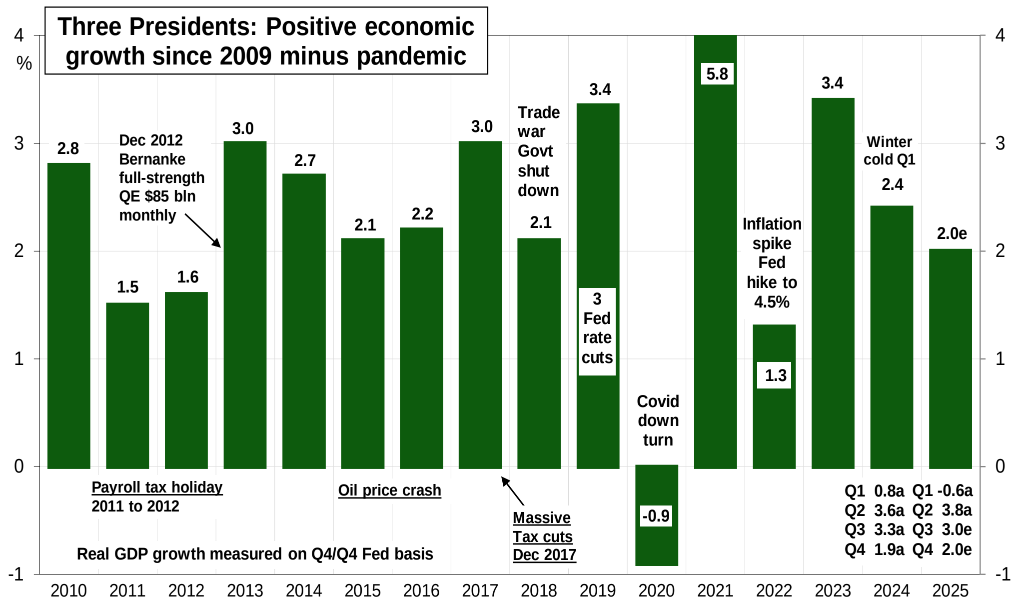
Financial Markets This Week

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

26 SEPTEMBER 2025

GDP STRONG



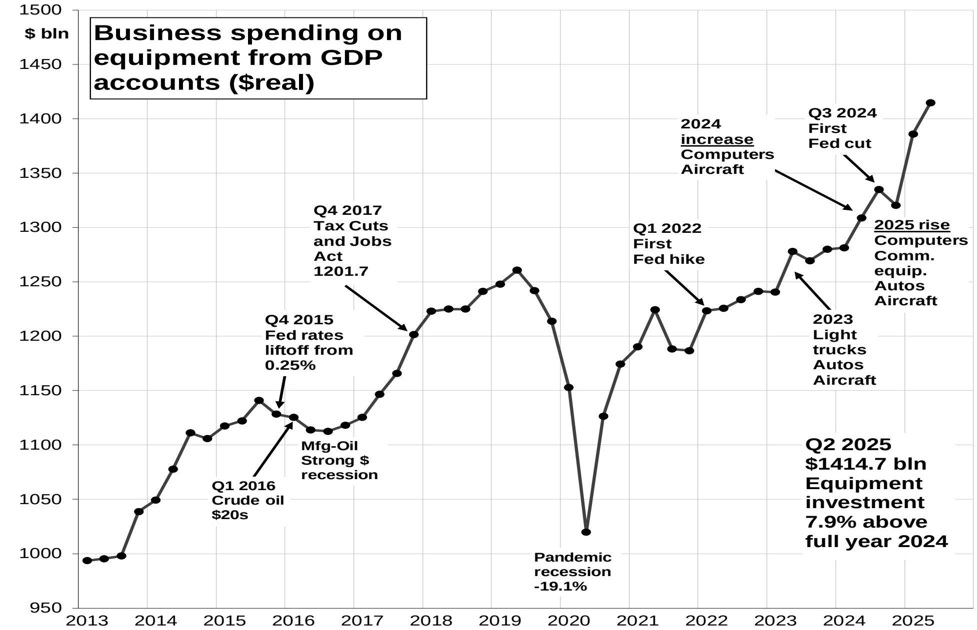
The question is how strong? The annual benchmark revision to the third estimate of the Q2 2025 GDP report on Thursday revised the data back to 2020. The annual growth for years 2022, 2023, 2024 were little changed. Q2 2025 real GDP was 3.3% and now it is revised to 3.8% thanks to real consumer spending. Same story. In the first quarter of 2025, import tariff avoidance drove imports up (subtracts from GDP "domestic" growth) with some of the goods increasing inventories which adds to growth. The process reversed, imports dropped, pushing GDP growth from -0.6% Q1 2025 to 3.8% Q2 2025 where the true growth potential is more like the average of the first half (-0.6 + 3.8)/2 equals 1.6%.

Real GDP and contributions		
Percent %	Q1 2025	Q2 2025
Real GDP	-0.6	3.8
Imports	-4.7	5.0
Inventories	2.6	-3.4

We thought we would look at a barometer of industrial confidence and that would be investment spending on equipment which is quite a long list and not just machinery and widgets. Some years the equipment surge is driven by light trucks. F-150. Who knew. Looking at the total $103.2 billion difference between Q2 2025 and the full year 2024 level, the standout changes fueling investment are computers and peripheral equipment (69.8), Aircraft (23.8), Communications equipment (15.3) and Medical

	How much business investment in equipment?					
Q2 25 -		Percent				
2024	**Real Fixed Investment in**	Q2 25	Q1 25	2024	2023	2022
103.2	**Nonresidential Equipment ($bln)**	1414.7	1386.0	1,311.5	1267.0	1231.1
98.3	Information processing equipment	615.6	598.8	517.3	490.1	509.3
69.8	Computers, peripheral equipment	244.8	217.1	175.0	146.4	158.0
15.3	Communications equipment	194.3	211.9	179.0	182.7	184.2
9.6	Medical equipment, instruments	127.2	125.6	117.6	116.7	118.7
1.1	Nonmedical instruments	34.7	34.5	33.6	34.5	36.0
0.0	Photocopy, related equipment	9.5	9.9	9.5	8.9	9.3
0.3	Office and accounting equipment	4.3	4.0	4.0	4.5	5.5
8.7	Industrial equipment	263.6	259.5	254.9	251.5	250.7
-0.4	Fabricated metal products	18.0	18.8	18.4	18.1	19.1
1.2	Engines and turbines	10.0	9.6	8.8	9.1	9.2
-0.6	Metalworking machinery	30.3	31.1	30.9	31.2	31.6
4.3	Special industry machinery	48.5	42.7	44.2	41.2	42.0
-1.1	General industrial (materials handling)	94.0	97.2	95.1	95.5	94.9
5.6	Electrical transmission/distribution	63.1	59.9	57.5	56.2	54.0
23.3	Transportation equipment	322.2	304.6	298.9	284.6	226.4
1.0	Trucks, buses, truck trailers	218.5	218.3	217.5	212.7	172.0
3.6	Light trucks	161.2	162.3	157.6	143.1	104.3
-6.5	Autos	65.4	68.1	71.9	61.6	19.6
23.8	Aircraft	61.7	45.3	37.9	31.8	26.2
0.3	Ships and boats	5.1	4.9	4.8	6.0	6.1
-4.0	Railroad equipment	10.3	11.1	14.3	12.9	11.3
-12.4	Other equipment	242.9	249.8	255.3	253.2	258.1
-1.1	Furniture and fixtures	42.1	43.9	43.2	41.9	44.4
-4.0	Agricultural machinery	28.5	27.8	32.5	31.7	39.6
-1.4	Construction machinery	47.0	45.2	48.4	49.9	43.8
-6.2	Mining, oilfield machinery	16.5	21.7	22.7	24.7	24.0
0.6	Service industry machinery	29.8	30.9	29.2	28.8	27.9
0.3	Electrical equipment	9.5	9.6	9.2	9.1	9.4
-1.1	Other	69.1	70.3	70.2	67.2	69.1

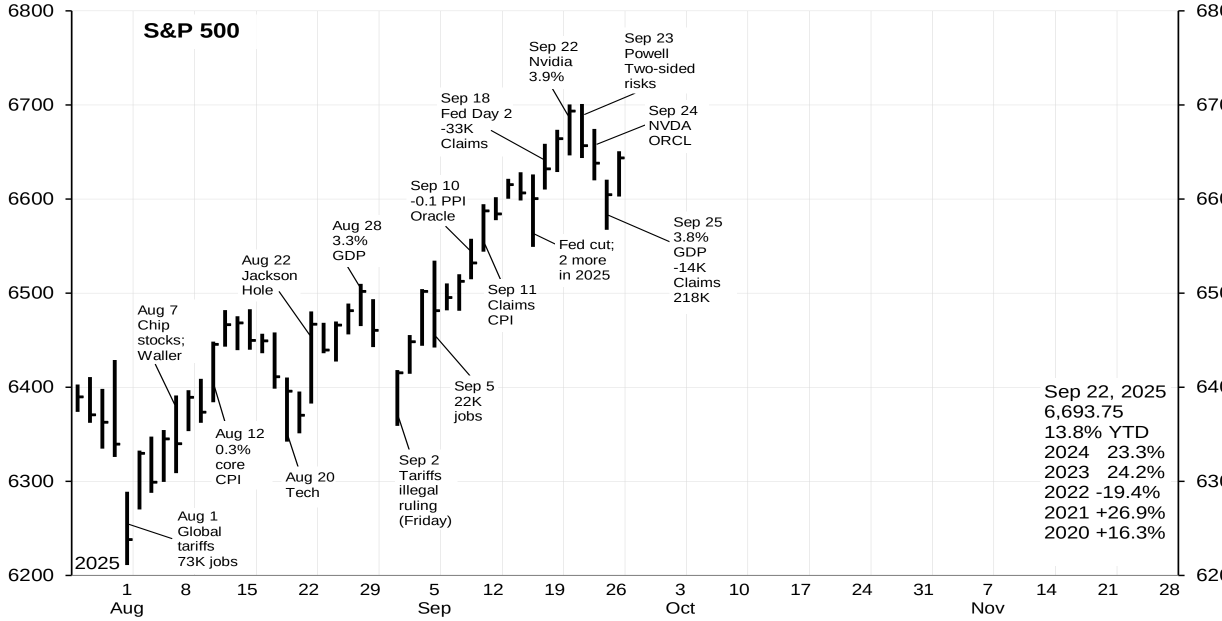
equipment, instruments (9.6). If you are fascinated with AI, Data centers not shown here, but part of Office spending within GDP structures investment, Data centers were $25.5 billion in Q2 2025 versus $19.7 billion for the full year 2024, taking the country by storm.



Is it just us, but is Chair Powell kinda downbeat on the consumer recently? Maybe he is just reciting the first half of the year trend. He'll be back to pushing the shopping cart at Costco soon enough and can look for himself. Anyway, real consumer spending was revised up to 2.5% in Q2 2025 (was 1.6%) after the cold winter 0.6% in Q1 2025. And Retail sales were on a tear, June, July, August and it is showing up in real consumer expenditures, the numbers released the day after the quarterly GDP figures each month in the personal income report along with the Fed's preferred inflation measure of core PCE inflation which came in as far above the Fed's 2.0% target as you could want, which invites press inquiries whether Fed officials still have a "heck-yes" 2% target given they just cut rates last week to 4.25%. Real consumption expenditures in August are 3.5% above Q2 2025, which is strong given the lack of motor vehicle purchases. Recreational goods and vehicles are up 25.6% in Q3 2025 on this basis. The increase here is mostly Computer software and accessories, which could be AI-driven, although personal computers, tablets and peripheral equipment is also up by a large percentage. Another product category that is increasing for several quarters now is Clothing and footwear up 11.7% in Q3 2025 as measured here. There is some shoes spending, but Women's and girls', and Men's and boys' clothing are contributing about equally. Children's and infants' clothing is down sharply. For the overall outlook, we will keep with a stronger 3.0% real GDP forecast for Q3 2025, released Thursday, October 30, stronger as we keep waiting for the higher tariffs to cripple consumers and businesses alike.

Real Consumer Expenditures & GDP SAAR Percent change: Q3 2025e is August over Q2 avg	**Q3 2025e**	**Q2 2025**	**Q1 2025**	**Q4 2024**	**Level $bln Q2 2025**
Gross domestic product (GDP)	--	3.8	-0.6	1.9	23,771.0
Personal consumption expenditures (PCE)	3.5	2.5	0.6	3.9	16,445.7
Goods	5.6	2.2	0.2	6.9	5,628.4
Durable goods	7.6	2.3	-3.4	13.0	2,132.2
Motor vehicles and parts	-0.6	9.7	-11.4	17.8	609.9
Furnishings and durable household equipment	0.6	-2.0	2.4	7.0	454.8
Recreational goods and vehicles	25.6	-2.5	0.8	15.4	798.9
Other durable goods	2.9	3.1	-0.8	6.4	307.0
Nondurable goods	4.5	2.2	2.2	3.8	3,507.9
Food and beverages for off-premises	3.1	0.2	1.1	2.1	1,180.6
Clothing and footwear	11.7	5.8	7.8	7.7	536.8
Gasoline and other energy goods	-1.9	-2.8	2.9	-2.1	318.1
Other nondurable goods	5.1	4.2	1.2	5.6	1,490.4
Services	2.6	2.6	0.8	2.5	10,842.3
Household consumption expenditures (for services)	2.8	3.1	1.4	3.0	10,446.6
Housing and utilities	-0.3	-0.2	2.7	1.1	2,701.7
Health care	2.4	4.8	2.9	3.5	2,915.3
Transportation services	6.7	7.0	0.5	1.8	515.8
Recreation services	8.1	3.9	-6.5	6.2	621.6
Food services and accommodations	2.6	5.9	-0.8	1.8	1,086.4
Financial services and insurance	4.6	4.8	-0.2	3.3	1,174.0
Other services	4.6	1.4	2.9	6.4	1,454.3
Final consumption nonprofit institutions	-2.3	-9.2	-10.7	-7.7	402.5

INTEREST RATES



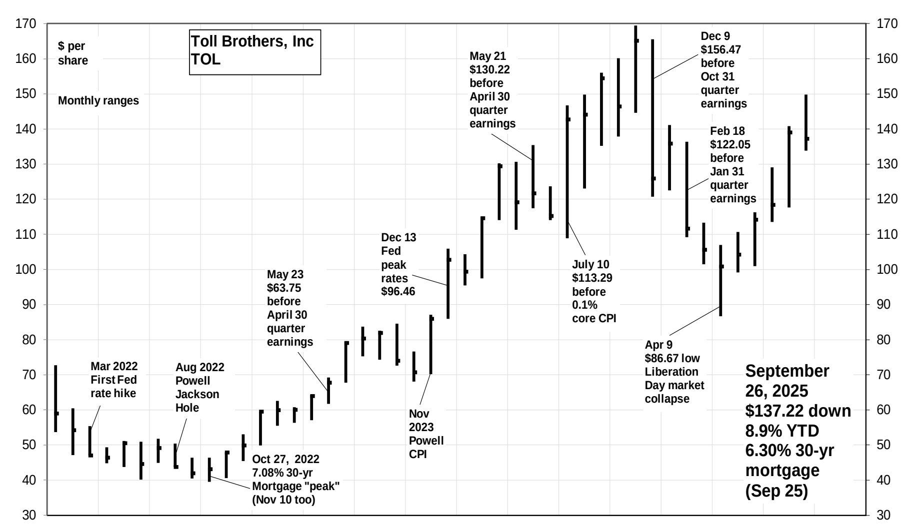
A new record high close on Monday with stocks up 13.8% YTD. Nvidia rallied the whole market after announcing a partnership with OpenAI. Powell said Tuesday that there were two-sided risks to the outlook which let some air out of the rally. We finally got a September stock market sell-off with the Tuesday S&P 500 high to Thursday low 1.9% loss. Thursday's 3.8% GDP and 14K drop in jobless claims to normal means no recession and less reason for Fed rate cuts unless you are a Trump appointee to the Board. All was forgiven on Friday for normal Trump 2.0 rally reasons: nothing to point to. The bond market only seems to know how to react to jobless claims falling a second straight week with 10-year yields moving to the week's high of 4.20%. Stay tuned. The monthly jobs report is ahead which may be difficult to interpret with the current immigration policy.

Toll Brothers, Inc. (TOL) up 8.9%, homebuilder ready for Fed rate cuts

The stock tried to rally 3.6% on August 20, the day after the earnings beat in the July 31 quarter, but fell back to unchanged. Powell at Jackson Hole sent the stock up 5.8% to $139.17 on August 22. After the Fed rate cut on September 17 the stock rallied 3.3% to as high as $145.96, but failed and closed lower. Housing buyers/sellers/builders are waiting for lower mortgage rates.

Quarter end	Home Sales $bln Revenue	Units	Home Starts	30-yr mortgage	Home Sales
4.30.23	2.490	2,492	871,000	6.43	665,000
7.31.23	2.670	2,524	1,001,000	6.81	702,000
10.31.23	2.950	2,755	979,000	7.79	681,000
1.31.24	1.930	1,927	1,013,000	6.69	681,000
4.30.24	2.650	2,641	1,053,000	7.17	719,000
7.31.24	2.720	2,814	871,000	6.78	710,000
10.31.24	3.260	3,431	948,000	6.72	621,000
1.31.25	1.840	1,991	1,000,000	6.95	662,000
4.30.25	2.710	2,899	948,000	6.81	706,000
7.31.25	2.880	2,959	957,000	6.72	664,000

Last month of quarter, 1 unit housing starts, new home sales

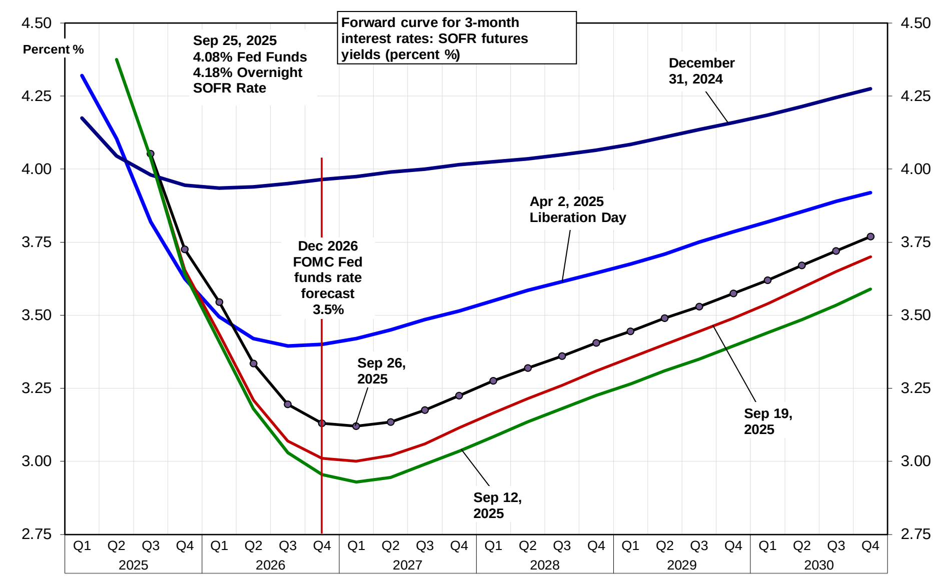


FEDERAL RESERVE POLICY

The Fed meets October 28-29, 2025 to consider its monetary policy. After a long press conference on September 17 you wouldn't think Powell had much to add on monetary policy in a Rhode Island speech on Tuesday, September 23. Maybe he did not have much to add, but the market thought he did. Something to do with two-sided risks, not so fast with the rate cuts, or some such. The speech did come after a few Fed officials did not sound friendly to more interest rate cuts because of the inflation threat, keeping in mind 7 officials' interest rate forecasts did not see the need for any more rate cuts this year after the 25 bps cut to 4.25% at the September meeting. All of this Fed forecasting business forgets that the radical winds of change are coming where Trump 2.0 newbie Fed gov Miran has said his dot-plot dot was for a 3.0% Fed funds rate at the end of this year. Hang on Savers. You are about to be thrown under a bus to help some homebuilders. At week's end, August core PCE inflation was reported at 2.9% just as Powell said it would be.

Selected Fed assets and liabilities Fed H.4.1 statistical release billions, Wednesday data	24-Sep	17-Sep	10-Sep	3-Sep	3/11/20*	Change from 3/11/20 to Sep 24
Factors adding reserves						
U.S. Treasury securities	4201.212	4201.064	4200.916	4200.818	2523.031	1678.181
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2099.215	2102.783	2102.846	2102.846	1371.846	727.369
Repurchase agreements	0.001	0.001	0.012	0.003	242.375	-242.374
Primary credit (Discount Window)	7.821	5.533	5.374	4.374	0.011	7.810
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	0.611	0.948	1.357	1.406		
Main Street Lending Program	4.155	4.151	4.263	4.259		
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	0.052	0.051	0.049	0.041	0.058	-0.006
Federal Reserve Total Assets	6659.2	6659.4	6657.1	6652.9	4360.0	2299.166
~~3-month Libor %~~ SOFR %	4.13	4.38	4.39	4.39	1.15	2.980
Factors draining reserves						
Currency in circulation	2410.199	2409.267	2411.223	2412.746	1818.957	591.242
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	757.970	807.142	667.585	661.939	372.337	385.633
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	29.172	13.963	29.400	17.923	1.325	27.847
Federal Reserve Liabilities	3659.500	3639.013	3506.164	3485.011	2580.036	1079.464
Reserve Balances (Net Liquidity)	2999.692	3020.352	3150.913	3167.905	1779.990	1219.702
Treasuries within 15 days	57.036	51.513	25.923	21.921	21.427	35.609
Treasuries 16 to 90 days	158.888	164.849	190.640	195.647	221.961	-63.073
Treasuries 91 days to 1 year	459.386	458.924	458.699	457.670	378.403	80.983
Treasuries over 1-yr to 5 years	1437.322	1437.262	1437.201	1437.140	915.101	522.221
Treasuries over 5-yrs to 10 years	502.476	502.462	502.447	502.433	327.906	174.570
Treasuries over 10-years	1586.104	1586.055	1586.006	1586.006	658.232	927.872
Note: QT starts June 1, 2022	Change	9/24/2025	6/1/2022			
U.S. Treasury securities	-1569.567	4201.212	5770.779			
Mortgage-backed securities (MBS)	-608.231	2099.215	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					



25 bps rate cuts ahead? All but 4.5 bps is discounted for October 29. All but 10 bps is discounted for December 10.

Fed funds futures call Fed policy		
Current target: September 26 -- 4.25%		
Rate+0.17	Contract	Fed decision dates
4.045	Nov 2025	Oct 29*
3.850	Jan 2026	Adds Dec 10*
*Not strictly true, Oct 2025 and Jan 2026 contracts could be two days at a new rate		

Next up: September CPI inflation report Wednesday, October 15 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	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2
Core PCE YOY	2.9	2.9	2.8	2.8	2.6	2.7	3.0	2.8	3.0	3.0	3.0	2.8	2.9	2.8	2.8
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

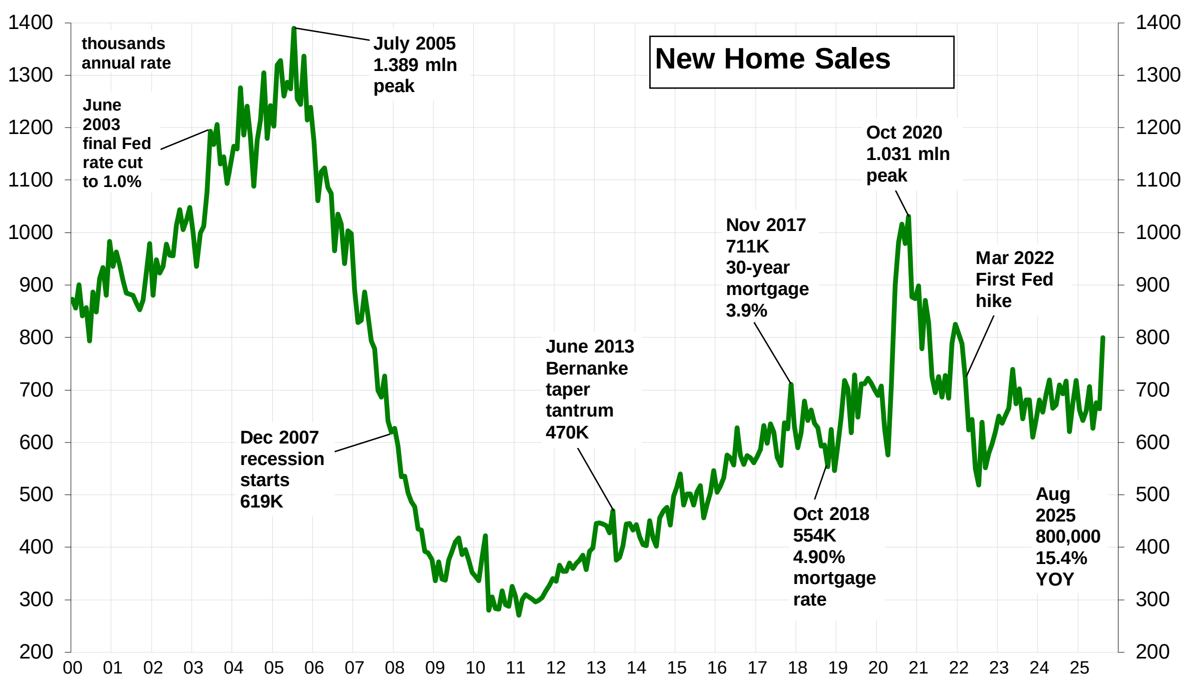
OTHER ECONOMIC NEWS

New home sales surge to a hot 800K in August (Wednesday)

Breaking economy news. We thought there was stormy, colder, wet weather in the largest market for new homes down in the South in August, but that did not stop new home sales. New home sales jumped to new high ground in August by increasing 20.5% to 800 thousand at an annual rate which is a nice round-number for revision. The sales down South increased 105K which was 77% of the nationwide increase of 136K in August. The data are hard to believe although new home sales are based on the date on which a sales contract is signed, so perhaps the market is responding to talk of rate cuts and mortgage rates were 6.56% in the August 28 week, better than 6.72% at the end of July.

Speaking of hard to believe is median new home prices of $413,500 in August which is lower than 2023 and in 2024. No housing bubble here, although other home price data show much higher prices.

New Home Sales						Median
	Total	Northeast	Midwest	South	West	Price $
2023 Year	666	33	68	412	153	428,600
2024 Year	686	34	80	413	158	420,300
May 2025	627	27	80	379	141	424,800
Jun	676	24	89	428	135	403,600
Jul	664	18	79	425	142	395,100
Aug	800	31	89	530	150	413,500
	Thousands at Seasonally Adjusted Annual Rate					



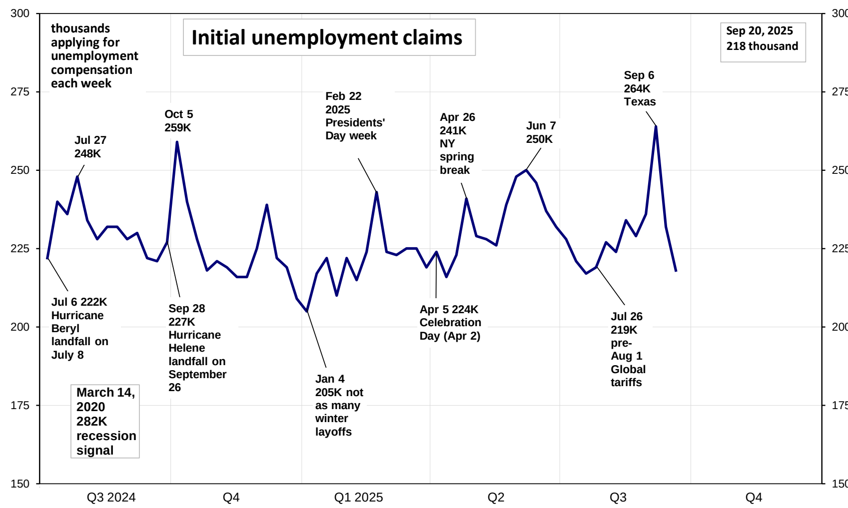
GDP revisions, Durable goods and Jobless claims (Thursday)

Breaking economy news. Lots of reports with markets seeming to like another drop (14K) in weekly jobless claims to non-recession levels of 218K in the September 20 week. The benchmark revision to GDP was less of a break with the past than we thought. It is curious that real consumption expenditures now look to be at a very fast pace under Biden with 3.9% or 4.0% in Q2-Q4 2025. Real GDP growth is now 3.8% in Q2 2025, up from 3.3%, but Federal nondefense spending was a 0.4 percentage point drag showing the spending cuts in Washington are having real economic effects and retarding growth. Finally, the durable goods report for August shows core capital goods orders continue to climb and are 0.3% higher than we thought last month after revisions.

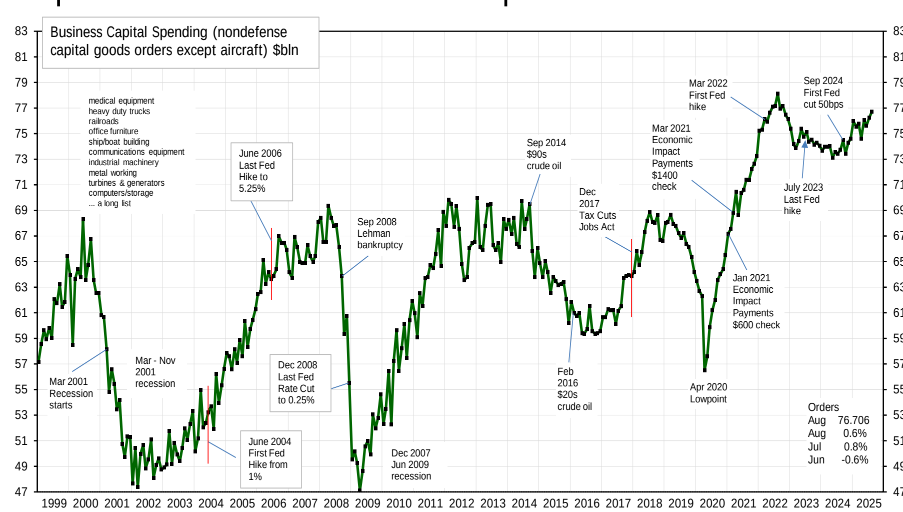
	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
REAL GDP	0.8	3.6	3.3	1.9	-0.6	3.8
REAL CONSUMPTION	1.7	3.9	4.0	3.9	0.6	2.5
CONSUMPTION	1.2	2.6	2.7	2.6	0.4	1.7
Durables	-0.1	0.6	0.6	0.9	-0.3	0.2
Nondurables	-0.2	0.6	0.7	0.5	0.3	0.3
Services	1.5	1.5	1.4	1.2	0.4	1.2
INVESTMENT	-0.3	1.4	0.2	-1.3	3.8	-2.7
Business Plant	-0.2	-0.1	-0.1	-0.3	-0.1	-0.2
& Equipment and	0.0	0.4	0.4	-0.2	1.0	0.4
Intellectual Property	0.4	0.0	0.1	0.0	0.3	0.8
Homes	0.3	-0.1	-0.2	0.2	0.0	-0.2
Inventories	-0.8	1.2	-0.1	-0.9	2.6	-3.4
EXPORTS	0.5	0.1	1.0	-0.1	0.0	-0.2
IMPORTS	-0.9	-1.1	-1.4	0.0	-4.7	5.0
GOVERNMENT	0.4	0.6	0.9	0.6	-0.2	0.0
Federal defense	-0.1	0.3	0.5	0.2	-0.3	0.0
Fed nondefense	0.2	0.0	0.1	0.1	-0.1	-0.4
State and local	0.3	0.3	0.4	0.3	0.2	0.3

Below line: Percentage point contributions to Q2 2025 3.8% real GDP

First estimate for Q3 is Thursday, October 30



Net, net, despite all the talk of recession in the air, the economy's path forward looks to be on firm ground with layoffs at normal churn levels, and key business capital equipment expenditures moving to new highs this year despite the tariffs or whether orders are trying to beat the tariffs, it is hard to tell. Real GDP revisions were less than expected with just a tenth difference in the last few full years. 2022 growth is still 3.0%, 2023 is 2.6% up from 2.5%, and 2024 is 2.9% up from 2.8%. The Administration's tariffs have slowed growth in the first half of 2025 to 1.6% where tariff avoidance led to an import surge in the first quarter to be swiftly reversed in the second quarter. For all the talk of consumer spending being on the soft side at 0.6% in Q1 and 2.5% in Q2, the third quarter could rival consumer expenditures under Biden with spending of 4.0% in Q3 2024 and 3.9% in Q4. If it ain't broke, don't fix it is all we can say as it is clear that the current level of Federal Reserve interest rates is not slowing the economy down and is not hurting the labor market either. If jobs growth is slowing down, it is not the economy that is the problem, it is the Trump 2.0 policies on immigration.

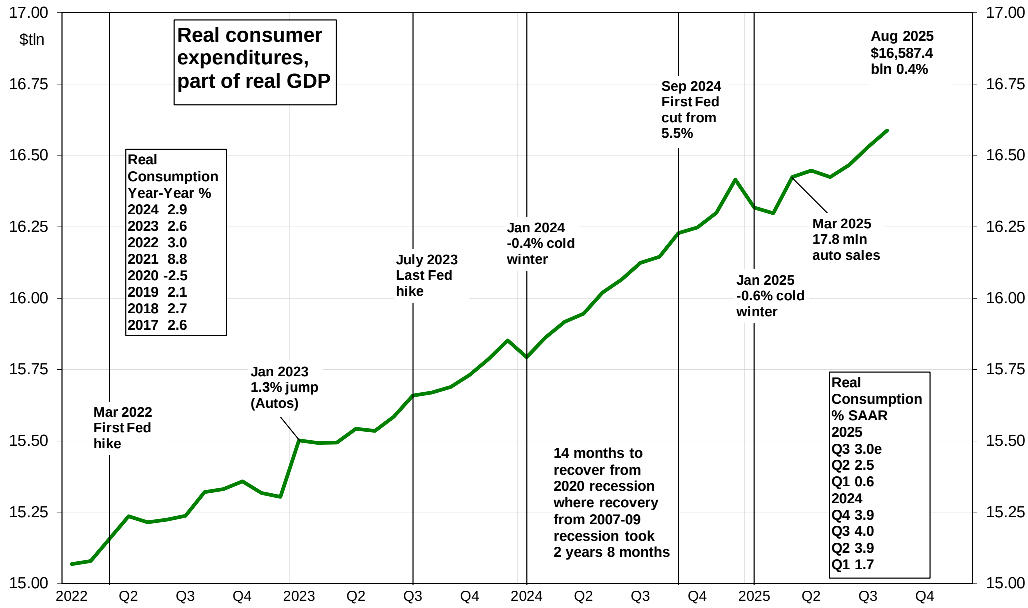


Consumer strong, core goods deflation (Friday)

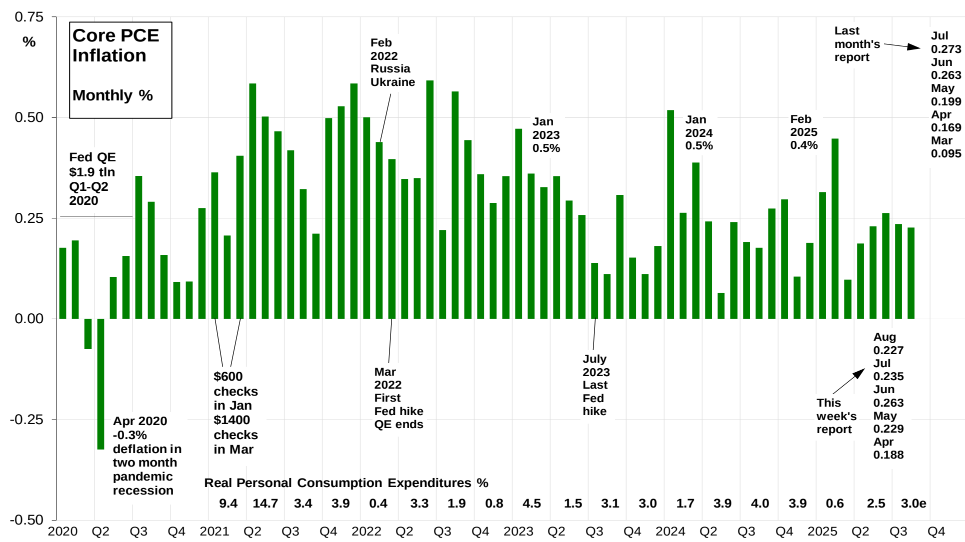
Breaking economy news. The personal income report for August with consumer spending and PCE inflation data. Data are revised back to 2020 the same as real GDP yesterday. Import tariffs are supposed to affect goods prices, but core PCE goods fell 0.1% in August after a flat July. Year-on-year is just 1.1%. Real consumer spending was strong, following retail sales out a couple of weeks ago. Real consumption expenditures were 0.4% higher in August, the same percentage change as July. If September spending is unchanged then the quarterly consumption will rise 3.0% following the 2.5% increase in Q2 2025 that was revised up from 1.6%. No recession… yet for those who make up "two thirds of the economy."

PCE Goods inflation ex-food & energy

								2025	2024		2024
2025	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct
Monthly %	-0.1	0.0	0.4	0.2	0.3	-0.3	0.4	0.4	-0.3	-0.1	0.1
Year-on-year %	1.1	1.1	1.0	0.6	0.2	0.0	0.3	0.2	-0.2	-0.2	-0.4



Net, net, consumers literally hit it out of the park with very strong gains in spending not just for August, but June and July as well. Summer was the time for consumer revenge spending after hunkering down in retreat from the shops and malls during the uncertainty and fear produced by the White House tariff rollout in April and May. Spending actually declined in May by 0.1%. Core inflation rose 2.9% in August as Powell said it would ahead of time, but the month-to-month increase was a more moderate 0.2%, showing that the import tariff effect has not yet made its appearance on stage although that is always subject to change in the month's ahead after Trump's announcement last night for tariffs on the chair you are sitting on and along with other furniture, big trucks and pharma too. Consumer spending is nearing a red hot reading of 3.0% in the third quarter which makes another Fed rate cut this year questionable. It isn't often that the central bank anywhere in the world would cut interest rates to fuel the economy with inflation this high, the stock market setting records, and economic growth at this strong of a pace. Stay tuned.



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.