Financial Markets This Week

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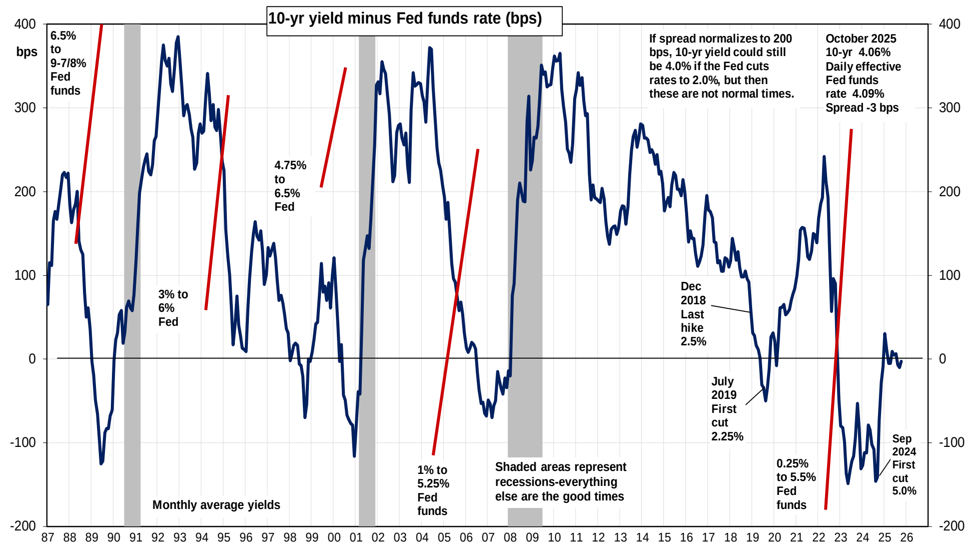
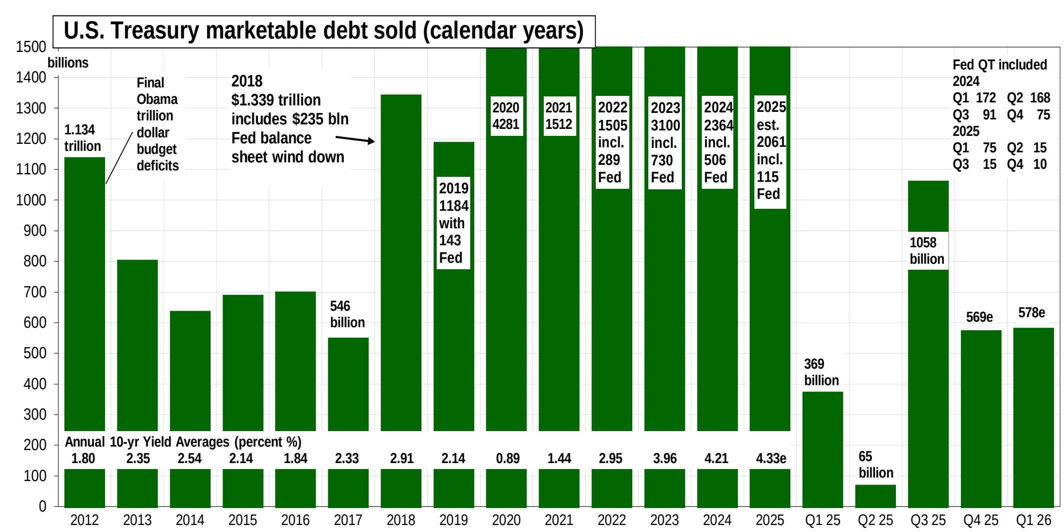
TREASURY NEEDS CASH

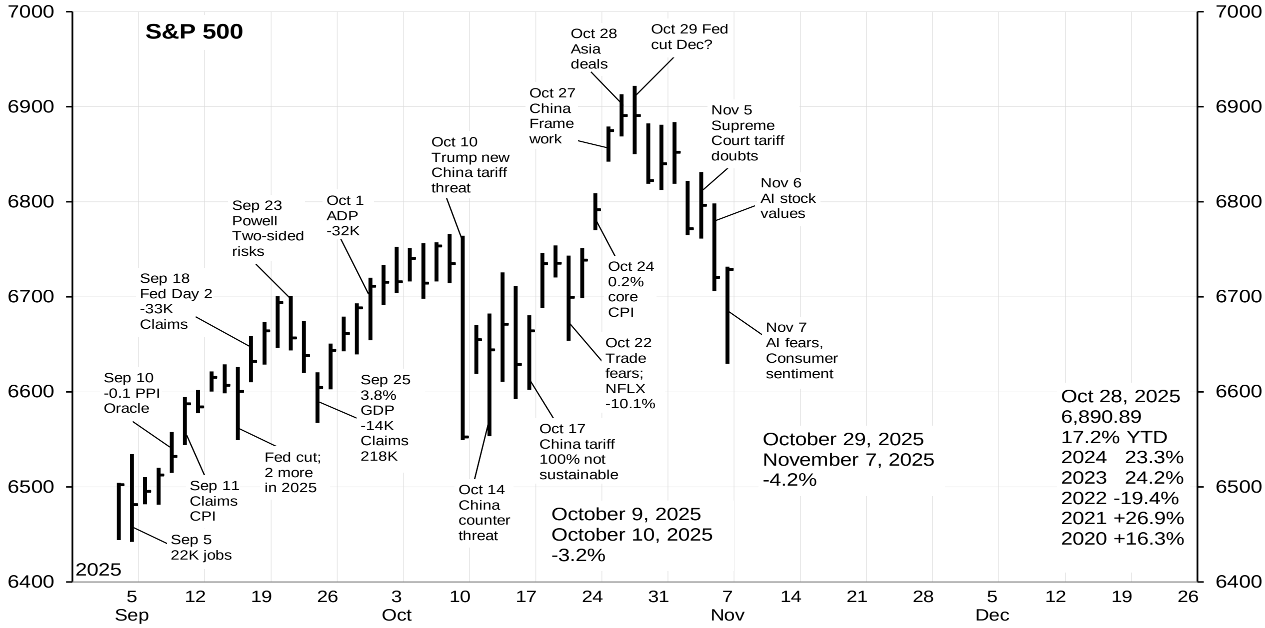


Politicians can argue all they want about reckless Federal government spending, but the rubber hits the road when Treasury Secretary Bessent has to borrow the government's New Cash needs each quarter from the public including foreign investors. Too many Treasury auctions and too few investors would mean higher bond yields. This has not happened this year with 10-yr Treasury yields averaging 4.33% through October. New cash raised for calendar year 2025 is estimated at $2.061 trillion after the Treasury borrowing estimates released Monday, November 3 at 3pm ET. At least the US Treasury Department is open sort of during the government shutdown. Government spending isn't under control yet, or at least the forecast is for $578 billion new cash in Q1 2026 versus the estimated $569 billion in Q4 2025. The good news is QT Treasuries ($60 billion/annual) stopped, but reinvesting the MBS roll-off in T-bills looks like QE Treasuries to us which will decrease effectively the U.S. Treasury marketable debt sold each quarter. MBS roll-off in 2025 through November 5 was $175.5 billion, which would be a lot of Treasury bills to buy in 2026. Meanwhile, the same forecast for 10-year yields at 4% at the end of 2026 even if a Trump-led Fed pushes the Fed funds rate to 3.0% which would mean a normalized yield curve with a positive slope of 100 bps.

Oct 2025	Marketable Treasuries $trillion	Average Rate %
Bills	6.592	4.075
Notes	15.500	3.124
Bonds	5.162	3.338



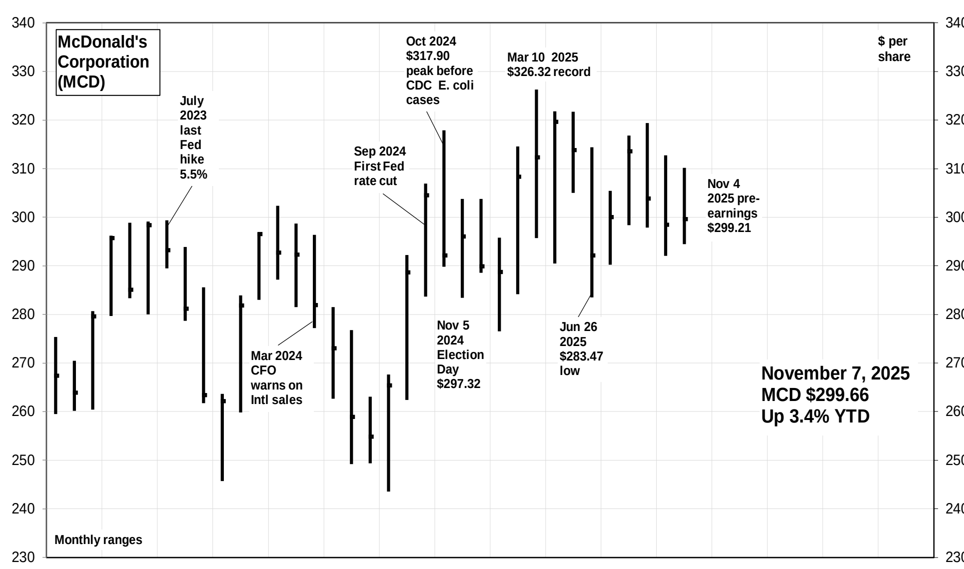
INTEREST RATES



[Stock market](#) disaster this week, mostly centering on investors' worst AI fears (MSFT Oct 28 high $553.72; Nov 7 low $493.25 is -10.9%, ouch). It didn't help that almost all the headlines from old-school Fed officials were on the not-sure side of a third rate cut this year in December. We threw in Michigan sentiment on Friday's early loss "reason" just to bring the "weakening" economy story into it because there are not a lot of indicators for economists to look at with the Federal government shutdown. Michigan sentiment was 10am ET on Friday, and the S&P 500 hit rock bottom this week a little after high noon. For bonds, Wednesday's yield high was quick with ADP jobs up 42K in October, yields 4.10% before the report, following a 29K "recession" drop in September. All was forgiven Thursday with [bond yields](#) down on the 730am ET [Challenger job losses](#). Bonds close 4.10% Friday.

McDonald's Corporation (MCD) up 3.4% YTD

The company reported earnings before the bell Wednesday, November 5 and rose as much as 3.7% to $310.17. The stock is defensive (does not look that volatile over the last few years) and actually increased 2.1% the day after the April 2 Trump tariff chaos when the S&P 500 fell 4.8%. The stock started back down below $300 with an analyst downgrade on June 9, and after settling a $10 billion lawsuit later that week. The recent 2025 low was $283.47 on June 26. Third quarter earnings on Wednesday reported better sales given a "challenging environment" the CFO said. Same story where lower-income consumer traffic is declining, while the number of visits by higher-income consumers remains strong.

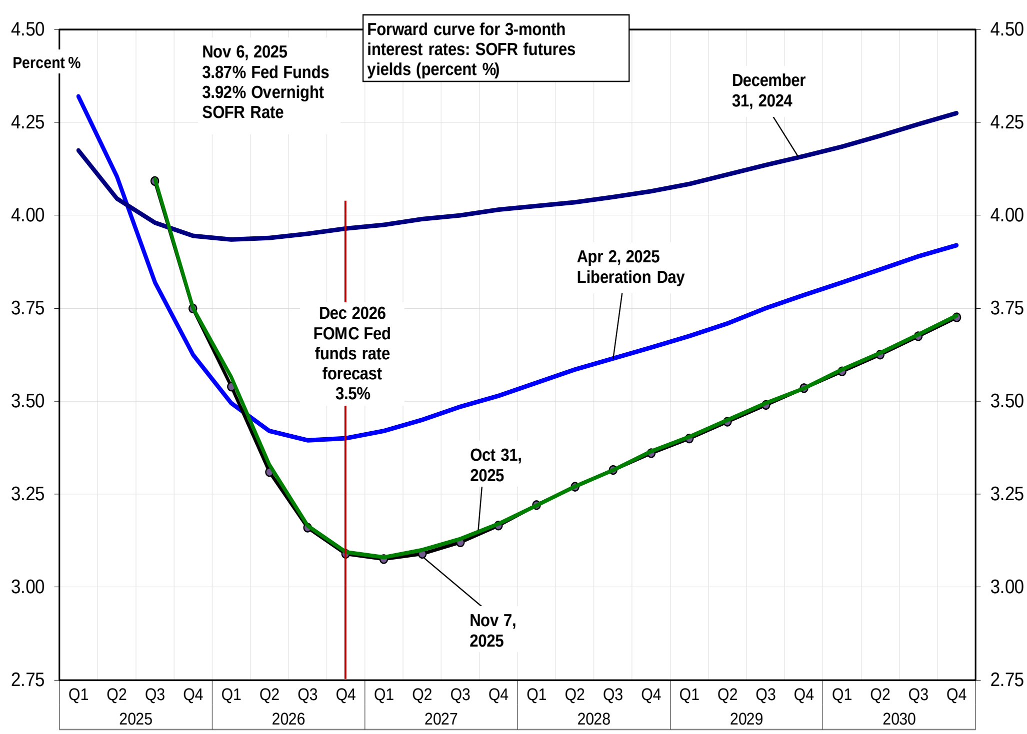


FEDERAL RESERVE POLICY

The Fed meets December 9-10, 2025 to consider its monetary policy. No real change in the Fed funds futures odds of a rate cut in December despite the many Fed officials making remarks. Fed Vice Chair Jefferson in the position that normally backs up the Chairman's view 100%, said they needed to move cautiously as they get closer to a neutral setting on interest rates. He was in favor, his vote recorded, of the October 25 bps rate cut to 4.0%, but they have moved rates down from 5.5% over the last year, and less guidance is necessary if they make decisions on a meeting by meeting basis. New York Fed President Williams said on Friday, they might need to restart QE for market functioning reasons and to keep the Fed balance sheet constant. They already said at the October meeting, they would allow the MBS holdings to decline, and would buy an equivalent amount of Treasury bills to offset the MBS payments being made naturally, even though most home borrowers are not able to refinance their mortgages at current rates. Fed talk this week, but a generally quiet time for Fed policy before Trump 2.0 gets in there next year.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	5-Nov	29-Oct	22-Oct	15-Oct	3/11/20*	3/11/20
Factors adding reserves						to Nov 5
U.S. Treasury securities	4192.743	4196.739	4196.467	4196.270	2523.031	1669.712
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2069.963	2069.963	2082.606	2085.996	1371.846	698.117
Repurchase agreements	0.102	10.311	0.001	6.751	242.375	-242.273
Primary credit (Discount Window)	7.138	7.894	7.349	6.018	0.011	7.127
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	0.069	0.070	0.072	0.074		
Main Street Lending Program	3.839	3.834	3.980	3.976		
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	0.086	0.026	0.037	0.030	0.058	0.028
Federal Reserve Total Assets	6623.6	6637.2	6640.4	6647.2	4360.0	2263.617
~~3-month Libor %~~ SOFR %	3.91	4.27	4.21	4.29	1.15	2.760
Factors draining reserves						
Currency in circulation	2421.923	2418.200	2417.623	2419.358	1818.957	602.966
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	942.700	983.859	905.074	851.952	372.337	570.363
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	12.814	19.504	4.005	5.484	1.325	11.489
Federal Reserve Liabilities	3771.720	3809.269	3710.776	3659.047	2580.036	1191.684
Reserve Balances (Net Liquidity)	2851.923	2827.909	2929.637	2988.202	1779.990	1071.933
Treasuries within 15 days	64.414	66.333	58.840	36.104	21.427	42.987
Treasuries 16 to 90 days	186.371	190.102	194.818	182.578	221.961	-35.590
Treasuries 91 days to 1 year	443.029	432.478	435.211	470.144	378.403	64.626
Treasuries over 1-yr to 5 years	1401.005	1413.369	1413.258	1413.223	915.101	485.904
Treasuries over 5-yrs to 10 years	509.362	506.810	506.782	506.755	327.906	181.456
Treasuries over 10-years	1588.561	1587.647	1587.557	1587.466	658.232	930.329
Note: QT starts June 1, 2022	Change	11/5/2025	6/1/2022			
U.S. Treasury securities	-1578.036	4192.743	5770.779			
Mortgage-backed securities (MBS)	-637.483	2069.963	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					



All but 7.5 bps of a 25 bps rate cut to 3.75% is discounted for December 10.

Fed funds futures call Fed policy		
Current target: November 7 -- 4.0%		
Rate+0.13	Contract	Fed decision dates
3.825	Jan 2026	Dec 10*
3.630	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

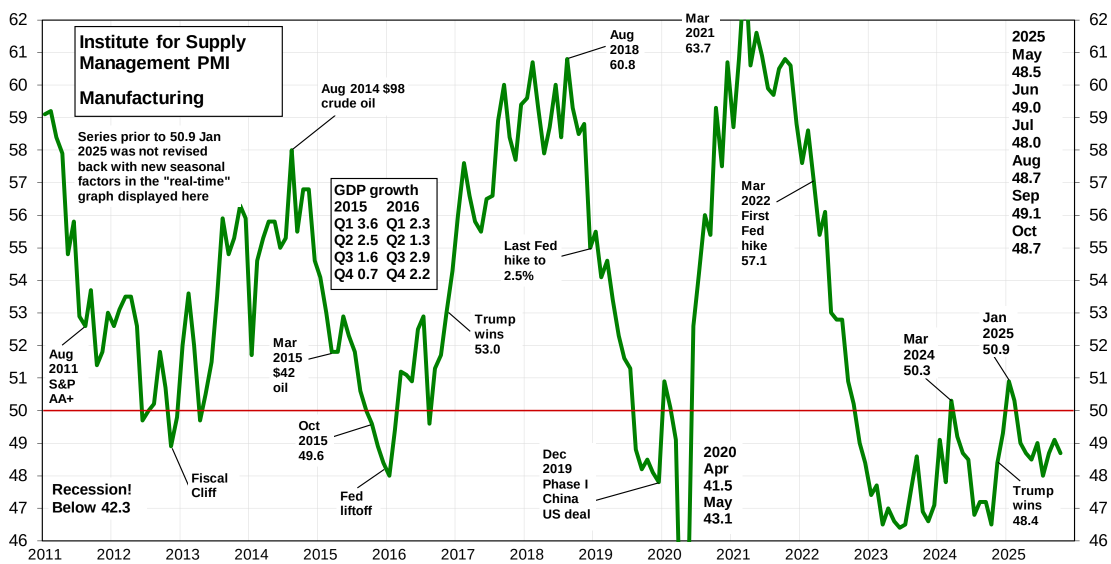
Factory lights dim (Monday)

Breaking economy news. The ISM manufacturing index fell back somewhat lower below the 50 line, where it has been, the manufacturing sector contracting for eight consecutive months, according to purchasing managers. Prices are above 50 and still increasing, just not as fast. Apparently, steel and aluminum prices are part of it as well as are other imported goods affected by the tariffs.

ISM manufacturing index

	Oct 25	Sep 25	Aug 25	Jul 25
PMI index	48.7	49.1	48.7	48.0
Prices	58.0	61.9	63.7	64.8
Production	48.2	51.0	47.8	51.4
New orders	49.4	48.9	51.4	47.1
Supplier deliveries	54.2	52.6	51.3	49.3
Employment	46.0	45.3	43.8	43.4
Export orders	44.5	43.0	47.6	46.1
Import orders	45.4	44.7	46.0	47.6

Net, net, someone forgot to tell factory executives that the Trump 2.0 economic agenda was going to unleash a new golden age for manufacturing because the latest survey shows the all-important industry sector of the economy continues to contract. Prices are down somewhat, but actual production which had been growing in September has turned negative once again in October. Manufacturers have no need to hire additional workers, that much is clear. There have been a lot of deals made with countries committing hundreds of billions of investment in the U.S., but these plants can take several years to get set up, and these grandiose plans are of little use for economists now when it comes to making growth forecasts for 2026. Stay tuned. The factory lights have not been turned completely off by the tariff war headlines, but the lights are not full on either. Workers will have to wait a while longer to join the assembly line, because there are no good jobs out there yet.



ADP Jobs report and ISM services index (Wednesday)

Breaking economy news. At least these economic reports count more as breaking news when the government has been shut down since September 30. ADP jobs report swung back positive, not by much.

Private payroll jobs: ADP versus BLS

thousands	Jan 25	Feb 25	Mar 25	Apr 25	May 25	Jun 25	Jul 25	Aug 25	Sep 25	Oct 25
ADP	186	84	147	60	29	-23	104	-3	-29	42
BLS	79	107	114	133	69	-27	77	38		

Private payroll jobs increased 42K in October after dropping 29K in September. Even if the data could be relied upon, and matched the official BLS payroll jobs count, Washington's radical immigration policy changes make the interpretation difficult, well, to interpret. Two or three months of consecutive monthly declines in the BLS nonfarm payroll jobs used to mean a recession, but now maybe it has to fall further and be backed up by other declining economic data, like car sales or durable goods orders or industrial production. In other words, the recession signal will not go off until it is too late and there is a sharp breakdown in overall economic activity in the Trump 2.0 era. Speaking of which, the President later on in the afternoon Wednesday said real GDP was running over 4.2% which is for the third quarter with the September expiring EV tax credits sales boosting growth, and Q4 growth is expected to slow with the shutdown.

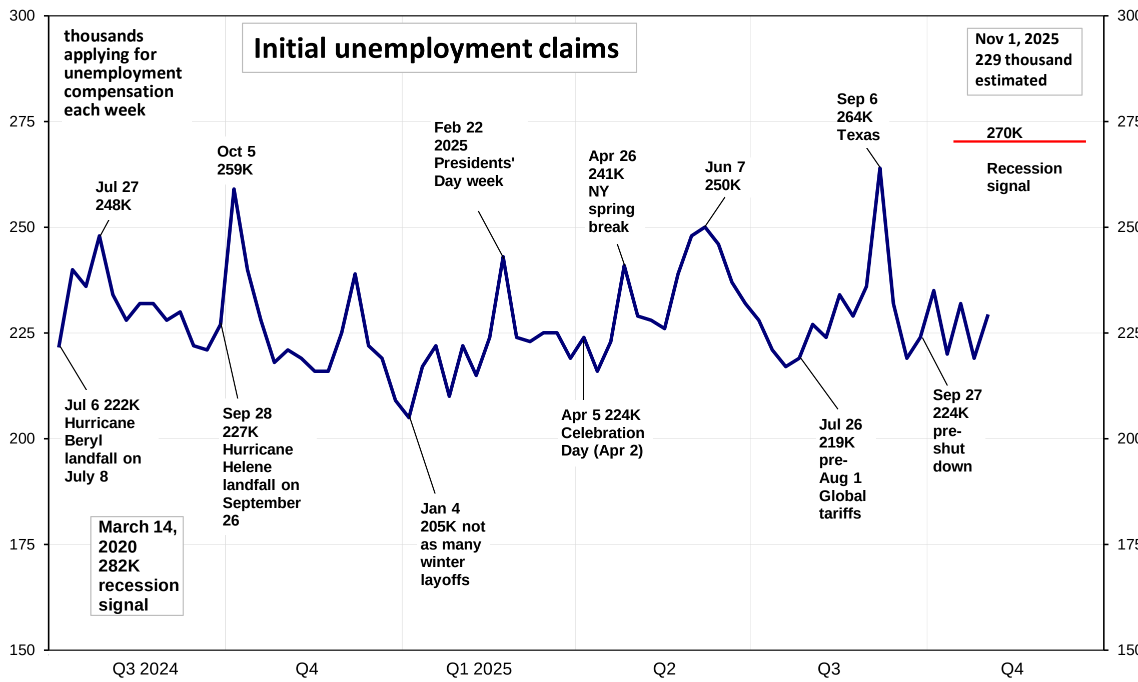
ISM services index was released at 10am ET, and it jumped 2.4 percentage points to 52.4. New orders were up even more sharply to 56.2 in October from 50.4 in September. Services new orders are at a new 2025 high, but this economic series does not have very good coincident indicators properties let alone leading.

ISM Services PMI

	Oct 25	Sep 25	Aug 25	Jul 25
Services PMI	52.4	50.0	52.0	50.1
New orders	56.2	50.4	56.0	50.3
Employment	48.2	47.2	46.5	46.4
Prices	70.0	69.4	69.2	69.9

Weekly jobless claims (Thursday)

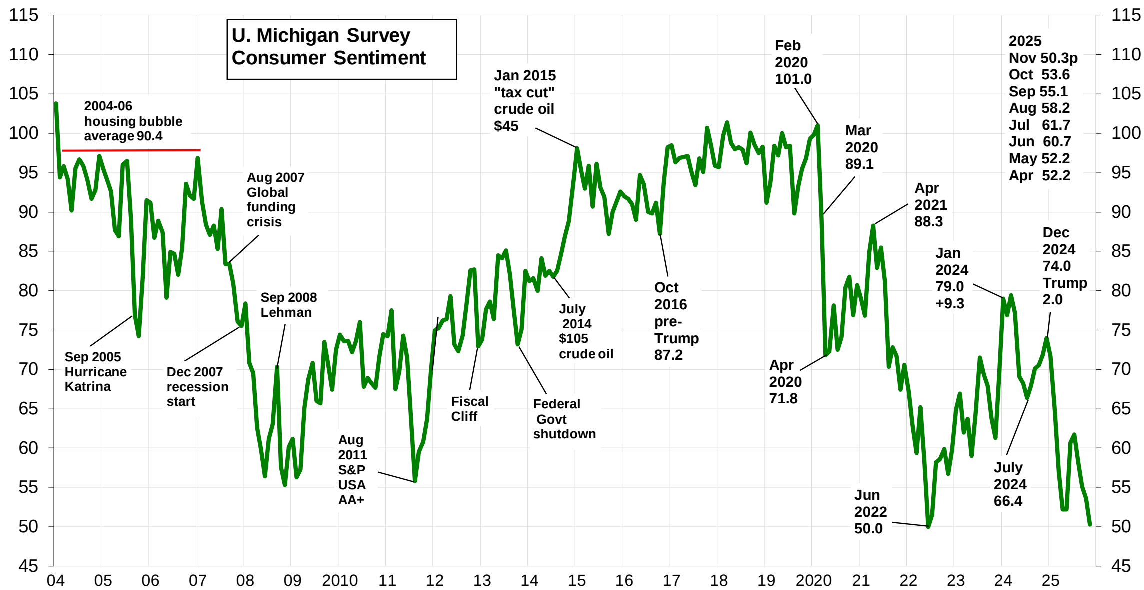
Breaking economy news. No official data release, but the individual states are reporting, although the latest week is usually missing some states. New Mexico was missing this week, but their count won't be enough to move the nationwide total by more than 1K or so. In the November 1 week, first time jobless claims rose to 229K from 219K the week before, results Fed Chair Powell would likely confirm to be "more of the same." The market was excited by the 730am ET release of the Challenger Gray count of October layoffs which were 153,074, the highest October figure for any year since 2003. Sounds bad. Keep in mind that in the four-weeks ending November 1, 900 thousand applied for jobless benefits because they had been fired. 900K sounds bad, but is "more of the same" according to Fed Chair Powell.



Consumers chicken out (Friday)

Breaking economy news. Preliminary results on consumer sentiment for November with a new 2025 low of 50.3 from 53.6 in October. The interview data were from October 21 to November 3 for the preliminary result. The consumer interviews will end, if you were expecting a call, on November 17, and the revised data will be published in two weeks.

Net, net, consumers are worried the most they have been all year long as the chickens from the Federal government shutdown are coming home to roost. Trump administration officials are touting 4 percent real GDP growth in the third quarter, but the fourth quarter growth results are likely to dive, dive, dive if consumer spending matches the downward plunge in confidence in 2025. It is always different what level of the consumer sentiment index signals a recession in every economic cycle, but the index certainly looks like the economy is ready to roll over the proverbial cliff.



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