

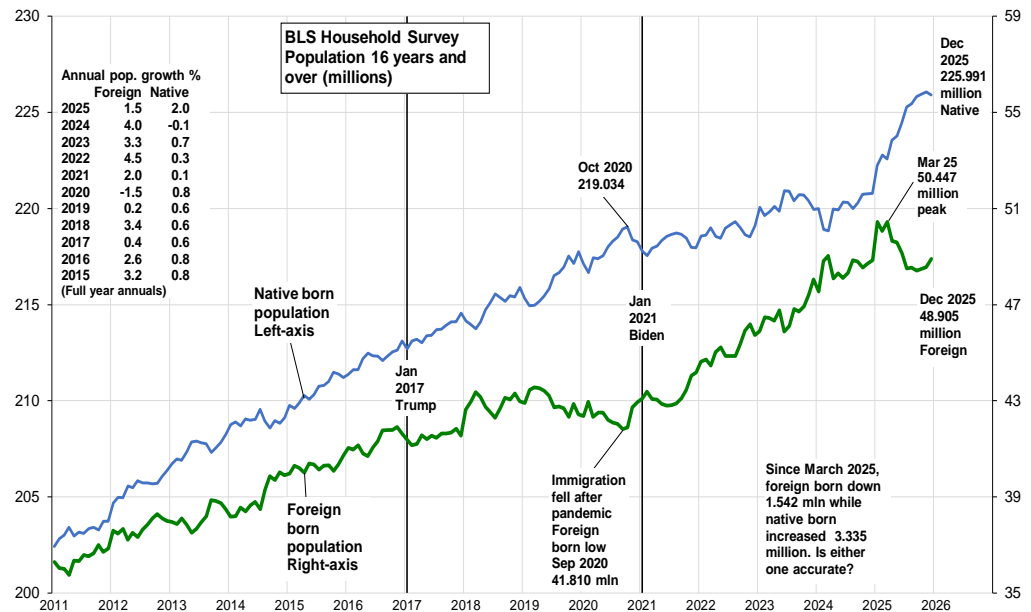
# Financial Markets This Week

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## SLOW AND STEADY JOBS REPORT

50K December, 56K November and stocks at all-time highs. 50K is good enough. And the labor market is no longer in danger of flying off the rails after the Bureau of Labor Statistics waved its magic wand and seasonally adjusted that worrisome 4.6% (4.56) November unemployment rate print back to 4.5% and reported an even lower 4.4% rate (4.38) today for December. The jobs report is fully back we think after its Federal government shutdown collection delays, although an exactly even 50 thousand increase in December payroll jobs seems a little on the let's-make-it-up side perhaps. That pothole in October during the Federal government shutdown was revised lower to -173K from 105K, but November stabilized at a 56K gain and now 50K for December. January 2026 data released on February 6 will have the annual benchmark revision for payroll jobs, and some new fangled birth-death model, hopefully choosing more life than death for the labor market. In every administration there comes a time when critics question whether there are not just jobs out there, but rather are there good jobs. The added wrinkle for Trump 2.0 is that the tariffs are supposed to bring factories back to American shores, but here, good manufacturing jobs fell another 8 thousand in December and are 68 thousand lower than last December during the last administration's full month in office. Retail jobs keep falling, another 25 thousand lost in December. Good jobs in Professional and business service employment is 8K lower and the only major job gains are at bars and restaurants (27K), and health care (21K) and social assistance services (17K).



The jobs count depends on the population trend and that trend is hard to believe given the radical shift in migration from in to out, out, out. Foreign born Americans have fallen 1.542 million since March, okay maybe, but the 3.335 million native born rise is hard to reconcile with the birth rate unless baby boomers have stopped passing away suddenly. The BLS has delayed its annual "population controls" for an extra month, until March 6 to get things sorted out. It is more difficult to understand what labor market weakness is, unless the unemployment rate moves up much more dramatically.

Today's report should allay the concerns for some Fed officials that the labor market is in danger of deteriorating, although the not too hot not too cold reading on jobs is unlikely to stop the Trump administration economists from pounding the table for more than just the one rate cut the Fed has forecast for this entire year. Eight meetings for the Fed this year and they only have to show up for one. Stay tuned. The labor market is steady at the moment which may count as a win given the volatility in markets due to the administration's job-killing economic agenda of import tariffs and aggressive enforcement of the nation's immigration laws. A slow and steady jobs market wins the race, but markets are still anxious for what lies ahead in 2026. It is difficult to know if 50K is the new speed, or stall-speed slow, like with the economy inches away from recession, where payroll employment falls month after month. These are not interesting times to be grateful for, these are strange times with 1.559 million private payroll jobs in 2024 under Biden, and 733 thousand private payroll jobs under Trump 2.0. But don't make this into a contest. The jobs slowdown may be due to the reversal of migration and not a sign of economic weakness. Strange times indeed. The stock market isn't worried. Why should we?

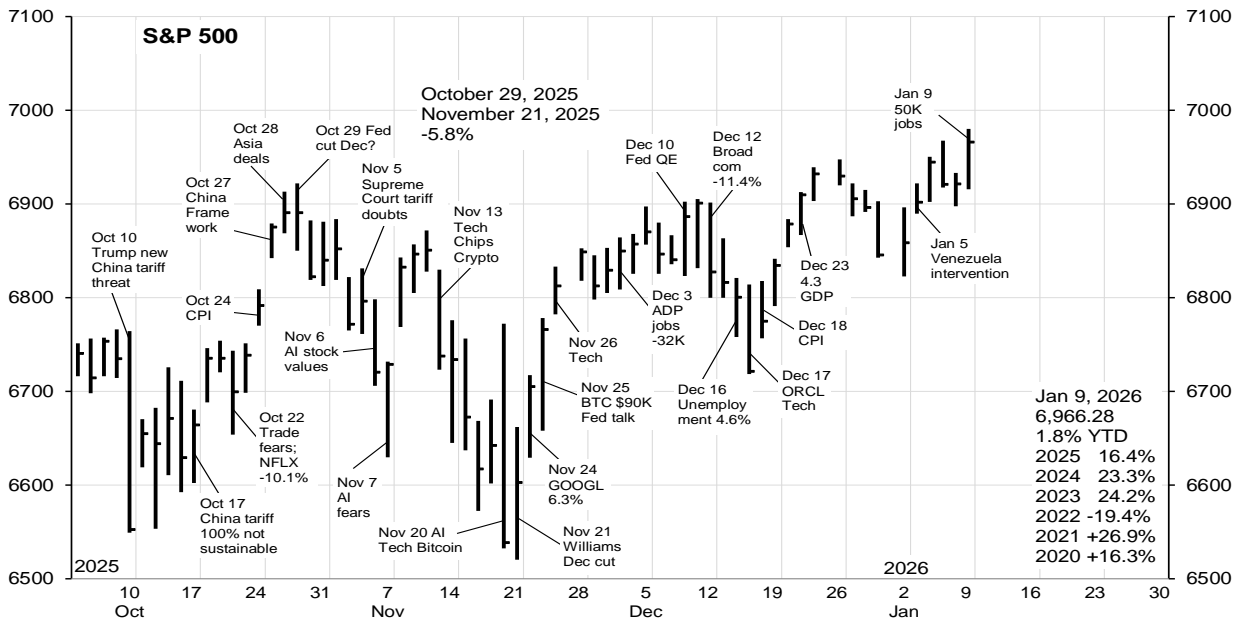
**Monthly payroll jobs rebound from October government layoffs**

Dec. 2024	Totals	12 months			12 months	
millions		Dec 25	Nov 25	Oct 25	Dec 24 to Dec 25	Dec 23 to Dec 24
158.942	<b>Nonfarm Payroll Employment</b>	50	56	-173	584	2012
135.382	<b>Total Private (ex-Govt)</b>	37	50	1	733	1559
21.673	<b>Goods-producing</b>	-21	18	-21	-70	72
0.585	Mining	-1	-3	2	-13	-9
12.760	Manufacturing	-8	-2	-9	-68	-105
1.008	Motor Vehicles & parts	-1	-3	-6	-28	-20
1.015	Computer/electronics	0	-2	-3	-18	-28
1.770	Food manufacturing	0	-2	-1	-1	17
8.289	Construction	-11	22	-13	14	190
5.248	Specialty trade contractors	-8	13	-7	0	112
113.709	<b>Private Service-providing</b>	58	32	22	803	1487
29.033	<b>Trade, transportation, utilities</b>	-33	-42	-31	-67	179
15.538	Retail stores	-25	-17	-24	2	-6
3.273	General Merchandise	-17	-17	-12	-4	48
3.235	Food & Beverage stores	-9	-3	-5	1	19
6.723	Transportation/warehousing	-7	-25	-6	-59	136
1.521	Truck transport	0	-3	1	-8	-18
0.569	Air transportation	1	2	0	12	7
1.153	Couriers/messengers	-1	-18	1	-34	79
1.844	Warehousing and storage	-7	-7	-13	-53	15
2.944	<b>Information</b>	0	-3	-7	-30	-18
0.484	Computing, data, web hosting	-6	0	4	-7	0
9.206	<b>Financial</b>	7	0	1	38	30
3.019	Insurance	-2	-10	2	-17	37
2.481	Real Estate	6	3	-2	17	11
1.369	Commercial Banking	3	-2	0	-5	-17
1.128	Securities/investments	3	4	2	35	16
22.614	<b>Professional/business</b>	-9	13	-16	-97	-50
2.552	Temp help services	-6	-5	-24	-99	-159
2.622	Management of companies	1	2	-4	11	7
1.729	Architectural/engineering	2	6	3	36	54
2.446	Computer systems/services	-4	-3	-6	-47	-6
1.192	Legal services	2	0	2	16	-10
1.141	Accounting/bookkeeping	-2	1	-3	16	-9
26.931	<b>Education and health</b>	41	59	41	709	999
5.641	Hospitals	16	10	5	164	209
8.934	Ambulatory health care	5	26	21	157	330
3.992	Educational services	2	1	-8	-4	80
16.979	<b>Leisure and hospitality</b>	47	-3	33	188	251
1.949	Hotel/motels	3	2	2	-4	29
12.365	Eating & drinking places	27	7	51	150	130
23.560	<b>Government</b>	13	6	-174	-149	453
2.413	Federal ex-Post Office	1	2	-178	-268	48
5.512	State government	-7	1	-13	-45	134
2.630	State Govt Education	-4	-3	-9	-53	37
15.036	Local government	18	2	18	170	273
8.186	Local Govt Education	3	1	1	75	109

Monthly changes (000s)	Dec	Nov	Oct	Sep	Aug
Payroll employment	50	56	-173	108	-26
Private jobs	37	50	1	104	10
Federal govt ex-post office	1	2	-178	-4	-16
Bars/Restaurants	27	7	51	38	21
HH Employment Survey*	232	na	na	286	230
Unemployment rate %	4.4	4.5	na	4.4	4.3
Participation rate %	62.4	62.5	na	62.5	62.3
Not in labor force (mln)	103.321	103.092	na	102.964	103.251
... and Want A Job (mln)	6.208	6.139	na	5.943	6.347
Average hourly earnings	\$37.02	\$36.90	\$36.81	\$36.65	\$36.58
MTM % Chg	0.3	0.2	0.4	0.2	0.4
YOY % Chg	3.8	3.6	3.7	3.7	3.8

\* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES

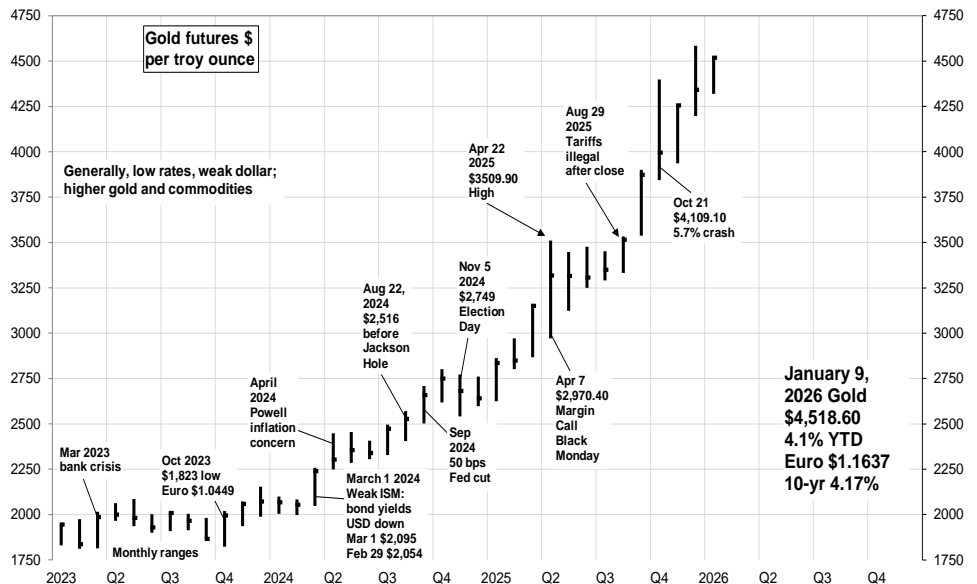


If you were trading the economic news, you did not have to have a correct forecast this week as the market reversed almost every initial reaction, so you had plenty of time to make your bet. Reversals probably as it is unclear what the Fed would/should do in response to these economic reports anyway. 50K payroll jobs was less than expected; debatable whether this represents true economic weakness given the 180 reversal on migration the last year. The yield curve did narrow on the two-tenths reduction in the last known unemployment rate level on Friday, as the bond market isn't looking for much chance of a Fed rate cut in the near term. Stocks continue to go their own way, whether rain or shine, and closed at a record high up 1.8% YTD. 10-yr closed Friday at 4.17%. Trump said Fannie/Freddie would buy \$200 billion MBS, dropping mortgage yields, narrowing spread to Govts.

**Gold futures up 64.4% in 2025; S&P 500 up 16.4%; 10-yr yield -41 bps to 4.17%**

Gold closed at \$3,516.10 on Friday, August 29 and gapped higher into September on the news Trump tariffs were ruled illegal. Still waiting on the final Supreme Court ruling, maybe next week after no news at 10am ET on Friday. Not sure this trade ruling still counts as uncertainty, but gold rallied to the \$4,584.00 record high after Christmas Day. Earlier in the year, gold likes chaos, turmoil and uncertainty, but the move was looking too speculative and gold tumbled \$250.30 or 5.7% on the October 21 "worst day in 12 years." Stay tuned.

S&P 500 Weights	
Top 7: 34% of S&P	
7.61	NVIDIA
6.48	AAPL
6.01	MSFT
4.06	AMZN
3.20	GOOGL
2.66	Broadcom
2.57	GOOG
2.38	Meta



**FEDERAL RESERVE POLICY**

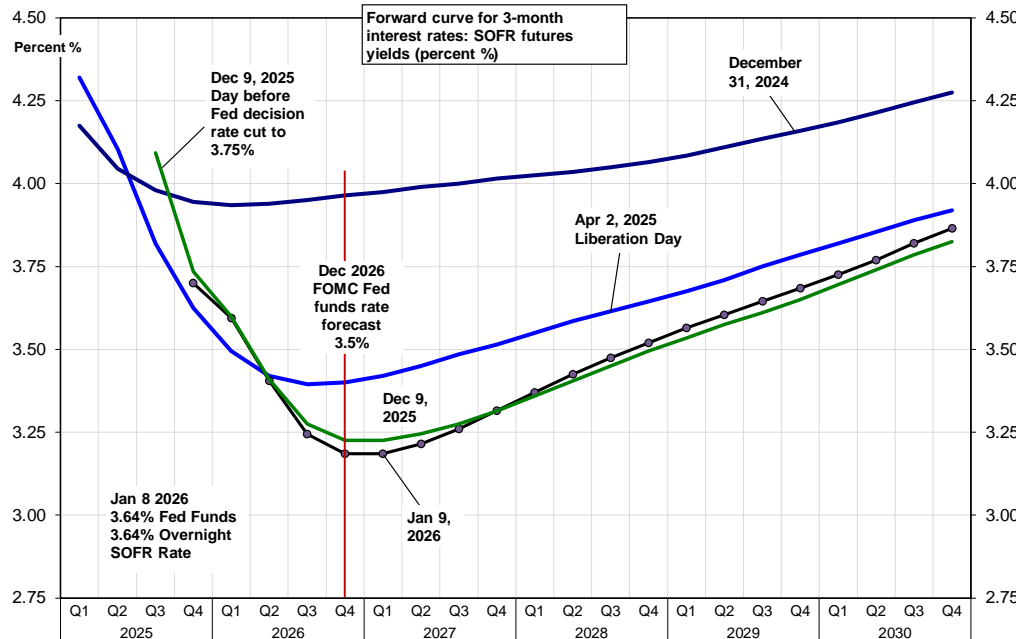
The Fed meets January 27-28, 2026 to consider its monetary policy. Fed governor Miran kept talking during the week and by Thursday told TV that he was looking for 150 bps of rate cuts this year, so 3.75% down to 2.25%, where 2.25% is indeed the lowest dot on the 2026 Fed forecast for year-end. There go the money market fund rewards. And if it is any help, the lowest dot at the end of 2027 is 2.5% if that makes any sense. Friday's jobs data should have lowered the Fed's concern about the labor market with unemployment 4.4% now and not 4.6% where we thought it was. It is not clear despite some views on the Committee that a 3.75% interest rate is in any way restrictive or otherwise standing in the economy's way. In most economic cycles the Fed raises rates until the tightening brings about a surge in job layoffs as shown by the weekly unemployment claims filings. Although the 1990-91 recession happened long after the Fed brought rates down from the peak, the recession catalyst was an oil price spike after Iraq invaded Kuwait. Peak Fed rates this cycle were way back at 5.5% in July 2023 and yet the economy is not rolling over, in fact nondefense capital goods orders ex-aircraft are just under record highs. Stay tuned. We will see how much last month's "low" CPI report was distorted on January 13.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data						3/11/20
	7-Jan	31-Dec	24-Dec	17-Dec	3/11/20*	to Jan 7
<b>Factors adding reserves</b>						
U.S. Treasury securities	4235.527	4227.801	4227.581	4204.179	2523.031	1712.496
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2039.024	2039.024	2050.575	2053.476	1371.846	667.178
Repurchase agreements	0.000	74.600	0.503	0.002	242.375	-242.375
Primary credit (Discount Window)	7.225	9.664	9.874	8.870	0.011	7.214
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	0.062	0.063	0.063	0.063		
Main Street Lending Program	1.571	1.612	2.089	2.087		
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	0.481	0.481	0.481	0.089	0.058	0.423
<b>Federal Reserve Total Assets</b>	<b>6624.6</b>	<b>6690.8</b>	<b>6632.2</b>	<b>6607.7</b>	<b>4360.0</b>	<b>2264.532</b>
<b>3-month Libor % SOFR %</b>	<b>3.65</b>	<b>3.87</b>	<b>3.66</b>	<b>3.69</b>	<b>1.15</b>	<b>2.500</b>
<b>Factors draining reserves</b>						
Currency in circulation	2441.944	2445.544	2438.550	2428.092	1818.957	622.987
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	783.571	872.853	801.537	861.417	372.337	411.234
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	4.582	105.993	4.803	10.361	1.325	3.257
<b>Federal Reserve Liabilities</b>	<b>3601.561</b>	<b>3837.391</b>	<b>3651.640</b>	<b>3674.077</b>	<b>2580.036</b>	<b>1021.525</b>
<b>Reserve Balances (Net Liquidity)</b>	<b>3022.997</b>	<b>2853.441</b>	<b>2980.514</b>	<b>2933.652</b>	<b>1779.990</b>	<b>1243.007</b>
Treasuries within 15 days	69.223	70.296	64.564	46.618	21.427	47.796
Treasuries 16 to 90 days	214.862	209.307	219.127	222.451	221.961	-7.099
Treasuries 91 days to 1 year	453.783	450.169	449.104	440.553	378.403	75.380
Treasuries over 1-yr to 5 years	1401.095	1401.276	1404.196	1404.085	915.101	485.994
Treasuries over 5-yrs to 10 years	500.394	500.438	495.728	495.701	327.906	172.488
Treasuries over 10-years	1596.170	1596.314	1594.861	1594.772	658.232	937.938
Note: QT starts June 1, 2022	Change	1/7/2026	6/1/2022			
U.S. Treasury securities	-1535.252	4235.527	5770.779			
Mortgage-backed securities (MBS)	-668.422	2039.024	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	2.9	2.4	2.1	2.0	2.0
Core inflation	3.0	2.5	2.1	2.0	
Unemployed	4.5	4.4	4.2	4.2	4.2
GDP	1.7	2.3	2.0	1.9	1.8

December 2025 median Fed forecasts



A 25 basis point cut to 3.5% is discounted by the June 2026 meeting.

Fed funds futures call Fed policy			
Current target: January 9 -- 3.75%			
Rate+0.11 Contract	Fed decision dates		
3.670 Apr 2026	Jan 28, Mar 18*		
3.495 Jul 2026	Adds Apr 29, Jun 17*		
*Apr 2026 could be one day at a new rate			
*July 2026 could be two days at a new rate			

**Next up: December CPI inflation report Tuesday, January 13 at 830am ET**

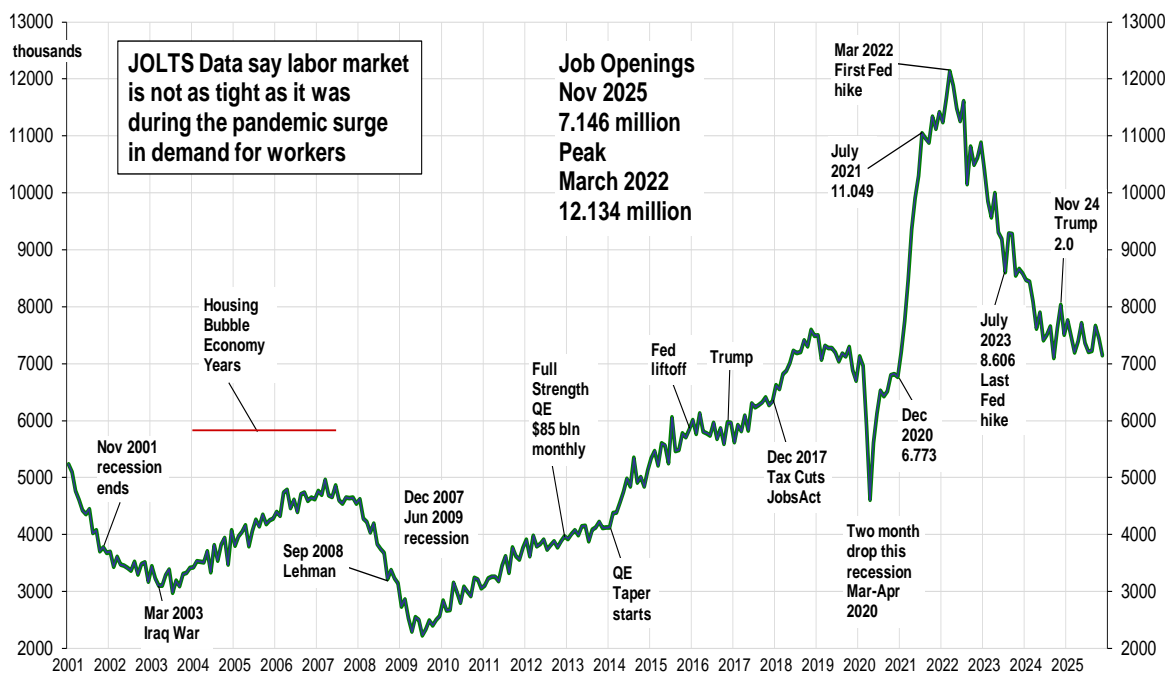
Monthly % Changes	2025											2024			
	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep
Core CPI inflation	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3
Core PCE inflation	na	na	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3	0.2	0.1	0.3	0.3
Core PCE YOY	na	na	2.8	2.9	2.9	2.8	2.8	2.6	2.7	3.0	2.8	3.0	3.0	3.0	2.8
Core CPI YOY	2.6	na	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

OTHER ECONOMIC NEWS

For-hire signs down (Wednesday)

Breaking economy news. Jolts data at 10am ET. Job openings down 303K to 7.146 million at the end of November. We will see what the December monthly employment report holds in store for the labor markets, but the end of November is not that much different from the survey week for jobs/unemployment that includes the 12th of December. Still, there is not that much to go on when it comes to tea-leaf reading of the economy even if job openings of 7.146 million in November are at a new low since the 8.031 million figure in November 2024 when Trump was elected. “Business conditions” are not that much more worrisome after the Jolts data today. Anyway, while labor markets were weaker at 10am ET, at the same time, [December ISM services](#) data were released showing a stronger U.S. economy for some, at least better than for those in the manufacturing sector. ISM services PMI jumped 1.8 points to 54.4 in December after being 50.0 in September with the uncertainty before the Federal government shutdown.

Net, net, the economic agenda out of Washington is not moving the needle and generating demand for more labor yet, with new job postings by companies at the end of November down 303 thousand to 7.146 million and for-hire signs sharply lower from 7.658 million at the end of September before the Federal government shutdown. Most of the decline is in Transportation, warehousing, and utilities (-108K) and Accommodation and food services (-148K). This is the second batch of data on the labor market after this morning’s December ADP jobs report and it is clearly confusing the bond market which is attempting to weigh how likely it is for Fed officials to cut interest rates more than just the one-time forecast for all of 2026 made at the December FOMC meeting. Stay tuned. The labor market is not heating up that’s for sure, so the Trump administration will have to redouble their efforts to create jobs for American workers in the months ahead.

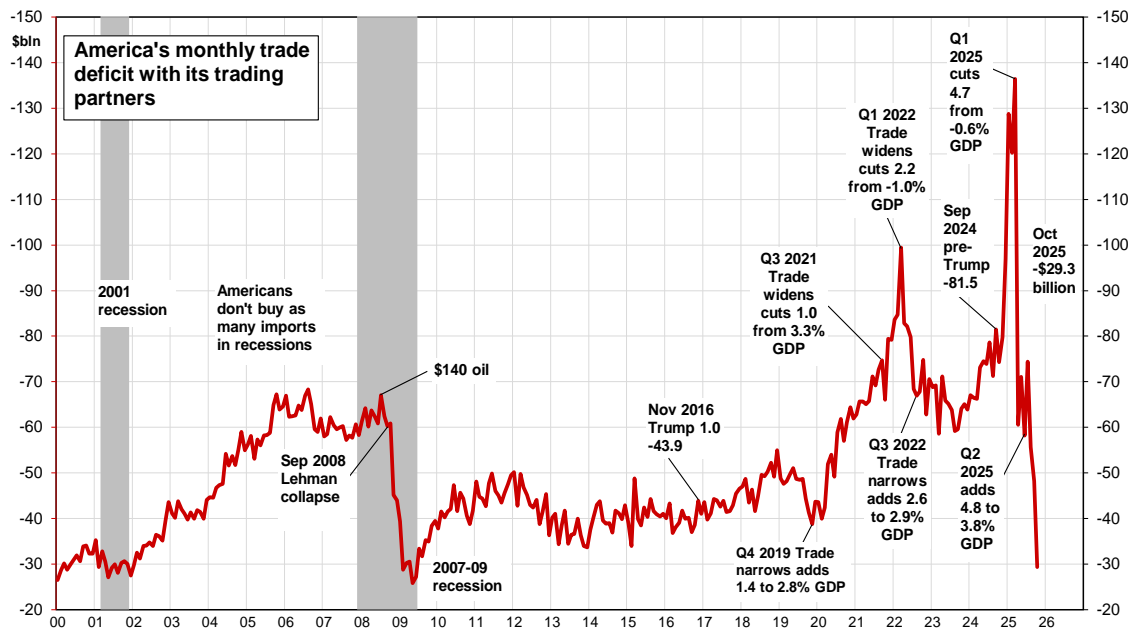


### Trade deficit and jobless claims (Thursday)

Breaking economy news. The October trade deficit reduction to \$29.350 billion looks spectacular, but you don't have to worry yet that Americans are not getting their fill of exotic imported foreign goods. Remember that goods were bought in early in the year to beat the Trump tariffs. Year-to-date imported goods through October 2025 are \$2.895 trillion versus \$2.719 trillion for the same period in 2024, and \$2.588 trillion in the first 10 months of 2023, so imported goods are moving up this year, net, net, which is good because there is no way American factories can supply the goods yet. If the October \$29.35 billion deficit sticks for the rest of the quarter, real GDP will be solid again, for at least one quarter, where Atlanta Fed GDPnow said 5.4% for Q4 25 on Thursday before the employment data on Friday. You might want to scale back their enthusiasm to 4.0% growth. We think 3.5% GDP, but are not happy changing our slower 2.0% real GDP forecast in Q4 2025 "due to the Federal government shutdown." The straight-down -\$29.4 billion October trade deficit is unlikely to stick for one thing, there were some trade war headlines and goods exports were boosted \$6.8 billion by \$17.1 billion of gold exports in October.

Trade deficit (\$bln) contribution to Real GDP					
	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25e
GDP %	1.9	-0.6	3.8	4.3	3.5
Net Ex	-0.1	-4.7	4.8	1.6	2.0
Deficit	-83.7	-128.5	-63.3	-59.4	-29.4
\$ Chg	-6.6	-44.8	65.2	3.9	30.0

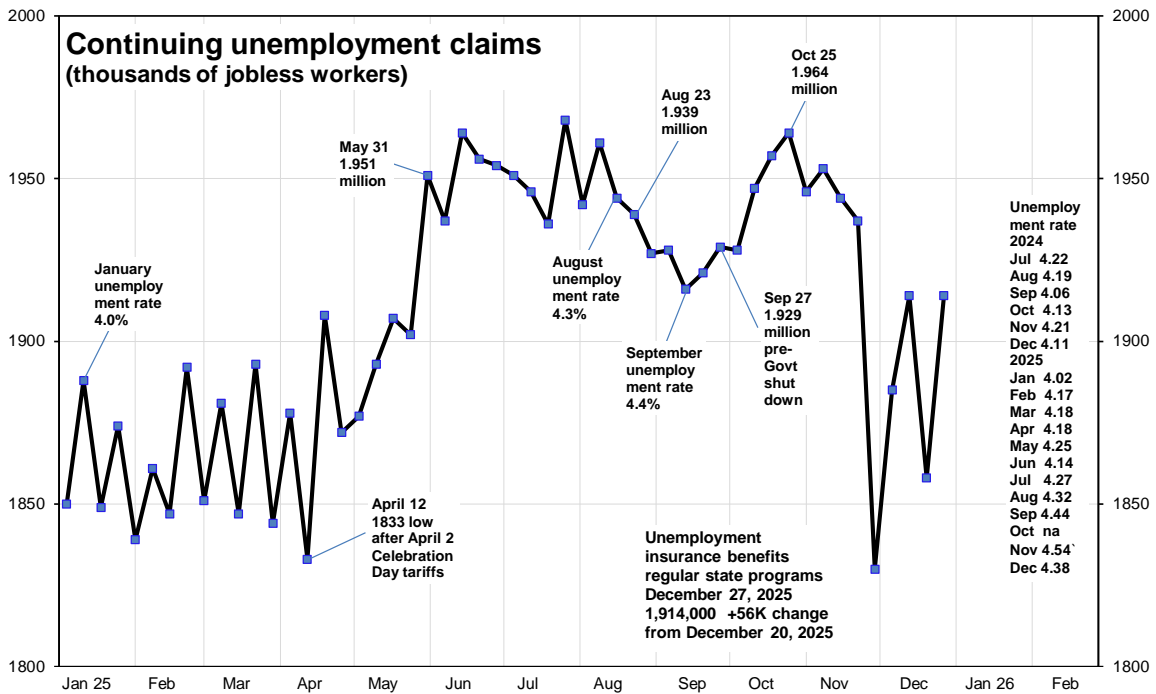
\$mln	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Sep 2025	-48,137	-78,307	30,169	294,225	188,794	105,431	342,363	267,101	75,262
Oct 2025	-29,350	-59,146	29,796	302,015	195,881	106,134	331,366	255,027	76,338
Change	18,787	19,161	-373	7,790	7,087	703	-10,997	-12,074	1,076



Net, net, the good news is that the U.S. economy is in the midst of a productivity boom, but all that means is that GDP output can continue, but without the help of American workers. It takes less labor to produce goods and services in the economy. Nobody is getting fired according to the latest weekly jobless claims stats, but more help is not needed either and that leaves unemployment stuck at higher levels for now. Meanwhile, the trade deficit continues to drop and will provide a much needed boost for fourth quarter economic growth that has been hit hard by the Federal government shutdown. Economists did not see this coming with goods exports exploding by 11% from year ago levels. The

U.S. appears to be winning the trade war with tariffs curbing the imports of foreign goods, but America’s trading partners are not holding any grudge as they continue to buy more American goods and services. Stay tuned. So far the forecasts for a U.S. recession are coming up dry as productivity continues to backstop growth. The only thing missing is that American workers seem to be left by the wayside with companies continuing to keep costs down by limiting the hiring of additional workers. Stay tuned. The 2026 outlook for the economy is looking better than ever for now.

Finally, it is Thursday so there must be weekly jobless claims to take the economy’s temperature, which hopefully still are able to provide some signal of the economy’s imminent collapse... just as long as jobless benefits recipients aren’t too mean-tested and otherwise flooded with paperwork to avoid “fraud,” keeping some ex-workers from making an application. We assume if there is a major external shock to the economy, first-time filings will still suddenly soar. Nothing yet however, 208K in the January 3 week, despite the Trump 2.0 economic agenda shock. The Fed’s restrictive 5.5% “recession rates” are long gone after the first cut for the interest rate cycle in September 2024.



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