Financial Markets This Week

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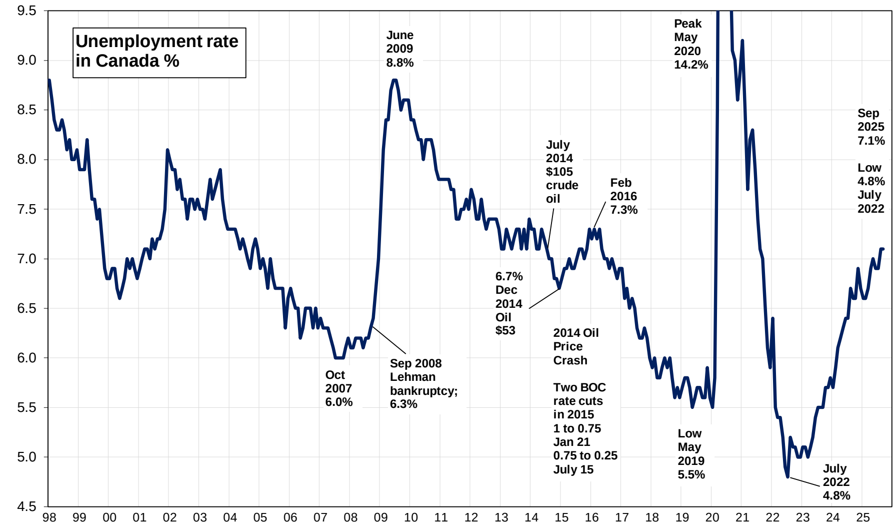
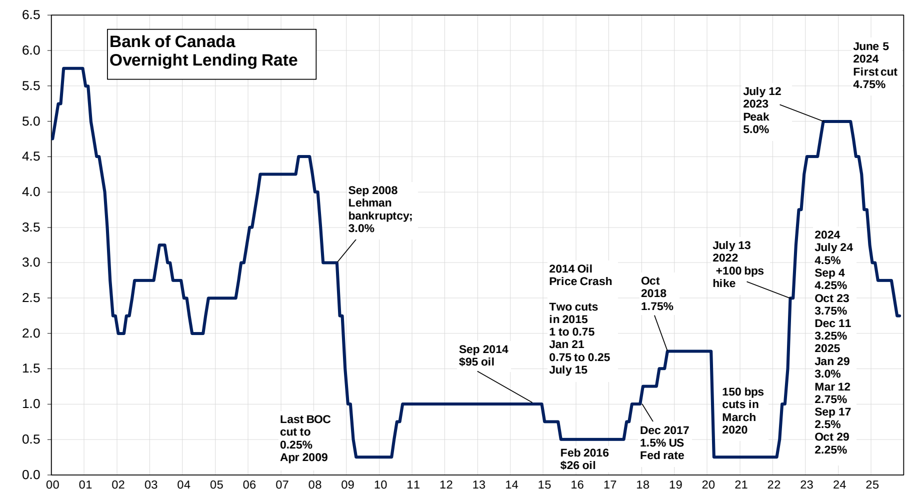
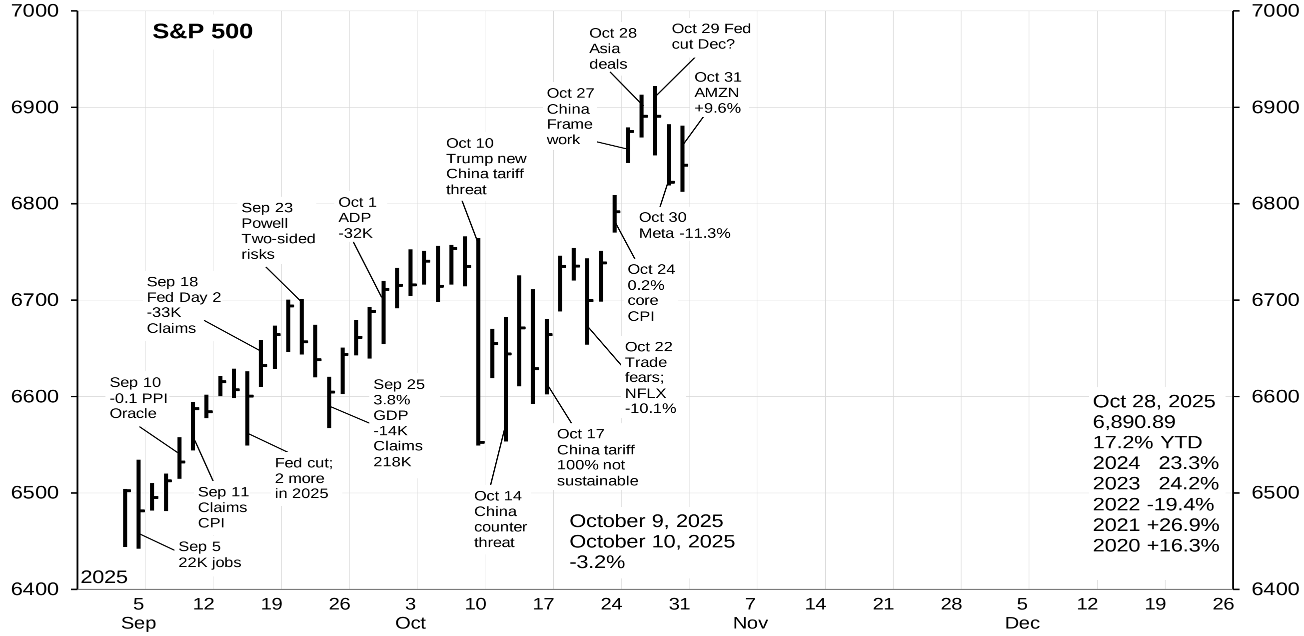
CANADA MONETARY POLICY



Yes, the Fed cut rates this week to 4.0%, but to what effect. There is no US economic data for one thing to guide them. Not a cautionary tale, but the neighbor to the north did cut interest rates earlier in the day on Wednesday by 25 bps to 2.25% matching the 2.4% September 2025 YOY Canadian core CPI inflation rate, and yet job losses continue to spiral up there. We read on the internet that the Fed had broken its interest rate tool by wasting its rate-cuts stimulus medicine for the economy when the US was not in a recession; cuts starting last year from 5.5%, and the episode back in 2019 as well from 2.5 to 1.75 percent. Companies do not borrow any more with lower interest rates and do not make more investments in factories or equipment, and don't hire more employees. Like a lot of things you read this may not be exactly true, but it is interesting to see job losses mounting in Canada and the central bank chasing this bad economic outcome by pushing interest rates sharply lower. If the Canada unemployment rate was actually the US jobless rate, we would guess that Fed officials would have already cut the Fed funds rate back to the zero emergency level. Stay tuned. We are getting worried that the labor market in the US is no longer as cyclical, not like the perfect fit when measuring the two early 80s recessions, and will not provide its normal early warning for when economic activity (real GDP) declines two consecutive quarters which still defines a US recession fairly well. For Canada as well, although real GDP in Canada fell two straight quarters during the 2015 Oil Crash unlike the USA. The concern is whether the labor market is still capable of sending the right, early recession-signals that it did in prior economic cycles. If the job losses go high enough of course, there will be no question.



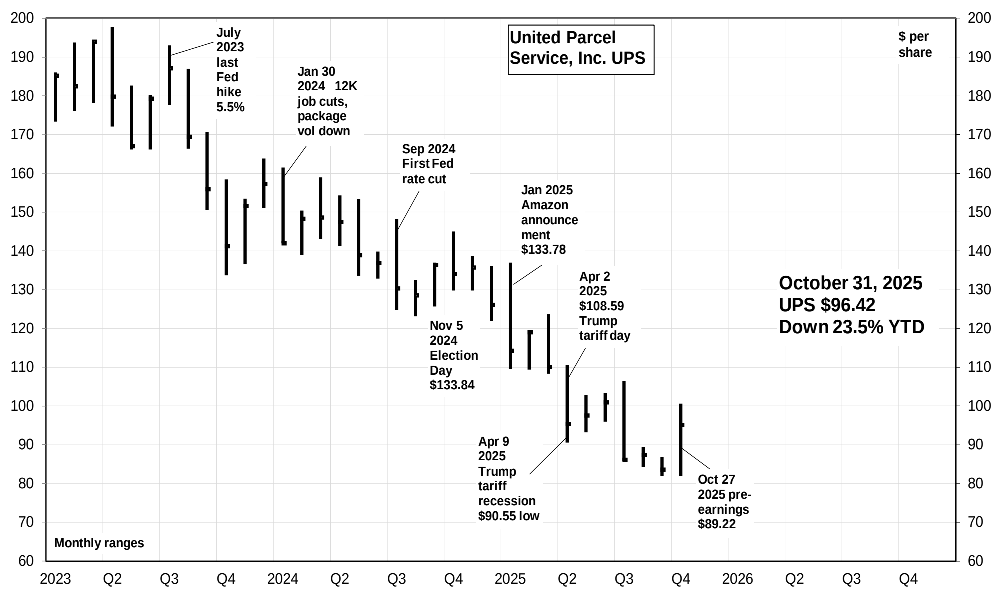
INTEREST RATES



You would think the stock market reaction to Powell saying a December rate cut was not preordained would be enough excitement for the week, given that month-end window-dressing was ahead for Friday, October 31. Trick or Treat. Perhaps not, as stocks only fell 0.6% to the low of the day on Wednesday after Powell's "another December meeting rate-cut not a foregone conclusion" comment. Thursday was interesting as the China-US deal finally came through with flying colors, but there are not a lot of winning trade deals for countries left to contemplate, and the market may be growing weary of hearing the word tariff again and again. Anyway, blame the Thursday 1.0% S&P 500 sell-off on the META, GOOGL, MSFT earnings reports Wednesday after the bell with Meta tumbling 11.3% Thursday, Microsoft down only 2.9%, something to do with too-much AI capital expenditures. Amazon climbed 9.6% Friday to rescue the week. S&P 500 16.3% YTD. Bonds closed at 4.08% on Friday.

United Parcel Service, Inc. (UPS) down 23.5% YTD

META, GOOGL, MSFT Wednesday, AMZN, AAPL Thursday. Meanwhile, back to the brown truck in front of your house. UPS jumped as much as 12.7% to $100.57 on Tuesday October 28 after earnings before the bell. The stock was already down for the year at $110.20 before the April 2 Liberation Day tariff announcement. The company's shares had tanked 14.1% to $114.90 on January 30 when it said it would cut the number of Amazon deliveries in half, its largest but not most profitable customer. The headline from the October 28 earnings release was that it had cut 48,000 jobs as part of its efforts to turn around the business. Dividend is 6.8%.

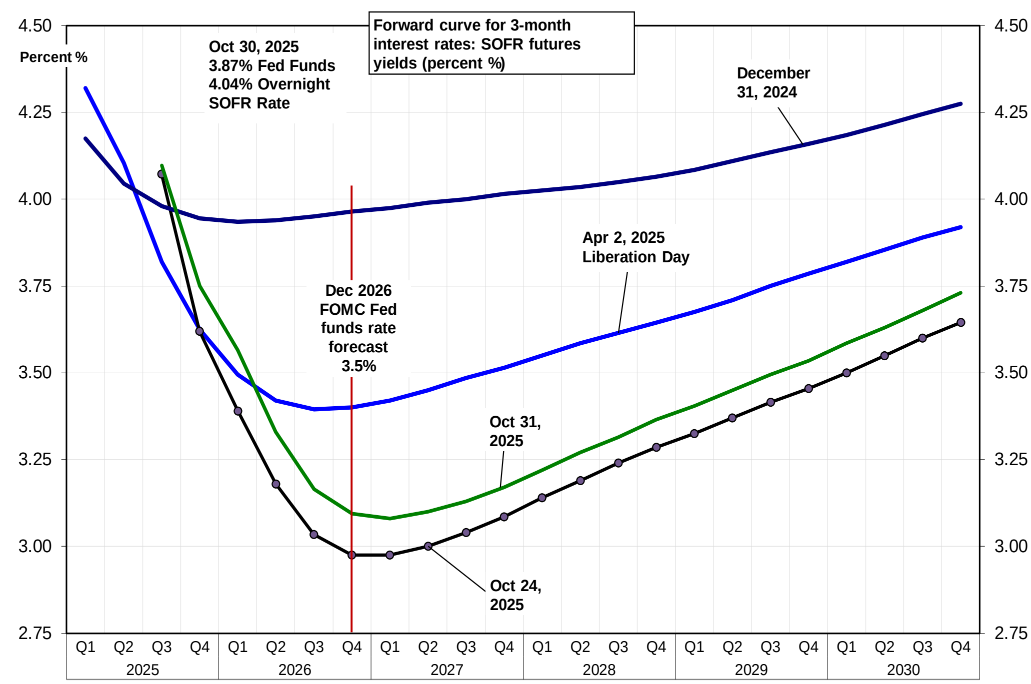


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	29-Oct	22-Oct	15-Oct	8-Oct	3/11/20*	3/11/20
Factors adding reserves						to Oct 29
U.S. Treasury securities	4196.739	4196.467	4196.270	4196.659	2523.031	1673.708
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2069.963	2082.606	2085.996	2085.983	1371.846	698.117
Repurchase agreements	10.311	0.001	6.751	2.098	242.375	-232.064
Primary credit (Discount Window)	7.894	7.349	6.018	6.243	0.011	7.883
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	0.070	0.072	0.074	0.075		
Main Street Lending Program	3.834	3.980	3.976	4.166		
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	0.026	0.037	0.030	0.045	0.058	-0.032
Federal Reserve Total Assets	6637.2	6640.4	6647.2	6641.7	4360.0	2277.152
~~3-month Libor %~~ SOFR %	4.27	4.21	4.29	4.12	1.15	3.120
Factors draining reserves						
Currency in circulation	2418.200	2417.623	2419.358	2416.556	1818.957	599.243
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	983.859	905.074	851.952	794.054	372.337	611.522
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	19.504	4.005	5.484	5.231	1.325	18.179
Federal Reserve Liabilities	3809.269	3710.776	3659.047	3607.814	2580.036	1229.233
Reserve Balances (Net Liquidity)	2827.909	2929.637	2988.202	3033.855	1779.990	1047.919
Treasuries within 15 days	66.333	58.840	36.104	33.916	21.427	44.906
Treasuries 16 to 90 days	190.102	194.818	182.578	187.121	221.961	-31.859
Treasuries 91 days to 1 year	432.478	435.211	470.144	467.883	378.403	54.075
Treasuries over 1-yr to 5 years	1413.369	1413.258	1413.223	1414.768	915.101	498.268
Treasuries over 5-yrs to 10 years	506.810	506.782	506.755	506.004	327.906	178.904
Treasuries over 10-years	1587.647	1587.557	1587.466	1586.967	658.232	929.415
Note: QT starts June 1, 2022	Change	10/29/2025	6/1/2022			
U.S. Treasury securities	-1574.040	4196.739	5770.779			
Mortgage-backed securities (MBS)	-637.483	2069.963	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed met October 28-29, 2025 to consider its monetary policy. Things were going along okay after the 25 bps cut to 4.0% at 2pm ET, but just 5 minutes into the press conference starting at 230pm ET, Powell dropped that a December rate cut was not a foregone conclusion. We should have known this perhaps as the September meeting forecasts had a big chunk of 9 out of the 19 participants not wanting to cut rates less than 4.0% by the end of the year. Fine with us if the Committee wants to argue this out, although we are one of the famous millions of savers thrown under the bus and losing interest income with every cut. Right on cue, Dallas Fed President Logan said Friday she would not be comfortable cutting rates again in December. We forgot. QT has ended. The $5 billion per month of Treasuries, $60 billion drop in the bucket a year that was doing nothing anyway. Mortgage-backed securities (MBS) holdings will continue to decline: $2.069 trillion in the October 29 week in the table above. MBS were the first QE done by the Fed in the financial crisis in 2008 to cut the yield spread between mortgage yields and Treasuries. Yield spreads from 6.17% mortgage yields to 10-year Treasuries were 216 bps in the October 30 week. Maybe this yield spread is something else for Bessent to pound down and fix to make the cost of financing a new home more affordable.

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					



All but 8 bps of a 25 bps rate cut to 3.75% is discounted for December 10.

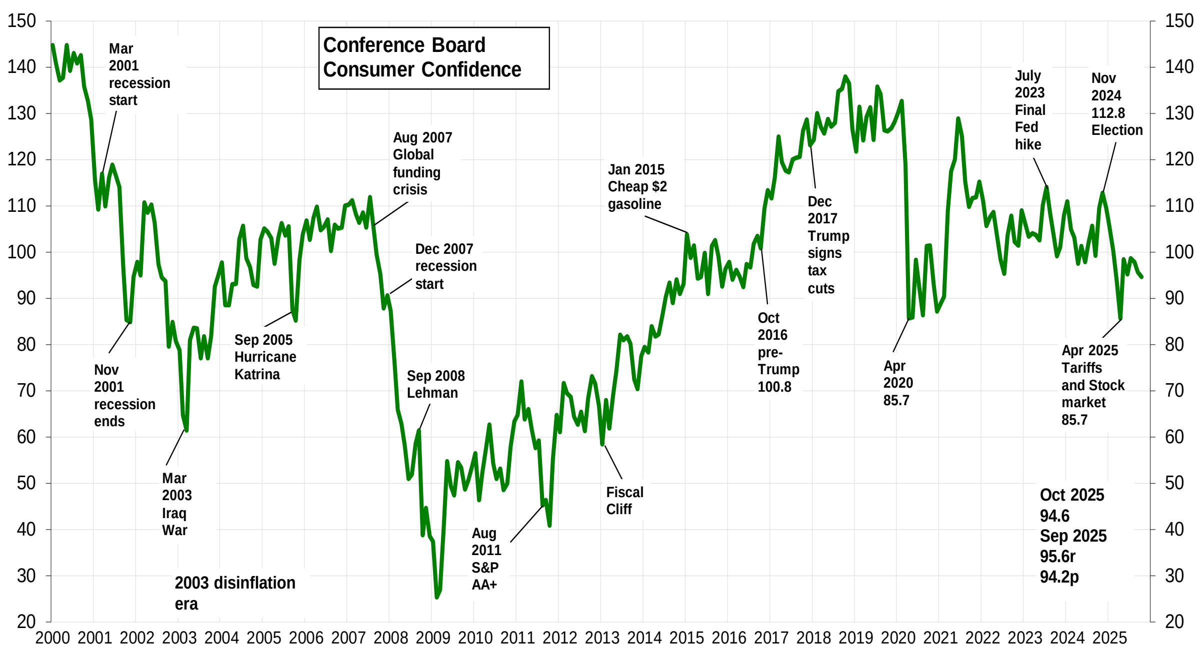
Fed funds futures call Fed policy		
Current target: October 31 -- 4.0%		
Rate+0.13	Contract	Fed decision dates
3.830	Jan 2026	Dec 10*
3.660	Apr 2026	Adds Jan 28, Mar 18*
*Jan 2026 could be two days at a new rate		
*Apr 2026 could be one day at a new rate		

OTHER ECONOMIC NEWS

Weary consumers (Tuesday)

Breaking economy news. The consumer confidence index fell 1.0 point to 94.6 in October. We think confidence fell, although the September data were revised up from the preliminary reading of 94.2 last month to a revised 95.6 today. After the election results became known last year the index was as high as 112.8 and falling to 85.7 in April on the Trump tariff recession fears following the President's April 2 Liberation Day announcement. More like a Celebration Day with the S&P 500 falling as much as 14.7% from April 2 to the 4,835.04 low on Black Monday, April 7, and now closing up 17.2% YTD at 6,890.89 on Tuesday, October 28, 2025. Consumers were asked about almost everything including the stock market over the next year, and believe it or not, 28.5% thought stocks would decline. Stop. Maybe drop that question next month.

Net, net, consumer attitudes continue to be weighed down by a pessimistic outlook of how cloudy and gray the economic skies are due to the Federal government shutdown and economic policies from Washington. The daily headlines of major company layoffs do not help confidence, with jobs still hard to get for many consumers, and have twisted the knife a little in this regard, so it would not be surprising to see the economy slow dramatically in the fourth quarter of the year. Fed officials will likely not turn a blind eye to these sluggish consumer confidence readings and are likely to deliver on the market's long-held expectations for an interest rate cut at the conclusion of their two-day meeting discussions on Wednesday. Stay tuned. If the government ever opens back up again, there will be a blizzard of real economic data on spending and employment to weigh, but one thing is for certain, and that is the economy likely hit its best numbers for the year in the third quarter and economic growth is likely to slow for the rest of 2025. Consumers are weary and for good reason, the stock market records are not helping them get jobs or put food on the table, and with store-bought goods inflation still rising, many Americans are being left behind in Trump 2.0. It will take years for the planned new investments in plant and equipment to bring jobs back to American shores. Bet on it. The consumer is.

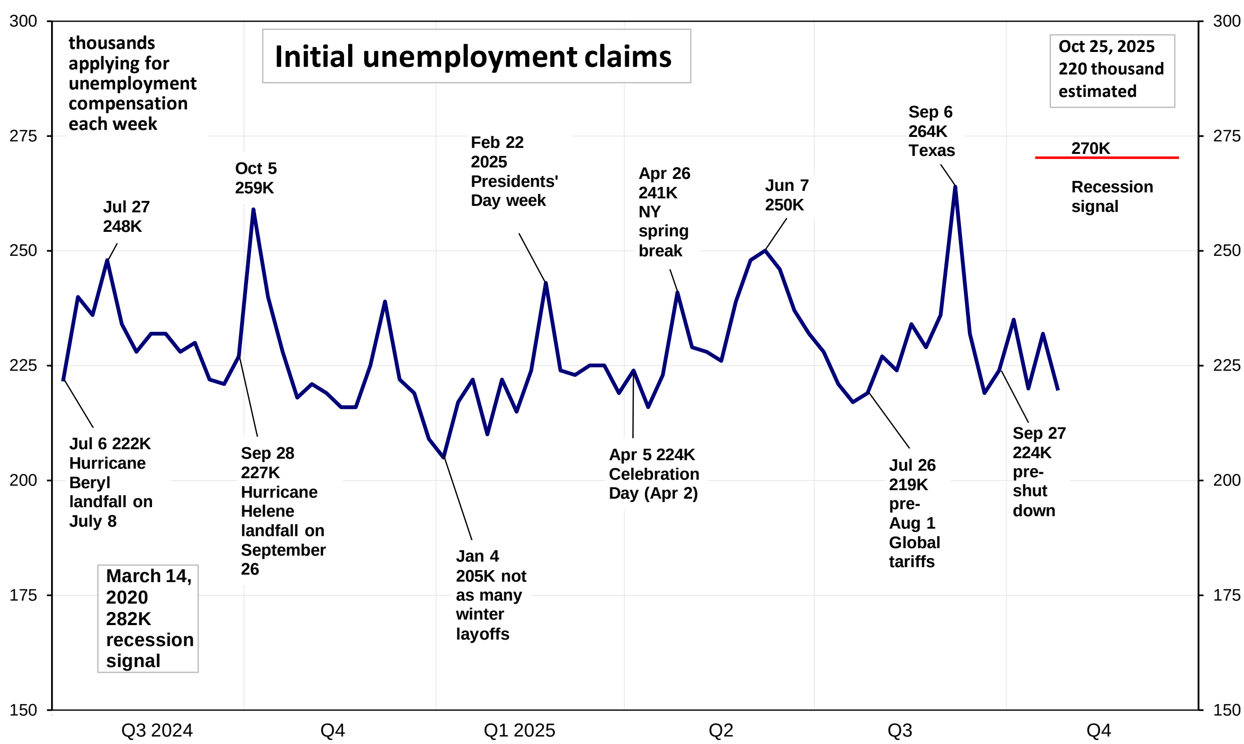


Weekly jobless claims (Thursday)

Breaking economy news. No official data release, but the individual states are reporting, although the latest week is usually missing some states. Fed Chair Powell already spilled the beans in his press conference on Wednesday. He said they were getting the states claims data and that it was more of the same trend when they added it all up. Claims are little changed from 224K in the final September 27 week before the Federal government shutdown. Since August 2024, forecasters have been burned several times in their calls for a recession based on the labor market data. Thinking mainly about the half-percentage point rise in unemployment signaling a recession as brought up by Boston Fed President Rosengren at the December 2007 FOMC meeting. Swing and a miss this time.

> Rosengren Dec 11, 2007 FOMC
> Third, I would note that when the unemployment rate rises at least ½ percent, it tends to rise much further than just ½ percent. That is, historically, when we have unemployment rates rise ½ percent, we have subsequently found ourselves in a recession.

At this point, weekly initial jobless benefits filings have to hit 270K to make a renewed call that the economy has entered a downturn. After applying the seasonal factors, by our count, initial claims increased 12K to 232K in the October 18 week. First-time filings fell 12K to 220K in the October 25, 2025 week with our estimates for missing data from Arizona, D.C. and Massachusetts. Stay tuned. Bernanke's so-called timeliest indicators are showing nothing yet, but hopefully they will be a signal before a recession the next time around given many states have tightened restrictions for receiving jobless benefits and many workers do not bother filing after being fired.



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