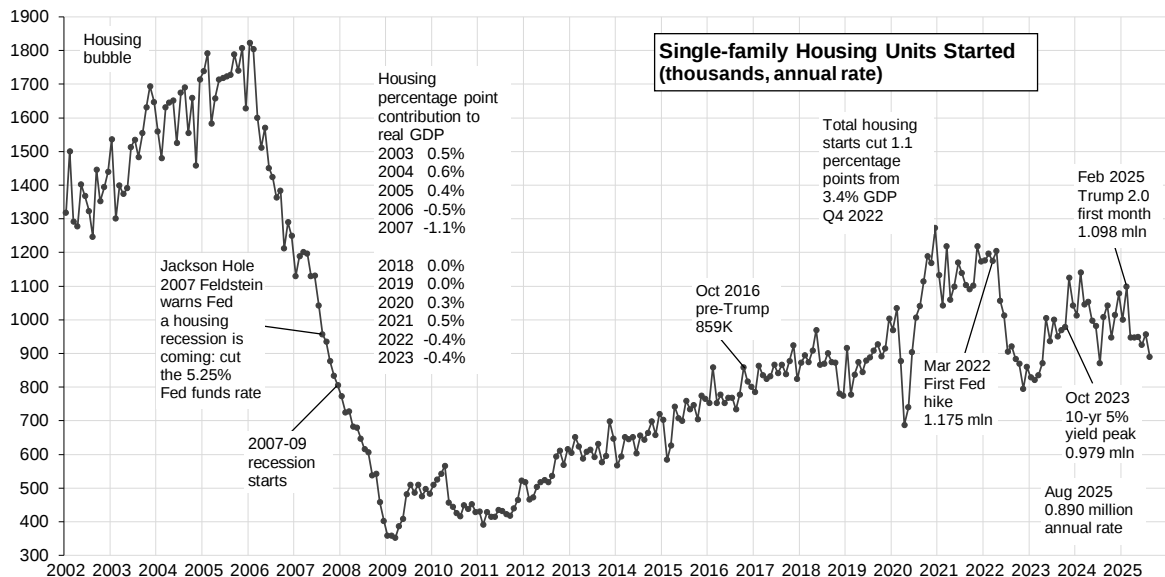


Housing falls in August (Wednesday)

Breaking economy news. Housing starts tumbled 8.5% in August to 1.307 million at an annual rate. Single-family starts fell 7.0% in August to 890 thousand at an annual rate, but only the South declined sharply, by 17.0%, and every other region of the country rose.

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
Aug 2025	1307	890	403	107	74	220	132	667	497	313	187
Jul 2025	1429	957	453	98	52	247	122	844	599	240	184
Aug 2024	1391	1008	348	121	85	209	138	767	563	294	222
% Chgs											
Aug/Jul	-8.5	-7.0	...	9.2	42.3	-10.9	8.2	-21.0	-17.0	30.4	1.6
Aug/Aug	-6.0	-11.7	...	-11.6	-12.9	5.3	-4.3	-13.0	-11.7	6.5	-15.8

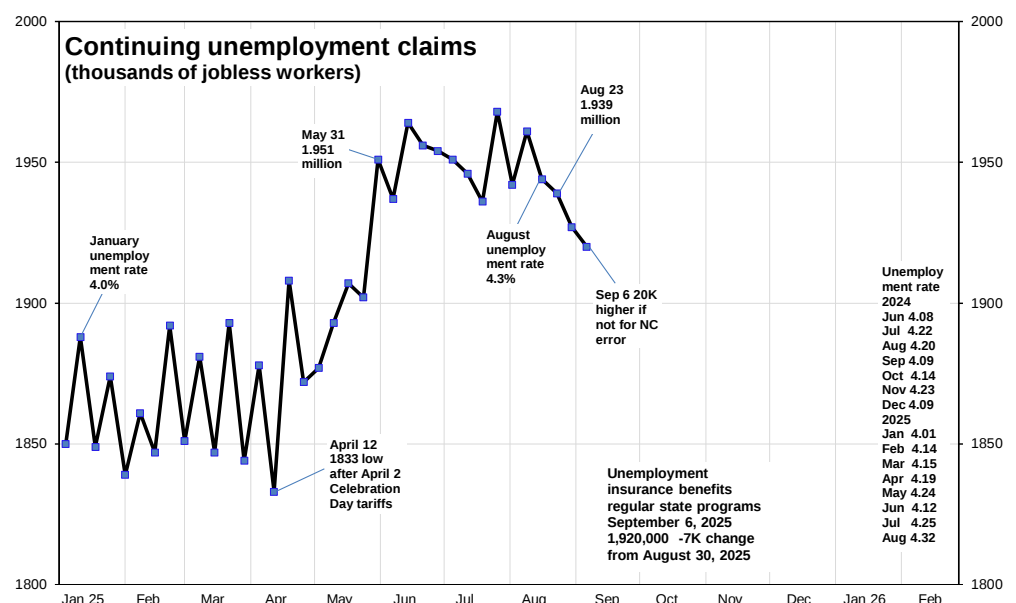
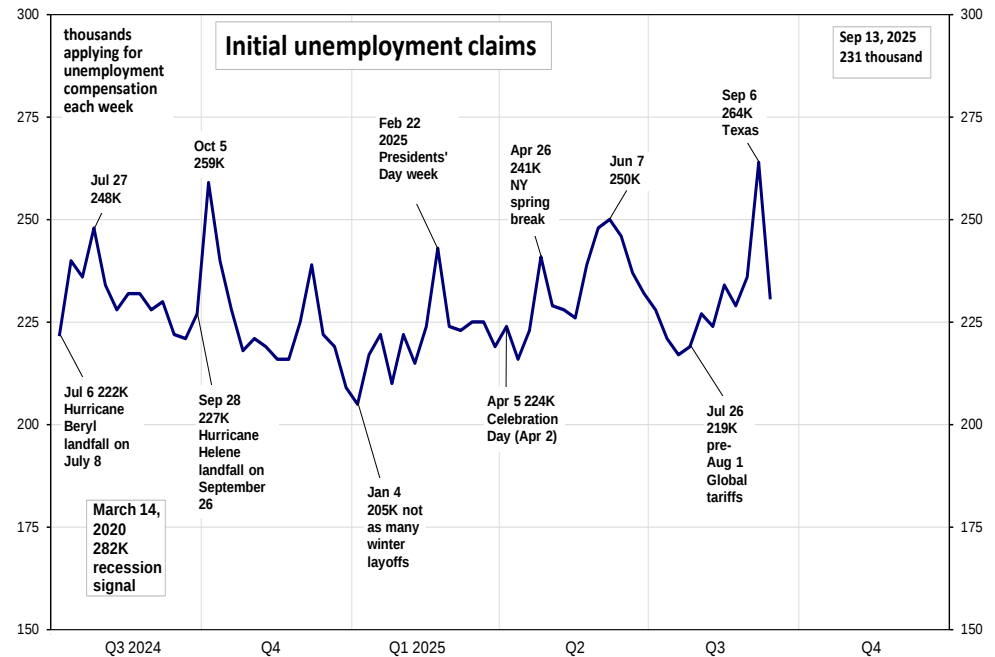


Recession red-alert sign taken down (Thursday)

Breaking economy news. First-time jobless claims fell back by 33K in the September 13 week to 231K as Texas claims fell back 5,012. Obviously there is more going on than just Texas where Texas in the September 6 week rose 18,609 against the 28K rise in nationwide claims to 264K. Meanwhile, continuing unemployment claims look like they fell further for a second week, but because of 20K of underreporting in North Carolina, the nationwide

number should be roughly where it was two weeks ago at 1.939 million in the August 23 week. The picture of the data here would have been consistent with a tenth drop in the 4.3% unemployment rate in the report for September due out on Friday, October 3.

Net, net, markets are resting easier as the recession red-alert signs were abruptly taken down with weekly jobless claims tumbling 33 thousand back to near-normal layoffs of 231 thousand in the September 13 week. There isn't a cloud in the sky when it comes to the recession weather forecast with retail sales at the shops and malls strong in the third quarter and actual not seasonally adjusted layoffs at bare minimum levels in the final weeks of summer. The Fed's worries about the labor market do not look as justified a day after the meeting and whether markets see another two interest rate cuts this year is an open question. The stock market is the most leading of leading indicators for the economic outlook and right now with stocks at record levels, recession shouldn't be on anyone's radar. Bet on it.



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