Financial Markets This Week

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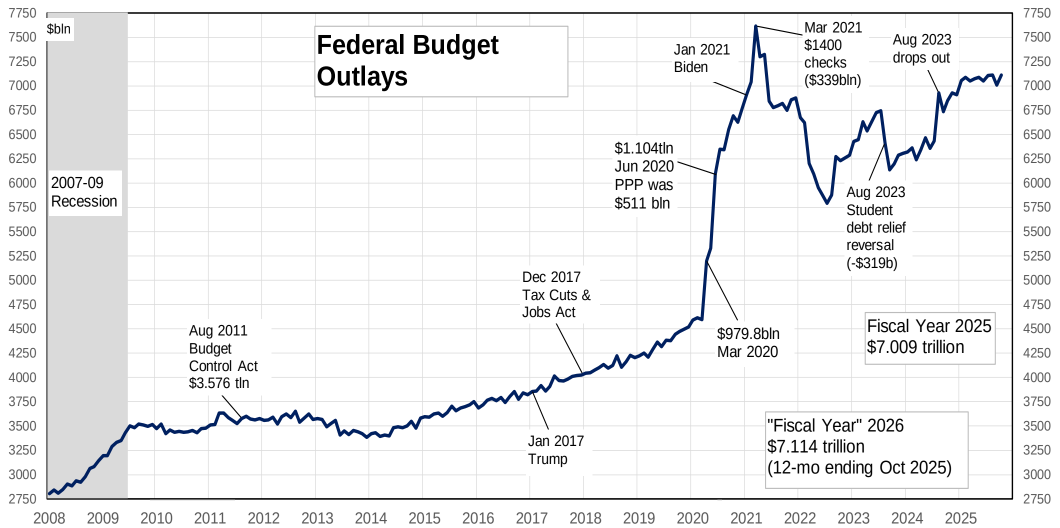
DEFICIT SPENDING



Federal government stimulus measures, or any new spending initiatives, support the economy and growth, moving things along, and making government small again does the opposite. No wonder Trump 2.0 officials want the Fed to lower interest rates. The latest October Federal budget results are out and if it counts as good news, government outlays may have flattened out somewhat on a 12-month trailing sum basis. $7.114 trillion in October 2025 and $7.090 trillion in February 2025 at the full-month start of Trump 2.0. Helping to keep the economy afloat with about $25 billion more in a $30,485 billion nominal GDP economy.

	Receipts	Outlays	"Balance"
FY 2024	4918.1	6734.9	-1816.8
FY 2025	5234.6	7010.0	-1775.4
FY 2026**	5312.2	7114.5	-1802.3

**12-month trailing sum Oct 2025

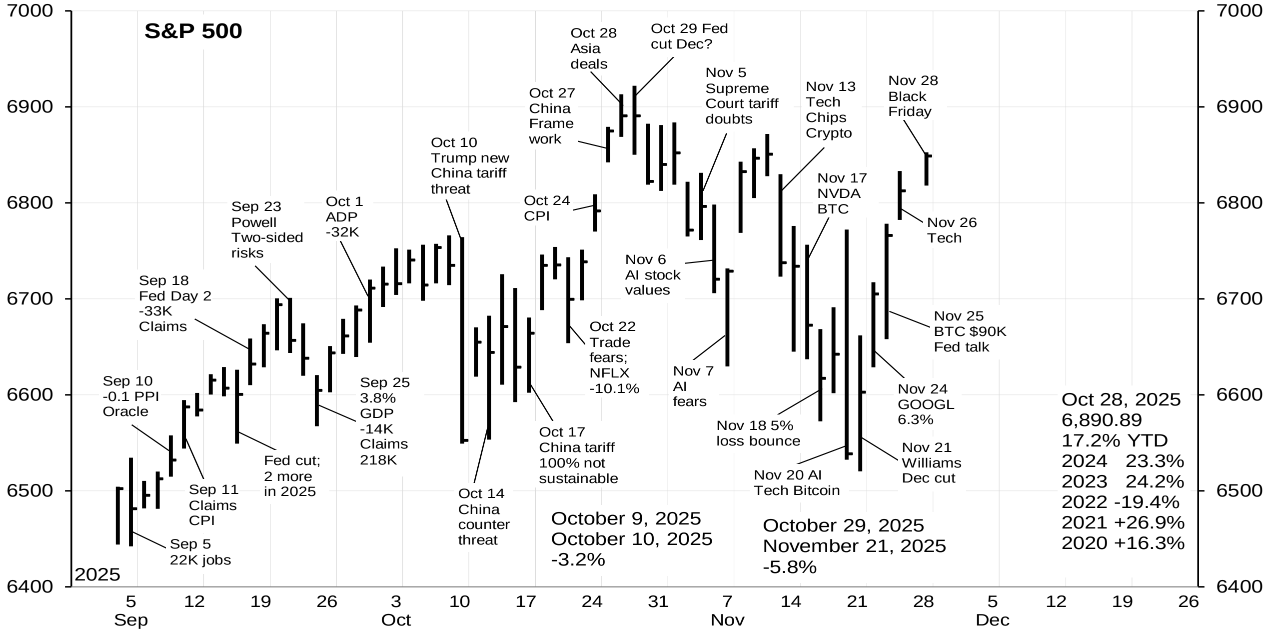
The table below shows selected budget items. Tariffs, Customs Duties, were at a new high of $31.354 in October. Tariffs were double or triple prior-year Biden levels since April this year, and yet the FY 2025 budget deficit was $1.775 trillion. Trump tariffs are probably running about $250 billion per year going forward. Food stamps are fairly steady at $8.732 billion in October, November will be a question. “Social Security net” measures payroll taxes minus payments to elderly beneficiaries which was a $42.329 billion funding gap. Don’t ask about the Social Security Trust fund because there is no real money in there and the red-ink difference is funded by general revenues or Treasury borrowing from the market. Just keep doing this even when the fund is “depleted” and stop scaring retirees about cuts to their monthly checks. Gross Interest on the national debt was $104.404 billion in October, but just $90.871 when adjusted for trust fund, funny-money, interest. What a deal.

Selected Federal Budget Items Mostly Outlays In The News ($bln)

2025	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Tariffs	7.341	7.247	8.168	15.634	22.173	26.632	27.670	29.503	29.675	31.354
Food stamps	9.421	8.129	8.929	8.628	8.638	8.716	8.829	8.530	8.867	8.732
Social Security net*	-10.789	-27.814	-34.081	-5.630	-30.616	-5.251	-36.757	-35.180	-34.383	-42.329
Gross Interest	83.821	85.872	104.413	101.650	92.230	144.625	91.913	111.466	91.270	104.404
Adj. Interest	81.816	74.165	92.875	89.376	86.015	84.345	92.011	92.699	36.900	90.871
Total Outlays	641.935	603.441	528.174	591.769	686.681	499.436	629.635	689.107	345.732	688.721

*Social security net is Payroll taxes minus Benefits paid, normally a deficit funded by other taxes, Treasury borrowing from market

INTEREST RATES

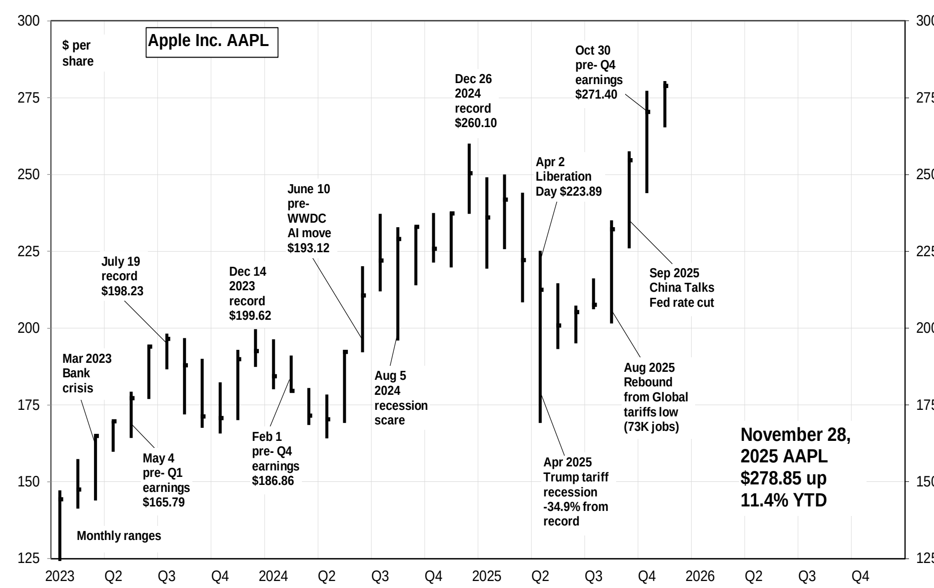


The stock market closed early at 1pm on Black Friday so Americans can do their holiday shopping. It didn't help with the technical futures outage after dinner at 940pm ET on Thanksgiving to 830am ET Friday morning. Recovery was the theme this week, as so often has been the case this year, after the 5.8% sell-off low on Friday, November 21 from the record highs. Bitcoin was helpful rising back on Tuesday to 90,000 from close to 80,000 last Thursday, November 20. Stocks were supported further by Fed rate cut hopes on Wednesday, December 10, following the NY Fed President Williams thumbs-up on Friday, November 21. January Fed funds futures adjusted the most on Monday with follow-through and Waller. All but 2.5 bps of a 25 bps rate cut to 3.75% is discounted at the Friday early 1pm ET market close. S&P 500 up 16.4% YTD on Friday, and cash bonds early 2pm ET close at 4.02%.

Apple, Inc. (AAPL) up 11.4% YTD

Earnings were back a while ago on Thursday, October 30 with shares rallying 2.2% the next day before closing lower, the week that Wall Street started worrying about AI costs. Sales were down in Greater China, possible product delays, but CEO Cook said revenue should be up 10-12 percent in calendar Q4 2025. Apparently there are indications the new iPhone 17 is doing well. Calendar Q3 2025 Net sales rose 7.9% YOY.

Calendar Year Mln $	Operating Income	Net Sales	iPhone	Greater China
Q3 2025	32,427	102,466	49,025	14,493
Q2 2025	28,202	94,036	44,582	15,369
Q1 2025	29,589	95,359	46,841	16,002
Q4 2024	42,832	124,300	69,138	18,513
Q3 2024	29,591	94,930	46,222	15,033
Q2 2024	25,352	85,777	39,296	14,728
Q1 2024	27,900	90,753	45,963	16,372
Q4 2023	40,373	119,575	69,702	20,819
Q3 2023	26,969	89,498	43,805	15,084



FEDERAL RESERVE POLICY

The Fed meets December 9-10, 2025 to consider its monetary policy. With a Trump Powell replacement to be named in December, focus shifts to the new crowd. Fed governor Waller told TV on Monday that he wants a rate cut in December based on the labor market, and then meeting-by-meeting decisions starting in January. On Tuesday 10-yr yields broke 4.00% barely, partly due to Fed governor Miran telling TV that large interest rate cuts were needed to get interest rates down to neutral faster, the same morning as [new weekly ADP jobs data] showed job cuts. Strange comments from the 20th member of the FOMC Treasury Secretary Bessent saying Tuesday that Fed officials talk too much, and some regional Fed Presidents don't even live in their districts. Markets are left wondering which of the many Trump/Bessent Powell replacement candidates will be selected to do a proper job and throw savers under the bus.

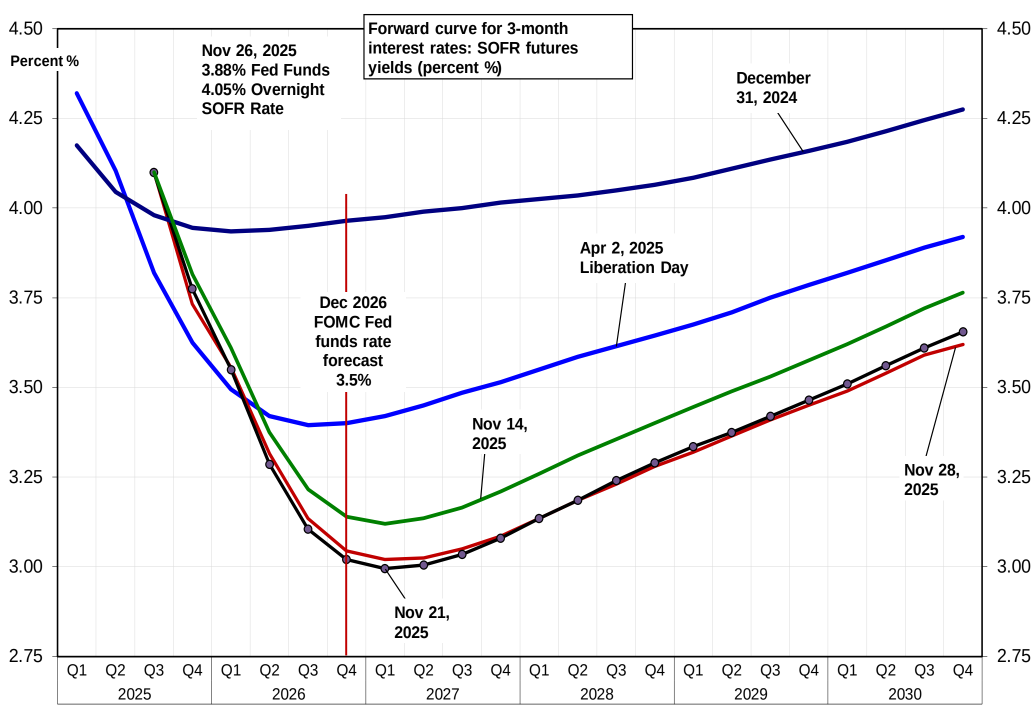
Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	26-Nov	19-Nov	12-Nov	5-Nov	3/11/20*	Change from 3/11/20 to Nov 26
Factors adding reserves						
U.S. Treasury securities	4191.225	4190.939	4192.993	4192.743	2523.031	1668.194
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2053.665	2069.907	2069.963	2069.963	1371.846	681.819
Repurchase agreements	14.000	0.006	6.052	0.102	242.375	-228.375
Primary credit (Discount Window)	7.792	6.101	5.818	7.138	0.011	7.781
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	0.066	0.066	0.067	0.069		
Main Street Lending Program	2.458	3.659	3.845	3.839		
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	0.046	0.047	0.031	0.086	0.058	-0.012
Federal Reserve Total Assets	6602.6	6606.2	6631.1	6623.6	4360.0	2242.571
~~3-month Libor %~~ SOFR %	4.05	3.91	3.98	3.91	1.15	2.900
Factors draining reserves						
Currency in circulation	2426.786	2421.226	2423.504	2421.923	1818.957	607.829
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	899.678	900.832	943.145	942.700	372.337	527.341
Treasury credit facilities contribution	0.821	2.029	2.029	2.029		
Reverse repurchases w/others	2.217	1.129	5.886	12.814	1.325	0.892
Federal Reserve Liabilities	3704.610	3688.652	3747.758	3771.720	2580.036	1124.574
Reserve Balances (Net Liquidity)	2897.987	2917.531	2883.340	2851.923	1779.990	1117.997
Treasuries within 15 days	57.441	59.709	52.227	64.414	21.427	36.014
Treasuries 16 to 90 days	209.782	205.280	199.016	186.371	221.961	-12.179
Treasuries 91 days to 1 year	430.300	432.488	442.612	443.029	378.403	51.897
Treasuries over 1-yr to 5 years	1409.933	1409.816	1401.107	1401.005	915.101	494.832
Treasuries over 5-yrs to 10 years	491.053	491.025	509.387	509.362	327.906	163.147
Treasuries over 10-years	1592.716	1592.621	1588.644	1588.561	658.232	934.484

Note: QT starts June 1, 2022	Change	11/26/2025	6/1/2022
U.S. Treasury securities	-1579.554	4191.225	5770.779
Mortgage-backed securities (MBS)	-653.781	2053.665	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 2.5 bps of a 25 bps rate cut to 3.75% is discounted on December 10.

Fed funds futures call Fed policy

Current target: November 28 -- 4.0%

Rate+0.12	Contract	Fed decision dates
3.775	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

Next up: September PCE inflation report Friday, December 5 at 10am ET

Monthly % Changes	2025 Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	2025 Jan	2024 Dec	Nov	Oct	Sep	Aug	2024 Jul
Core CPI inflation	0.2	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
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
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
Core CPI YOY	3.0	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

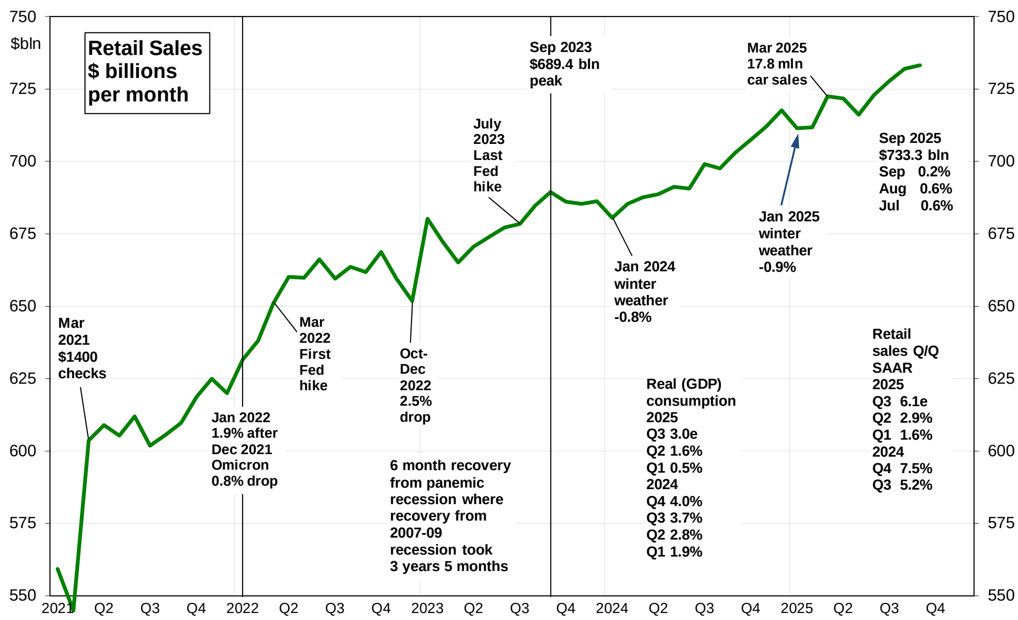
OTHER ECONOMIC NEWS

September PPI And Retail sales finally (Tuesday)

Breaking economy news. Retail sales rose 0.2% in September, but with 0.6% increases in July/August, the third quarter is running 6.1% now versus our expectation coming in today for a 5.8% advance. 5.8 or 6.1 percent is strong and we expect real consumer spending will increase 3.0% in the delayed, first look at Q3 2025 real GDP report on Tuesday, December 23, just in time for Christmas. Eating and drinking places, the only real services spending in the report, was strong with a 1.0% increase in August and 0.7% in September, maybe that is why the industry hired a lot of workers in the September payroll jobs report. Motor vehicles fell somehow by 0.3% in September which was supposed to be up big with the rush to buy before the expiring EV tax credits.

Retail spending, actual dollars, each month

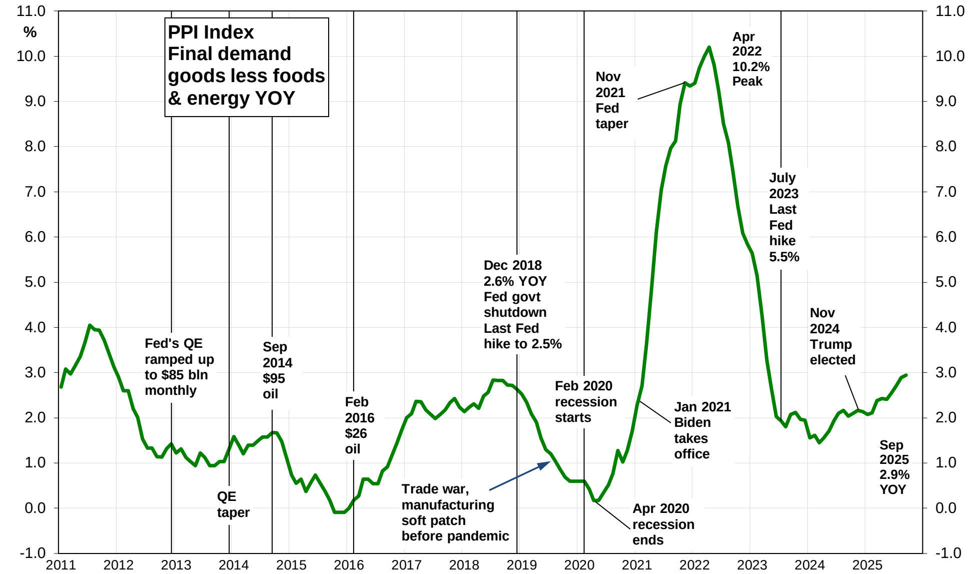
	$million	% to	Percent Changes %		
	Sep	Total	Sep	Aug	Year/year
Total Retail Sales	733,258	100.0	0.2	0.6	4.3
Motor vehicles/parts	139,353	19.0	-0.3	0.6	5.1
Furniture/furnishings	11,418	1.6	0.6	-2.0	1.2
Electronics/appliances	7,689	1.0	-0.5	-0.3	6.3
Building materials/garden	40,153	5.5	0.2	0.3	-2.4
Food & beverage	85,516	11.7	0.2	0.6	2.7
Health/personal care	40,584	5.5	1.1	-0.1	5.6
Gasoline stations	52,853	7.2	2.0	0.4	3.1
Clothing/accessories	27,043	3.7	-0.7	1.0	6.7
Sporting goods, books	7,951	1.1	-2.5	1.0	-0.2
General merchandise	77,097	10.5	0.1	0.1	1.6
Department stores	3,181	0.4	-0.7	-0.9	-3.3
Miscellaneous retailers	15,083	2.1	2.9	-2.9	8.2
Nonstore retailers (internet)	127,801	17.4	-0.7	1.6	6.0
Eating & drinking places	100,717	13.7	0.7	1.0	6.7
[Total ex-autos/gas]	541,052	73.8	0.1	0.6	4.2



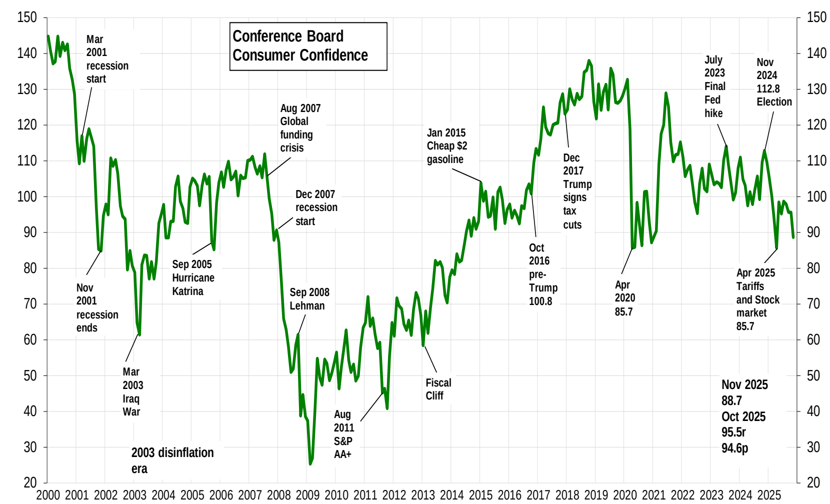
PPI inflation rose 0.3% in September, not enough inflation to catch the market's attention. The July 2025 PPI report jumping 0.9% in mid-August (revised to 0.8%) sent bond yields soaring, and was the last time PPI sent a worrisome inflation signal. Old-fashioned PPI before the BLS added services to the index is Final demand goods less foods and energy and this rose 0.2% and is up 2.9% year-on-year. This index approached 3.0% back in 2018 and was one of the reasons why the Fed under Powell pushed yields

Monthly % SA		Final demand goods				Final demand services			
2025	Total final demand	Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other
Jan	0.7	0.7	1.0	2.0	0.2	0.7	1.2	0.6	0.4
Feb	0.1	0.3	1.6	-1.4	0.3	0.1	-0.8	0.0	0.5
Mar	-0.2	-0.9	-2.2	-3.9	0.3	0.2	0.4	-1.7	0.3
Apr	-0.3	0.0	-0.9	-0.3	0.3	-0.3	-0.2	0.0	-0.4
May	0.4	0.1	0.0	-0.4	0.3	0.5	1.4	0.0	0.1
Jun	0.1	0.3	0.1	1.1	0.2	0	-0.2	-0.8	0.1
Jul	0.8	0.6	1.5	0.7	0.3	0.9	1.1	1.5	0.8
Aug	-0.1	0.2	0.1	-0.4	0.3	-0.3	-1.7	0.6	0.3
Sep	0.3	0.9	1.1	3.5	0.2	0.0	-0.2	0.8	0.1

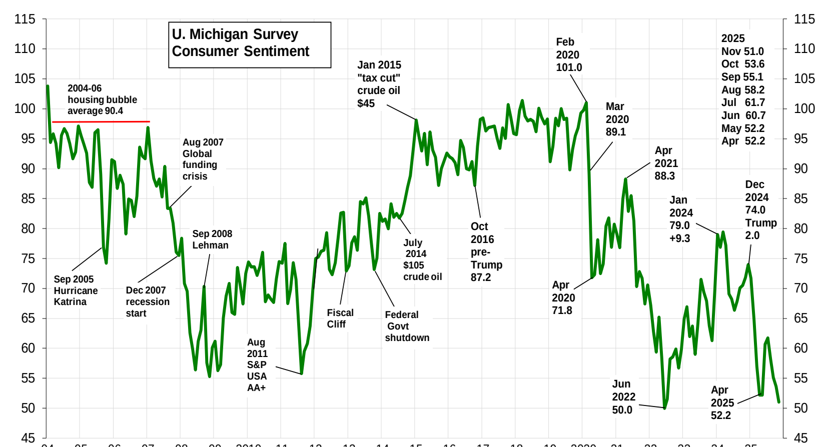
**Final demand goods, less foods and energy is old-fashioned PPI to 2.5% in December 2018 before losing their nerve and backing down with a crashing stock market and heap of abuse from the President.



Net, net, the long-delayed September economic data on Producer Prices and Retail Sales did not move enough to quicken the market's pulses with moderate increases in PPI inflation and consumer spending at the shops and malls. To be sure the third quarter will still be a blowout for economic growth there is no question about that as consumers bought everything that wasn't nailed down if we count July, August and September spending as a whole. Inflation does appear to be moving away from the Fed's 2.0% target rate looking at PPI core final demand commodities running 2.9% year-on-year in September (2.945), which although it was 2.9% in August as well, it is higher than the 2.2% rate when Trump 2.0 won the November 2024 election. There is not no inflation and it is higher than the 2.1% year-on-year rate for core factory goods when the President took office in January. America dined out seemingly without a care in the world spending a lot at restaurants and bars in August and September, but the fourth quarter is going to be a different strory with the government shutdown taking down economic growth with it, or a least cutting real GDP growth in half from the 4% estimates in Q3 2025.

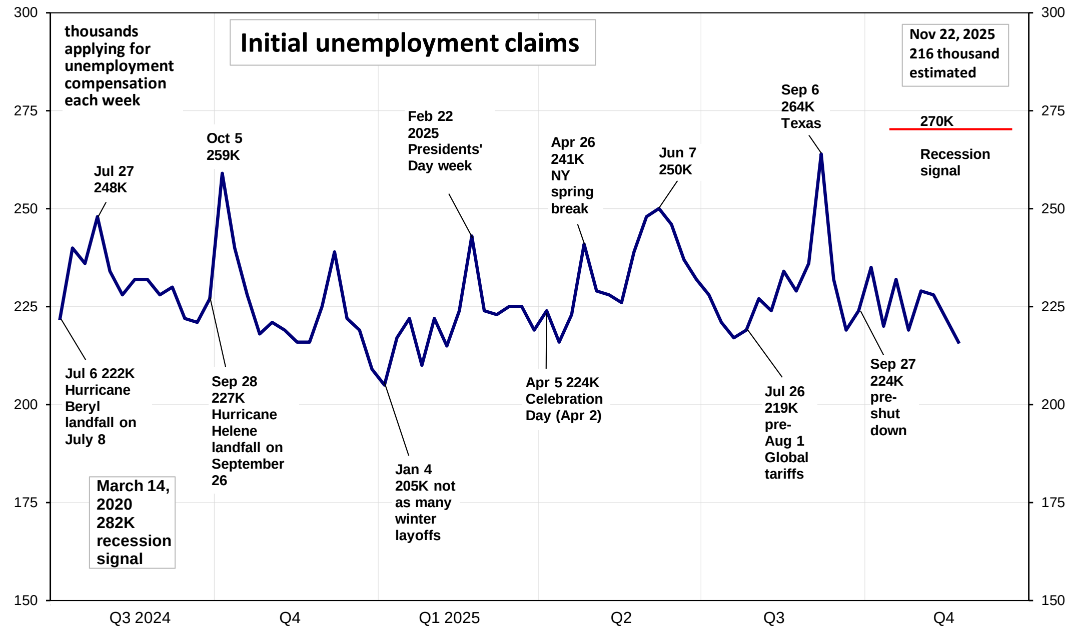


**Almost forgot, the best for last, the final Tuesday of every month, consumer confidence fell sharply in November, almost wiping out the good economic news of solid retail sales for the third quarter. Consumers spent in Q3 and now pull back in Q4. Might be a story, but the consumer confidence measure seems to be catching up to the trend in the Michigan survey of consumer sentiment. October was 94.6, it was revised to 95.5 and then fell 6.8 points to 88.7 in November.

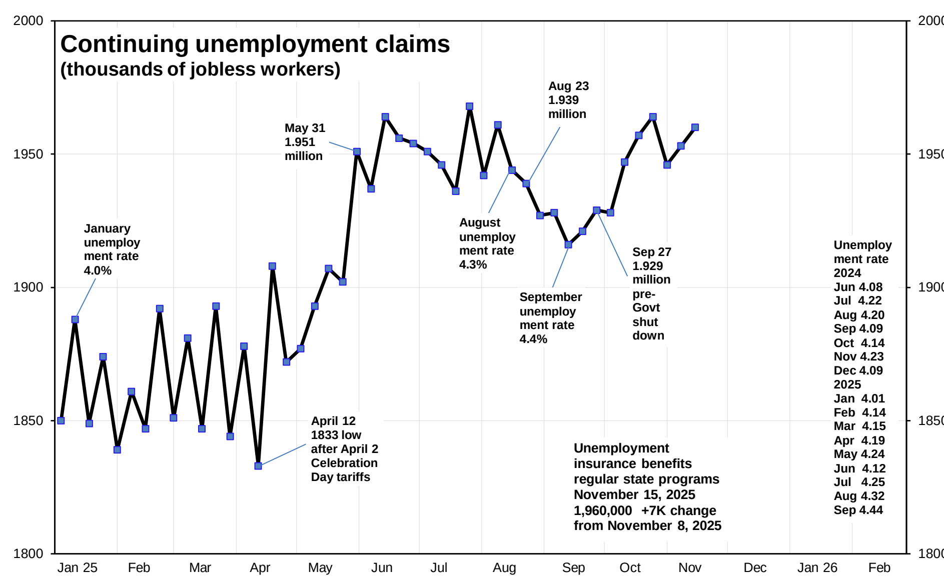


Orders up, layoffs down (Wednesday)

Breaking economy news. Weekly jobless claims and durable goods orders for September. Never seen a recession appear out of thin air without a surge in first-time applications for jobless benefits. Initial claims fell 6K to 216K in the November 22 week. Tricky time of year with the winter layoffs zooming apace, but the seasonal factor tamed the 25.7K increase in not seasonally adjusted applications apparently. Continuing unemployment claims got whacked by a revision where the November 8 week was 1.974 million now it is 1.953 million. November 15 is the employment survey week and it rose 7K to 1.960 million. These total claims have not lined up well with the national unemployment rate of 4.4% that just missed 4.5% in September. The monthly jobs report for November is due Tuesday, December 16, and there will be no October unemployment rate published. Ideally, initial claims would go up and the new jobless workers would transfer to being one of the continuing unemployment claims; it is not happening, so it is hard to trust the continuing claims rise.

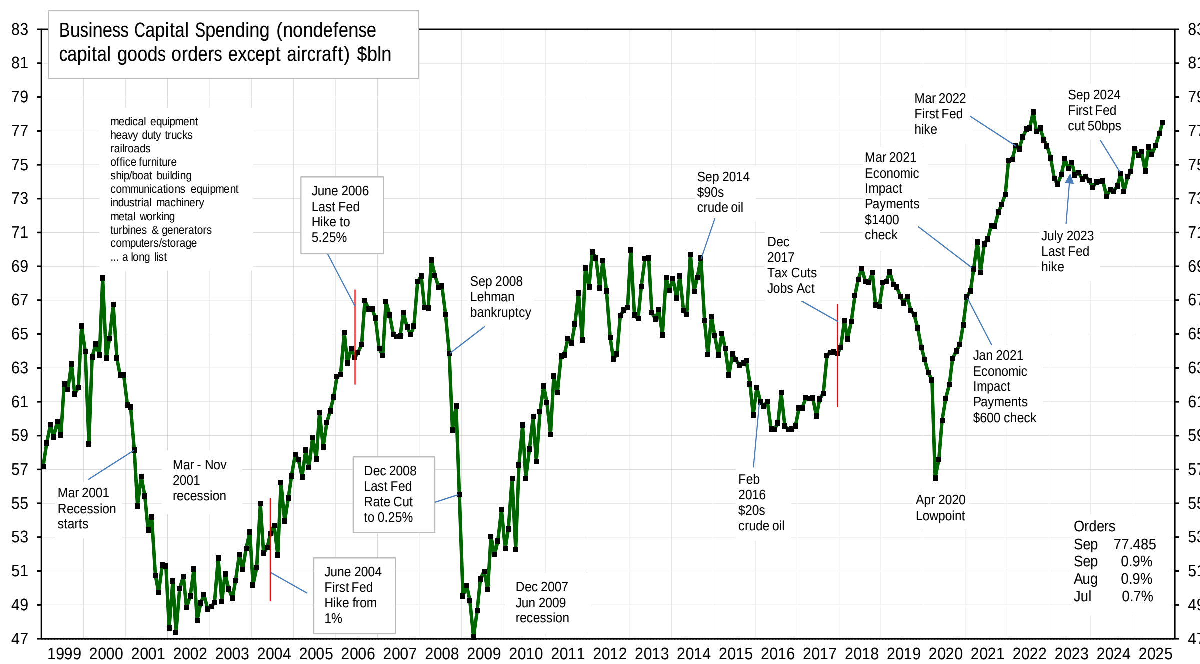


Net, net, the economy is alive and well both backward looking and right now as weekly job layoffs are sinking lower and lower, and business new orders are booming. Manufacturing orders for long-lived capital goods are soaring in September, and economists are holding their breaths in the hope that this activity is real and that the orders are not just flash-in-the-pan attempts to bring the goods into inventory before all the import tariffs are set in stone. Stay tuned. Manufacturing production has been on a downward slope in America since the Trump 1.0 trade wars way back in 2019, but perhaps business activity is doing better than feared. Orders up, then factory production follows. Maybe. One thing is certain and that is that Q3 2025 is going to be a gigantic quarter for real GDP growth, although admittedly it is only a rear-view mirror look back at the third quarter which was before the Federal government shutdown. Whichever side of the fence you are on,



given the strength of the real economy, Fed officials are unlikely to press hard for a Fed rate cut in December as the latest crop of economic data says that lower interest rates are simply not necessary for the economy's continued success. The labor market is just fine and the downside risks there that Fed officials cite do not appear to be growing.

Nondefense capital goods orders ex-aircraft have risen 0.9% both in August and in September. Could be AI related equipment, or attempt to order in to beat the tariffs, or maybe the manufacturing renaissance is here. Stay tuned. These orders fall in recession. Maybe the slowdown in the labor market, chiefly nonfarm payroll jobs, is a red herring for the economic outlook that is affected by immigration trends.



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