Financial Markets This Week

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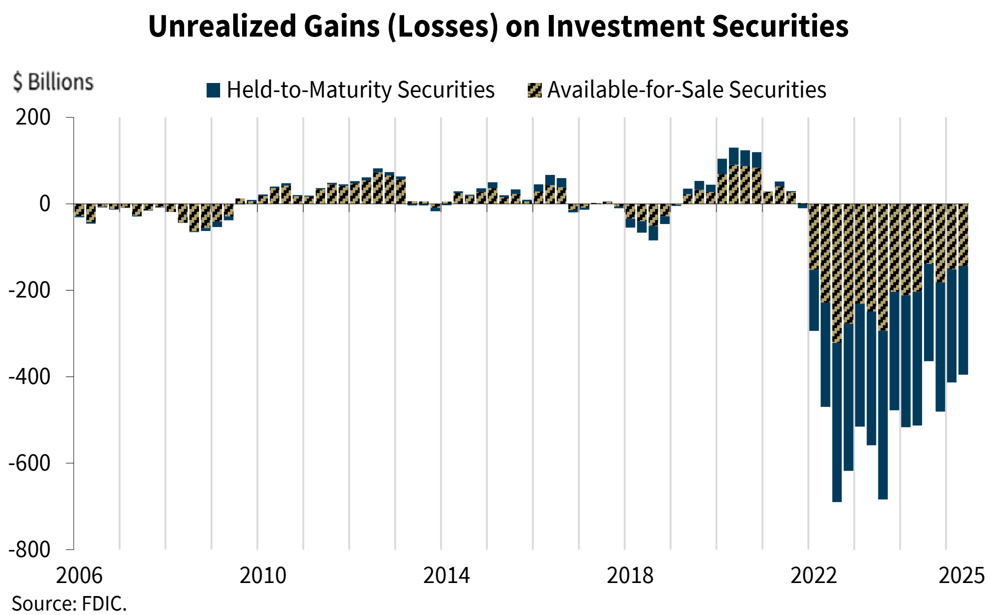
BANK LENDING



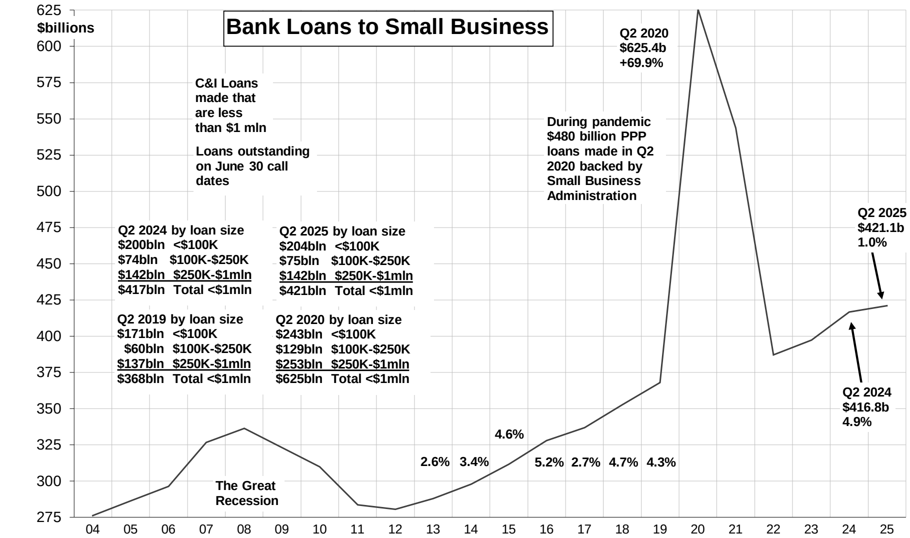
The market has all but forgiven that huge iceberg of underwater investment securities holdings by the FDIC insured banks. Unrealized losses were $395.3 billion in the second quarter of 2025, but bank share prices still say forget about it, just a number on a piece of paper. The Invesco KBW Bank ETF (KBWB) is up 12.5% YTD, and the latest annualized dividend yield off Friday's $73.55 close is 2.5%. Trump 2.0 is getting ready to lower the boom on interest rates any day now is the thought of bank investors perhaps. The investment securities losses kicked off after the Fed's first rate hike back in March 2022. Since the year 2000, the number of banks have been cut in half, but head count is up somewhat to 2.061 million. Deposits of $19.663 trillion in Q2 2025 have increased barely $100 million since Q2 2022, perhaps as higher "safe" returns are available elsewhere. Credit cards in the table here were $1.141 trillion in Q2 2025, but the graph from the Federal Reserve on the next page shows revolving consumer credit is slowing recently at $1.270 trillion in August 2025, down 2.5% from last year. Without credit, maybe consumer spending will weaken in the final three months of the year as expenditures were stll substantial in the third quarter.

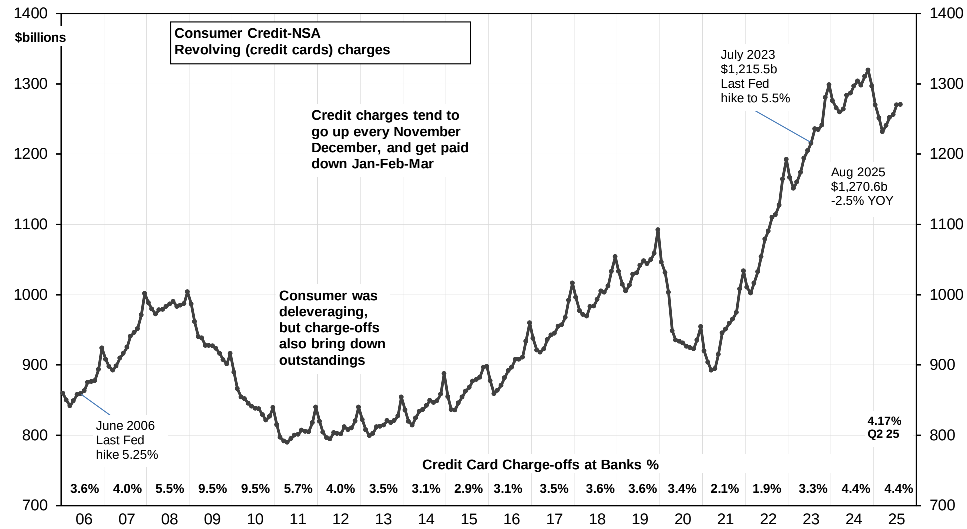
FDIC Banks and S&Ls

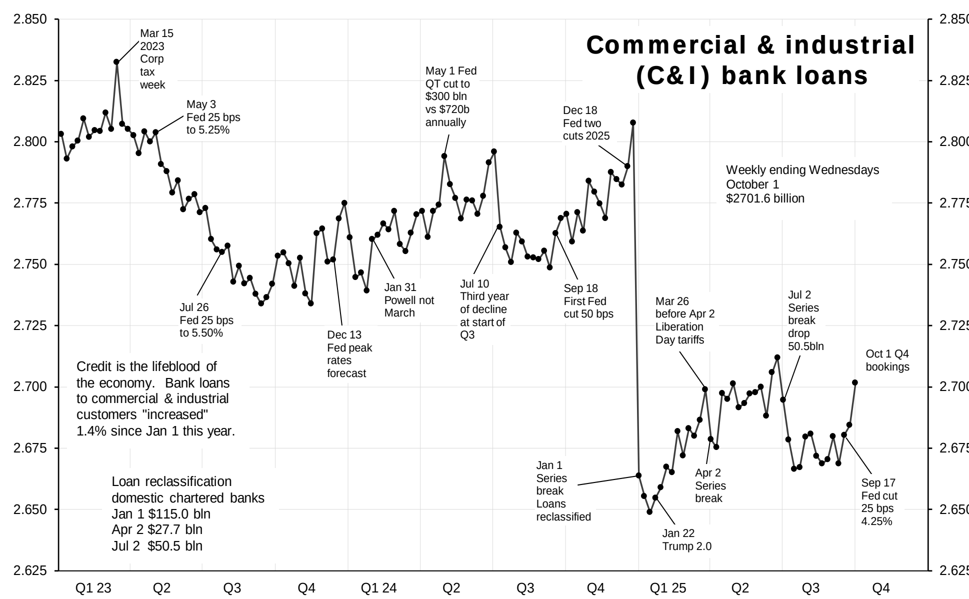
Q2s	2025	2022	2020	2010	2000
Number	4,421	4,771	5,064	7,830	10,102
Employees	2.061	2.100	2.077	2.034	1.904
Deposits	19.663	19.563	16.962	9.141	4.689
Securities	5,682	6,148	4,515	2,527	1,325
CRE	1,866	1,709	1,545	1,081	503
C&I loans	2,382	2,484	2,696	1,164	1,061
Credit cards	1,141.1	903.4	808.1	692.1	234.5
Net income	279.9	257.9	144.3	39.1	83.2

4,421 banks in June 2025, 2.061 million employees
$19.663 trillion in deposits, $5,682 billion securities, $1,866 billion Nonfarm nonresidential loans (CRE), $2,382 billion C&I loans, $1,141.1 billion credit card loans to individuals, June 2025
Net Operating Income $279.9 billion (full year ending Q2 2025)

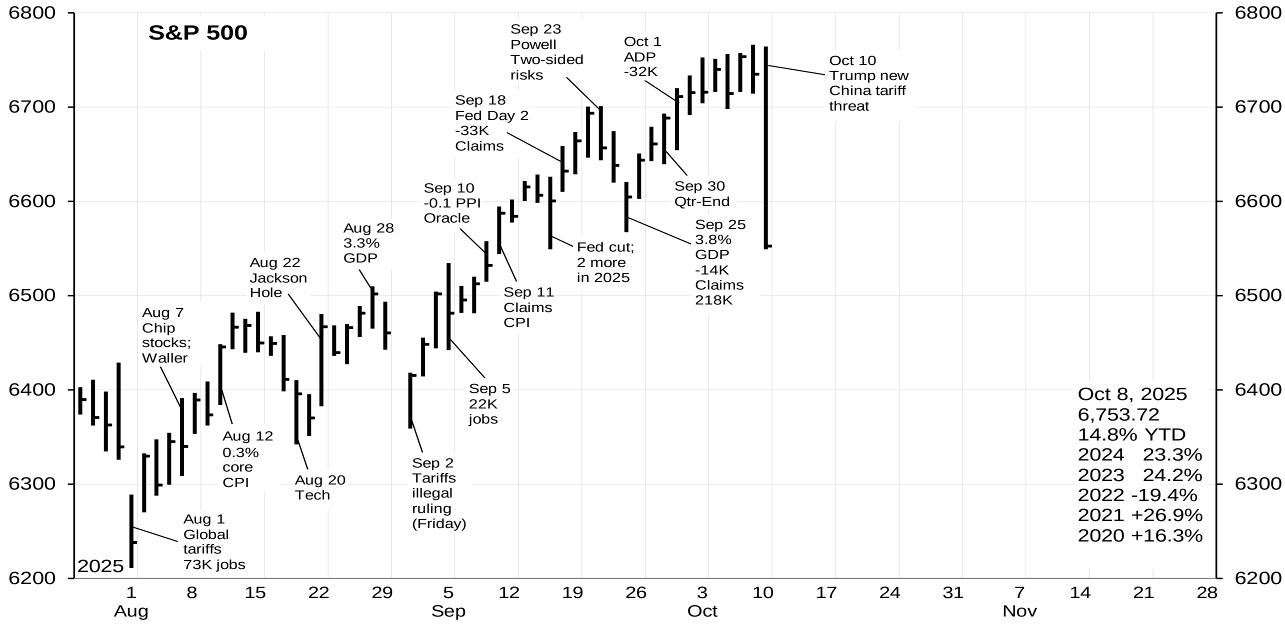
Bank loans are the lifeblood of the economy, it has been said. Commercial & industrial (C&I) loans were $2.382 trillion in the Q2 2025 FDIC data. The Federal Reserve weekly C&I data are on an upswing kind of since Trump 2.0 began in the January 22 week this year. Although there have been three major downward revisions each quarter as loans have been reclassified which makes the picture not as clear. In the October 1 week, these business loans rose $17.3 billion to $2,701 billion on new Q4 bookings. If bank loans are the lifeblood of the economy, what does that make small business loans? The backbone of America if it is national election time. Small business loans, individual loans made that are less than $1 million, have slowed over the last year like many other things on uncertainty, economic policies, tariffs, etc. Loans outstanding were $421.1 billion in Q2 2025 which are 20% of all C&I loans, and the increase slowed to just 1.0% above prior year levels. Maybe small companies are doing so well they don't need the banks' money. Or the other way around. The July 2025 Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) said terms for C&I loans to small firms had tightened: the maximum size of credit lines, maximum maturities, and covenants. And although the total C&I loans weekly graph here does not show it especially, most banks said they had seen weaker demand for credit. The reason? Lower customer investment in plant or equipment and decreased customer financing needs for merger or acquisition and inventory. Finally, the reasons why some banks tightened lending standards: less favorable or more uncertain economic outlook; increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards; and the worsening of industry-specific problems. We were thinking that regulatory actions would be less onerous. Stay tuned. Credit is the lifeblood of the economy and it is still flowing.







INTEREST RATES

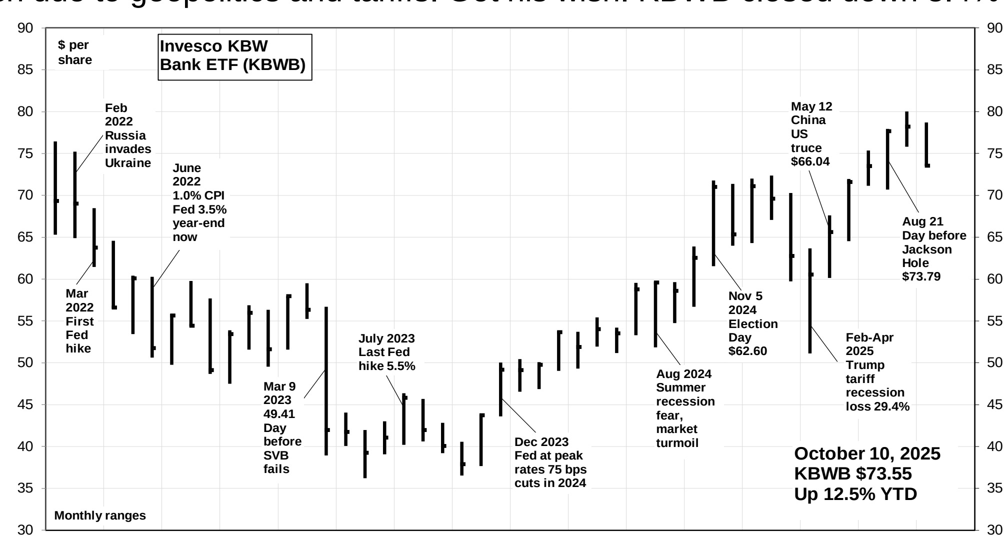


A quiet week, some new records, but stocks fell sharply around 11am ET Friday on Trump's comment that China is growing more hostile, and he is threatening new tariff hikes. Bond yields hit a new low for the week as well after the China comment. The S&P 500 index fell 1.1% in minutes from 6,751.06 at 10:56am ET to 6675.60 at 11:02am ET There is supposed to be a truce with a 90-day tariff pause between the two countries that ends sometime in the first week or two of November. No economic data again next week, but more "Conversations with Federal Reserve Governor Stephen I. Miran" in addition to two other ones on Tuesday, October 7 this week. Miran Wednesday, October 15 12:30pm, Thursday, October 16 9am, Thursday, October 16 4:15pm. Oh, and Powell Tuesday, October 14 at 12:20 pm. Stocks close Friday down 2.7%, and 10-yr yields 4.04%. Stay tuned. [Note: S&P futures fell 50 points more on a 450pm ET Trump tweet Friday: 100% China tariff starts Nov 1.]

Invesco KBW Bank ETF (KBWB) up 12.5% YTD; earnings coming up

The bank ETF has been climbing since the February-April 29.4% sell-off on tariffs and recession scare. Next week will see the large banks reporting with JPMorgan Chase, Citigroup, and Wells Fargo all on Tuesday morning October 14. Dimon is warming up already on Thursday saying he is concerned about a potential markets crash due to geopolitics and tariffs. Got his wish. KBWB closed down 3.4% on Friday, and the annualized dividend yield off of Friday's close is 2.5%.

Bank Earnings Releases	
Oct 14	JPMorgan Chase
Oct 14	Citigroup
Oct 14	Wells Fargo
Oct 15	Bank of America
Oct 15	PNC Financial

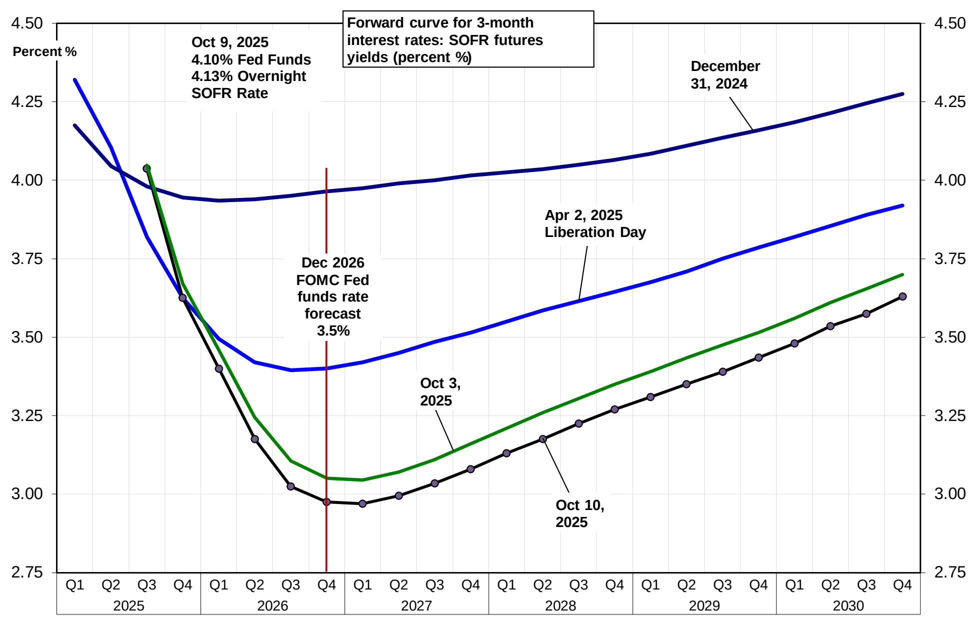


FEDERAL RESERVE POLICY

The Fed meets October 28-29, 2025 to consider its monetary policy. Some Fed governors are voicing caution on the need for more interest rate cuts, but Fed funds futures showed little change this week and are still discounting 25 bps cuts at each of the final two meetings this year. There have been no real economic data releases from Washington since the midnight September 30 shutdown. Waller was not concerned about not getting official economic data because other private reports including ADP (-32K private jobs in September) are all saying that the labor market is weak. “That’s all we need to know.” One problem with this line of thinking is what would cutting the Fed funds rate from 4.25% to 3.0% neutral do to help turn around the labor market? A second problem is that a decline in payroll employment may not be the recession signal that it was in past years because of the Administration’s immigration policy that throws workers out of the USA. There was also a CNBC story Friday that there were five candidates for Fed Chair: Waller, Fed Governor Bowman (okay, Vice Chair for Supervision), Warsh, Hasset at NEC, Blackrock’s Rieder. Each one promised to cut interest rates to zero.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	8-Oct	1-Oct	24-Sep	17-Sep	3/11/20*	3/11/20
Factors adding reserves						to Oct 8
U.S. Treasury securities	4196.659	4196.385	4201.212	4201.064	2523.031	1673.628
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2085.983	2085.983	2099.215	2102.783	1371.846	714.137
Repurchase agreements	2.098	0.000	0.001	0.001	242.375	-240.277
Primary credit (Discount Window)	6.243	7.170	7.821	5.533	0.011	6.232
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	0.075	0.075	0.611	0.948		
Main Street Lending Program	4.166	4.160	4.155	4.151		
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	0.045	0.040	0.052	0.051	0.058	-0.013
Federal Reserve Total Assets	6641.7	6637.4	6659.2	6659.4	4360.0	2281.642
~~3-month Libor %~~ SOFR %	4.12	4.20	4.13	4.38	1.15	2.970
Factors draining reserves						
Currency in circulation	2416.556	2412.488	2410.199	2409.267	1818.957	597.599
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	794.054	819.378	757.970	807.142	372.337	421.717
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	5.231	10.179	29.172	13.963	1.325	3.906
Federal Reserve Liabilities	3607.814	3657.806	3659.500	3639.013	2580.036	1027.778
Reserve Balances (Net Liquidity)	3033.855	2979.594	2999.692	3020.352	1779.990	1253.865
Treasuries within 15 days	33.916	41.628	57.036	51.513	21.427	12.489
Treasuries 16 to 90 days	187.121	158.247	158.888	164.849	221.961	-34.840
Treasuries 91 days to 1 year	467.883	489.002	459.386	458.924	378.403	89.480
Treasuries over 1-yr to 5 years	1414.768	1414.656	1437.322	1437.262	915.101	499.667
Treasuries over 5-yrs to 10 years	506.004	505.977	502.476	502.462	327.906	178.098
Treasuries over 10-years	1586.967	1586.877	1586.104	1586.055	658.232	928.735
Note: QT starts June 1, 2022	Change	10/8/2025	6/1/2022			
U.S. Treasury securities	-1574.120	4196.659	5770.779			
Mortgage-backed securities (MBS)	-621.463	2085.983	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables					Long
	2025	2026	2027	2028	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 2 bps is discounted for October 29. All but 2 bps is discounted for December 10.

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

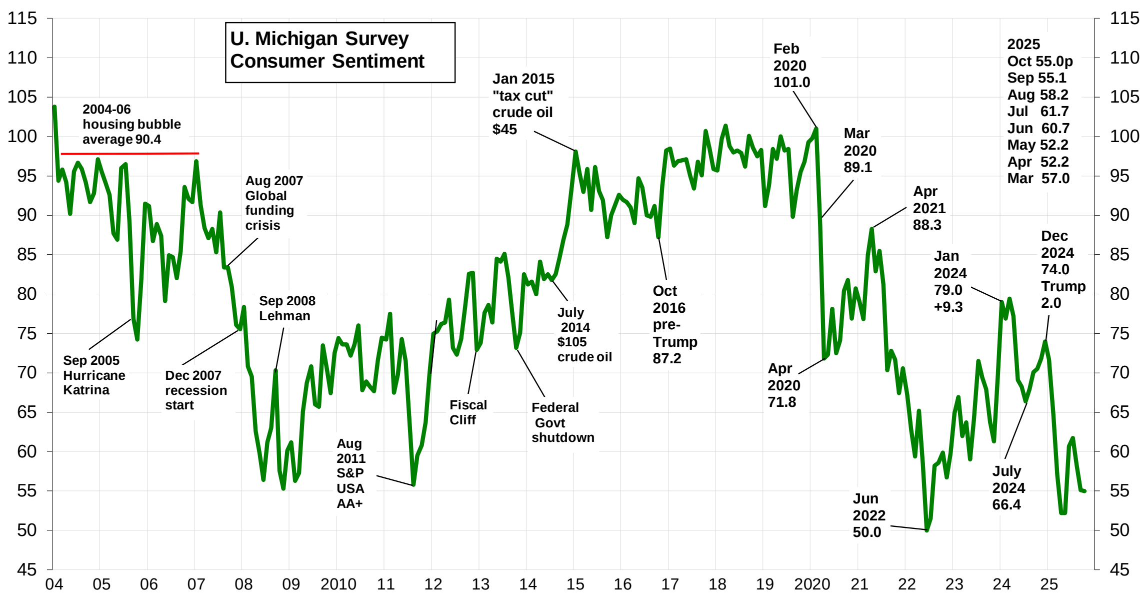
Next up: September CPI inflation report Friday, October 24 at 830am ET															
Monthly	2025							2025	2024					2024
% Changes	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun
Core CPI inflation	0.3	0.3	0.2	0.1	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1
Core PCE inflation	0.2	0.2	0.3	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

Consumers weathering the storm (Friday)

Breaking economy news. The consumer sentiment index from the University of Michigan was 55.0 in the preliminary October report versus 55.1 in September. It was 70.5 in October 2024 before news that Trump won the election. The low for 2025 was 52.2 in April when Trump made the Liberation Day tariffs announcement that collapsed the stock market. The preliminary survey results are through Monday, October 6. Inflation expectations if that is what they are were 4.7% for the year-ahead, and long-run expectations of the public are 3.7%. Actual year-over-year inflation for August 2025 was 2.9% for headline CPI and 2.7% for headline PCE inflation. Fed officials continue to say consumer inflation expectations are well-anchored. Maybe just not for this survey.

Net, net, consumers are weathering the volatile news headlines from Washington for now and remain surprisingly confident that the country will muddle through somehow. The sentiment indicator in early October was barely changed from the September reading which has to be considered a win given all the negative stories about how consumers are growing worried as we move into the fall. Consumer spending is quite strong in the third quarter and today's temperature reading hints at more of the same which would be good news for retailers in the final quarter of 2025. Stay tuned. It looks like consumers don't mind that Washington has shut down. Consumers have not turned their back on the economy yet. With a couple more Fed rate cuts this year, the economy may have weathered the tariff storm for now. You cannot have the stock market continuing to make new highs and not see this reflected in business and consumer confidence. If Washington does not open up and there are no additional economic reports in the next couple of weeks, today's consumer sentiment data will not stop another rate cut at the Fed's October meeting.



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