

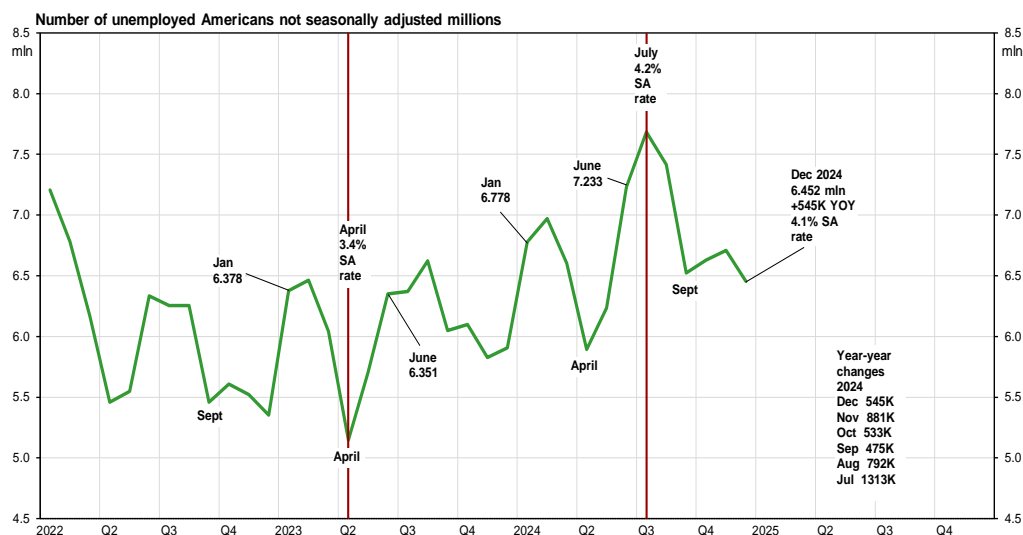
Financial Markets This Week

10 JANUARY 2025

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JOBS FOR EVERYONE

S&P 500 futures fell 1.0% in the first minute, the first sign the jobs number was unexpected. More jobs mean fewer Fed interest rate cuts this year apparently. On the other hand, maybe the economy and corporate profits will continue to rise without the need for additional Fed rate cuts,



so why should stock investors panic unless they are waiting for mortgage rates to fall from 7% so they can buy a house. Nonfarm payroll jobs: 256K December 212K November 43K October. Hard to quantify exactly but it sure looks like October jobs were held back by the Boeing strike and two hurricanes (Helene September 26 that went up to North Carolina, and Milton October 9.) The unemployment rate fell a tenth to 4.1%, but we are more interested in next month's report released February 7 when new BLS so-called population controls are introduced. Interested because it looks like Census increased the US population estimate recently from 337 million to 341 million due mostly to the net international migration trend. Wonder how many "new Americans" are working, how many are unemployed or searching for work, labor force dropouts, etc. Anyway it does not look like Washington needs to do anything to fix the economy.

Foreign Born 18.1% of Population			
Thousands	Dec 2024	Dec 2023	Change
Foreign born			
Population	48,844	48,049	795
Employed	30,779	30,387	392
Unemployed	1,372	1,205	167
Unempl rate	4.3	3.8	0.5
Not in labor force	16,744	16,458	286
Native born			
Population	220,793	219,942	851
Employed	130,565	130,367	198
Unemployed	5,081	4,702	379
Unempl rate	3.7	3.5	0.2
Not in labor force	85,148	84,872	276
Civilian noninstitutional population 16 years and over, not seasonally adjusted			

We are still troubled by the rising number of unemployed Americans even as the world has moved on and of course, payroll employment has to tell the same story of troubling labor market weakness by declining. It is probably not right to blame migration although the jobless rate has increased from 3.8 to 4.3 percent the last year for the foreign born population versus a move of just 3.5 to 3.7 percent for native born Americans. Looking at the number of unemployed not seasonally adjusted, joblessness is difficult to measure as it is volatile based on the time of year. There is a big jump in the unemployed in January when winter hits, and the number out of work tumbles in spring (April). The number moves up again in June when schools finish and students look for work.

Unemployment made its troubling move from the best of times in April 2023 with a rate of 3.4% seasonally adjusted and hit 4.2% in July 2024, a move of 0.8 percentage points that should have been recession-magnitude looking back historically to the 70s. Someone believed it. July 2024 was the report on August 2, 2024 that sent the markets down sharply and convinced Powell to start the rate cuts off with a surprise 50 bps move. Anyway it will be interesting to see if the year-on-year changes start to diminish for the not seasonally adjusted unemployment rate data including the 6.452 million total out of work in December 2024 reported today.

Payroll employment finished the year strong with 256K more jobs. For the December-December year, payroll jobs increased 2.232 million in

2024 down from 3.013 million in 2023. Like the housing bubble nearly twenty years ago that was said to be dominated by housing jobs, the surge in migration has people looking at jobs often filled by immigrants. Construction and health care jobs creation remains about the same this year and last. Bars and restaurants and hotels are lower this year than in 2024. Stay tuned.

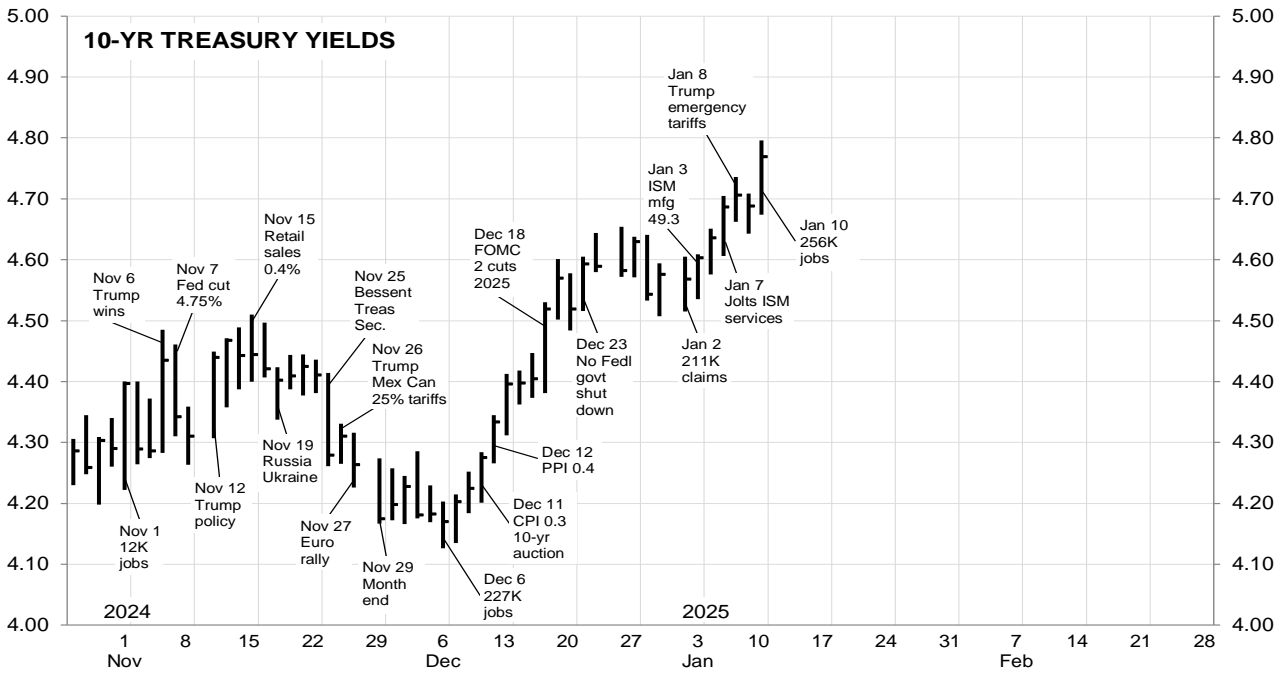
Payroll jobs strong in December

Dec. 2023		Dec 24	Nov 24	Oct 24	12 months Dec 23 to Dec 24	12 months Dec 22 to Dec 23
Totals						
millions						
157.304	Nonfarm Payroll Employment	256	212	43	2232	3013
134.228	Total Private (ex-Govt)	223	182	9	1792	2304
21.723	Goods-producing	-8	34	-53	100	275
0.600	Mining	-3	1	0	-4	15
12.960	Manufacturing	-13	25	-52	-87	26
1.063	Motor Vehicles & parts	-4	2	-3	-7	32
1.108	Computer/electronics	-6	-4	-4	-25	1
1.729	Food manufacturing	-2	0	-1	12	10
8.120	Construction	8	8	-1	196	236
5.148	Specialty trade contractors	4	8	1	121	135
112.505	Private Service-providing	231	148	62	1692	2029
28.867	Trade, transportation, utilities	49	-23	6	224	161
15.603	Retail stores	43	-29	9	74	118
3.209	General Merchandise	13	-16	-1	74	118
3.247	Food & Beverage stores	2	0	9	26	24
6.521	Transportation/warehousing	10	3	-10	110	-69
1.552	Truck transport	-1	2	-2	-6	-35
0.570	Air transportation	3	1	-1	8	40
1.060	Couriers/messengers	2	-3	-1	47	-10
1.767	Warehousing and storage	2	0	-10	3	-99
3.012	Information	10	4	-2	-8	-83
0.494	Computing, data, web hosting	2	1	-2	0	8
9.233	Financial	13	11	5	53	88
2.997	Insurance	13	5	3	53	50
2.496	Real Estate	3	1	4	19	63
1.378	Commercial Banking	-5	-1	-1	-23	-17
1.115	Securities/investments	1	2	1	12	33
22.882	Professional/business	28	9	-10	96	149
2.765	Temp help services	5	6	-29	-104	-217
2.558	Management of companies	10	-4	1	12	15
1.673	Architectural/engineering	7	12	3	55	39
2.525	Computer systems/services	-2	2	-4	21	41
1.194	Legal services	-1	1	1	-11	12
1.158	Accounting/bookkeeping	0	-3	-4	9	26
25.831	Education and health	80	87	74	971	1058
5.440	Hospitals	12	22	12	209	194
8.635	Ambulatory health care	21	23	47	349	345
3.843	Educational services	11	7	4	69	93
16.816	Leisure and hospitality	43	52	-8	285	561
1.924	Hotel/motels	6	7	0	19	70
12.292	Eating & drinking places	30	23	-1	173	309
23.076	Government	33	30	34	440	709
2.360	Federal ex-Post Office	9	2	6	51	82
5.404	State government	10	13	13	127	273
2.637	State Govt Education	4	7	4	38	183
14.711	Local government	17	17	18	264	351
8.039	Local Govt Education	7	6	3	98	162

Monthly changes (000s)	Dec	Nov	Oct	Sep	Aug
Payroll employment	256	212	43	255	78
Private jobs	223	182	9	222	37
Leisure/Hospitality jobs	43	52	-8	61	9
HH Employment Survey*	478	-273	-346	377	206
Unemployment rate %	4.1	4.2	4.1	4.1	4.2
Participation rate %	62.5	62.5	62.5	62.7	62.7
Not in labor force (mln)	101.091	101.159	100.861	100.377	100.360
... and Want A Job (mln)	5.505	5.483	5.652	5.683	5.632
Average hourly earnings	\$35.69	\$35.59	\$35.46	\$35.33	\$35.22
MTM % Chg	0.3	0.4	0.4	0.3	0.4
YOY % Chg	3.9	4.0	4.0	3.9	3.9

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES



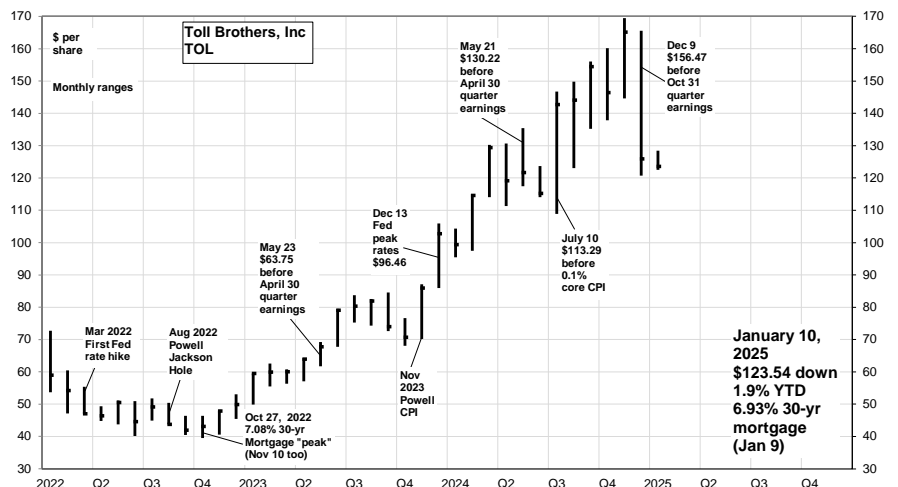
The 256K jobs report was bad enough, but then it appears the Michigan sentiment survey, the long run inflation expectations jump, somehow dragged down stocks to a new low at 10am ET (down 1.9% on the day), even though the bond market did not seem interested. 10-year yields did rise as high as 4.79% on the jobs report on Friday. Bonds did not like inflation earlier in the week on Tuesday when the 10am Jolts, ISM services data were stronger and the services inflation in that report lifted yields from 4.62% to 4.69%. Then on Wednesday a 630am CNN story about Trump going to use emergency powers to push through import tariffs pushed the 10-yr yield as high as 4.73%. Fed speak further added to market bearishness with many Fed speakers sounding like there would be no more rate cuts in 2025. Various stories about how the December meeting's rate cut was a close call, but we remember that just 4 out of 19 Fed officials put down no December rate cut in their forecasts.

Toll Brothers, Inc. (TOL) down 27.1% from November 25, 2024 \$169.52 peak

Looking back at a homebuilder with today's new 4.79% new high in 10-yr yields after the jobs report: the stock fell 2.6% today, S&P 500 fell 1.5%. Talk of no Fed rate cuts now this year. Year-year earnings were up 10% and home units delivered increased 25% to 3,431, but it wasn't enough. The recent low was \$120.77 the day after the Fed paused, or rather, announced just two rate cuts in 2025 instead of four.

Quarter end	Home Sales Revenue \$bln	Home Units	Home Starts	30-yr mortgage	Home Sales
10.31.22	3.580	3,765	872,000	7.08	577,000
1.31.23	1.750	1,826	834,000	6.13	639,000
4.30.23	2.490	2,492	876,000	6.43	687,000
7.31.23	2.670	2,524	999,000	6.81	700,000
10.31.23	2.950	2,755	975,000	7.79	673,000
1.31.24	1.930	1,927	1,011,000	6.69	664,000
4.30.24	2.650	2,641	1,037,000	7.17	736,000
7.31.24	2.720	2,814	861,000	6.78	707,000
10.31.24	3.260	3,431	950,000	6.72	627,000

Last month of quarter, 1 unit housing starts, new home sales

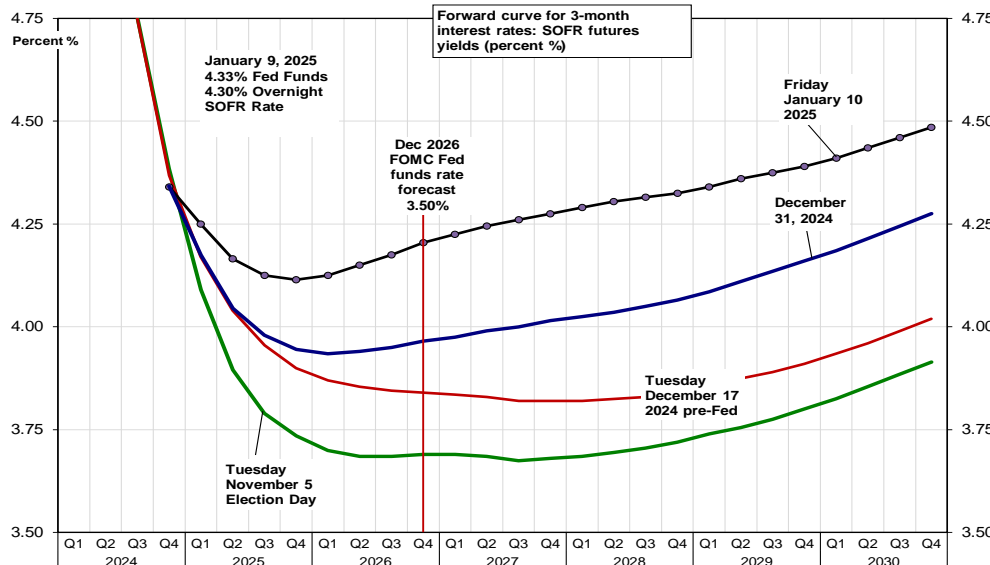


FEDERAL RESERVE POLICY

The Fed meets January 30-31, 2025 to consider its monetary policy. We did not get much out of the December 17-18, 2024 meeting minutes on Wednesday at 2pm ET. We know there is uncertainty with the Trump agenda given all that has been thrown at the wall and that is reason enough to slow down the rate cuts if the economy is not on the edge of recession. Some cited the recent higher inflation reports, but the November 0.1% core PCE inflation report on December 20 after the meeting should have been known to Fed officials: the 0.1% coming after the higher 0.3% core CPI reading for November reported on December 11. Fed governor Waller spoke Wednesday, usually interesting, but less so this week. Still sees rates coming down this year with inflation. Waller said policy was restrictive at 4.5%, but it is hard to see how this is so. Fed rates have been 4.5% or higher since December 2022 without any detriment to the economy besides the unemployment rate moving higher, which we still wonder about with these job losses at recession-magnitude levels based on historical data looking back decades. Hard to see why this unemployment might be caused by the recent migration surge. Our vote would be to cut rates to 4.25% in June and 4.0% in December this year and then stop and do nothing. We could use a little more stop and do nothing from government officials down in Washington.

Selected Fed assets and liabilities						Change from 3/11/20 to Jan 8
Fed H.4.1 statistical release billions, Wednesday data	8-Jan	1-Jan	25-Dec	18-Dec	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4291.067	4291.106	4308.893	4308.724	2523.031	1768.036
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2233.262	2233.262	2245.479	2248.787	1371.846	861.416
Repurchase agreements	0.000	0.000	0.001	0.002	242.375	-242.375
Primary credit (Discount Window)	2.405	3.227	2.056	2.076	0.011	2.394
Bank Term Funding Program	3.351	4.412	5.780	13.033		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.955	1.962	1.976	1.983		
Main Street Lending Program	8.270	8.260	8.253	8.245		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	1.120	1.120	1.121	0.084	0.058	1.062
Federal Reserve Total Assets	6904.7	6902.9	6937.2	6940.9	4360.0	2544.624
3-month Libor %	4.29	4.49	4.40	4.57	1.15	3.140
Factors draining reserves						
Currency in circulation	2366.173	2373.847	2367.553	2360.013	1818.957	547.216
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	620.531	721.892	735.039	803.975	372.337	248.194
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	185.144	473.460	180.989	131.651	1.325	183.819
Federal Reserve Liabilities	3572.214	4010.579	3718.761	3703.090	2580.036	992.178
Reserve Balances (Net Liquidity)	3332.435	2892.359	3218.476	3237.459	1779.990	1552.445
Treasuries within 15 days	72.540	61.662	34.657	35.222	21.427	51.113
Treasuries 16 to 90 days	225.590	236.055	259.288	258.779	221.961	3.629
Treasuries 91 days to 1 year	442.049	442.471	442.817	442.695	378.403	63.646
Treasuries over 1-yr to 5 years	1465.828	1465.857	1487.674	1487.620	915.101	550.727
Treasuries over 5-yrs to 10 years	549.009	548.993	548.547	548.531	327.906	221.103
Treasuries over 10-years	1536.050	1536.069	1535.911	1535.876	658.232	877.818
Note: Q1 starts June 1, 2022	Change	1/8/2025	6/1/2022			
U.S. Treasury securities	-1479.712	4291.067	5770.779			
Mortgage-backed securities (MBS)	-474.184	2233.262	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2024				2025		2026		2027		Long Term
	Jan	Jun	Oct	Dec	Jan	Jun	Oct	Dec	Jan	Jun	
Fed funds	4.4	3.9	3.4	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0
PCE inflation	2.4	2.5	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Core inflation	2.8	2.5	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Unemployed	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.2
GDP	2.5	2.1	2.0	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8
December 2024 median Fed forecasts											



All but 6 bps of a 25 bps rate cut is forecast in June 2025.

Fed funds futures call Fed policy		
Current target: January 10 -- 4.50%		
Rate+0.17 Contract	Fed decision dates	
4.495 Feb 2025	Jan 29	
4.435 Apr 2025	Adds Mar 19	
4.310 Jul 2025	Adds May 7, Jun 18*	
Last trade, not settlement price		
* Not strictly true, Jul 2025 has Jul 30 Fed date, so 1 day could be a new interest rate		

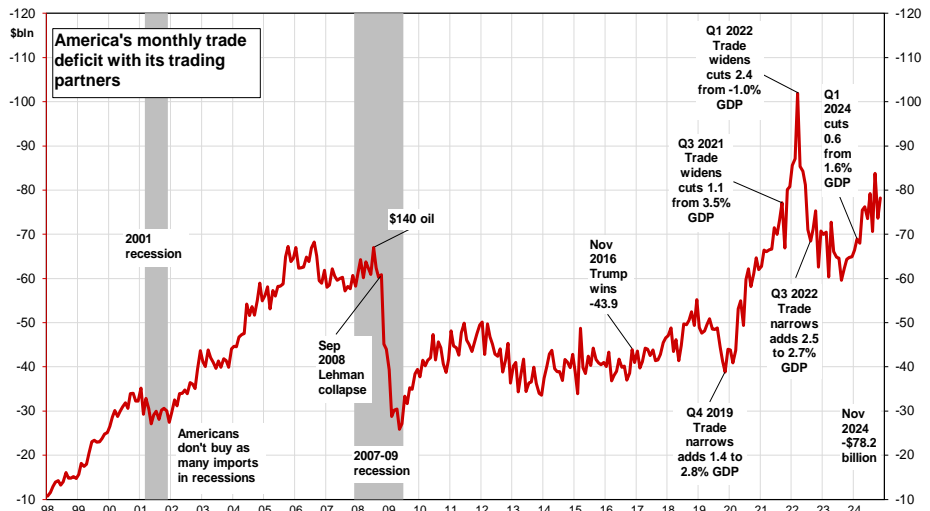
Next up: December CPI inflation report Wednesday, January 15

Monthly % Changes	2024												2023		2023		
	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Jan	Dec
Core CPI inflation	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.4	0.3
Core PCE inflation	0.1	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1	0.3	0.2
Core PCE YOY	2.8	2.8	2.7	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4	3.0	3.0
Core CPI YOY	3.3	3.3	3.3	3.2	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	3.9	4.0

OTHER ECONOMIC NEWS

Trade winds blow (Tuesday)

Breaking economy news. The monthly trade deficit moved up to \$78.2 billion in November from \$73.6 billion in October; it has been choppy in the second half of the year after moving higher earlier and becoming a greater drag on GDP growth. Here is the list of imported goods this year, and it would not be a surprise for the \$101.7 billion of “cellphone” imports this year-to-date not see any tariffs at all from Trump 2.0.



Net, net, the trade winds are not blowing as favorably for the incoming Trump administration that is dead set on eliminating the red ink from the ledger of trade between nations where more goods stream into the country than the goods US factories send abroad. Every businessman worth his salt has already told the president-elect that they can't make it here in America both figuratively and literally. The problem with trade negotiations is the attempt to limit imports from overseas could well backfire if America's trade partners slap on their own tariffs and sanctions. If you are trying to bring back US manufacturing, starting a trade war risks hurting the very US manufacturers that are already exporting goods abroad.

Millions of dollars	Nov 2024	Oct 2024	YTD % Change	Jan-Nov 2024	Jan-Nov 2023
Total *	278,844	267,253	5.2	2,968,988	2,822,452
<u>Foods, feeds, beverages</u>	19,492	18,141	7.2	196,628	183,491
<u>Industrial supplies, materials</u>	56,413	56,683	-2.1	606,754	619,704
Crude oil	13,450	12,488	1.8	152,499	149,754
Finished metal shapes	4,584	4,191	-1.1	39,347	39,791
<u>Capital Goods ex-autos</u>	82,227	78,702	11.3	875,810	787,142
Computers	8,790	8,343	30.6	106,270	81,388
Computer accessories	9,024	9,456	46.1	89,826	61,480
Semiconductors	7,296	6,131	11.9	74,555	66,627
Electric apparatus	9,542	9,092	4.8	92,809	88,575
Telecom equipment	7,006	7,512	7.0	77,119	72,082
Medical equipment	5,293	5,288	8.0	56,942	52,733
<u>Auto vehicles, parts, engines</u>	39,267	38,057	4.4	437,169	418,812
<u>Consumer goods</u>	69,805	68,983	5.2	731,050	694,605
Pharma preparations	22,443	21,722	20.4	222,605	184,949
Cell phones	8,784	10,029	-5.5	101,712	107,619
Toys, games, sporting goods	4,002	3,878	-7.2	41,191	44,402
Furniture, household goods	3,561	3,574	6.3	38,389	36,116
Household appliances	3,431	3,256	4.5	35,926	34,388
<u>Other goods</u>	11,640	10,687	2.4	121,578	118,699

* Total Imports of goods on Census Basis

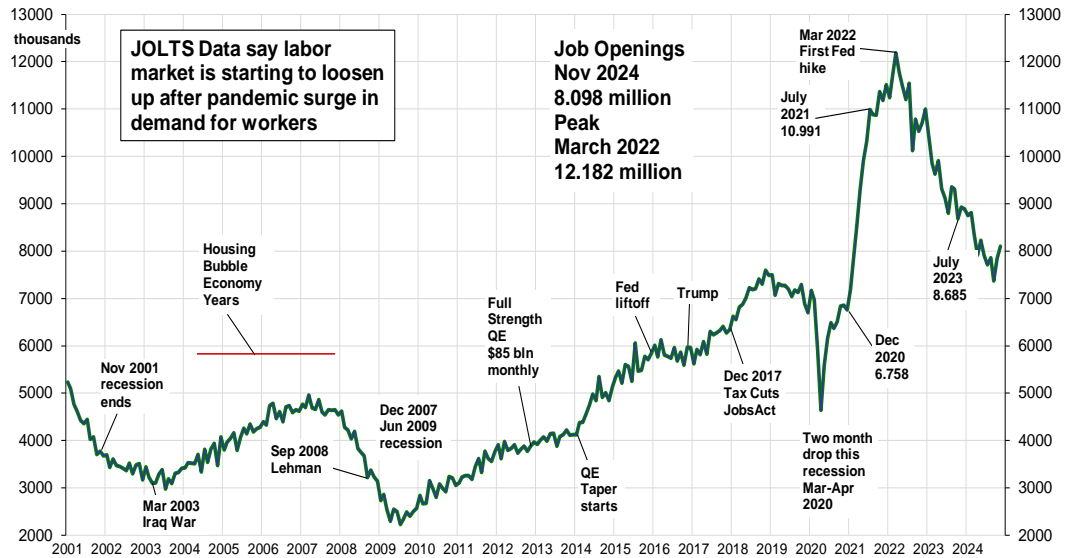
There is evidence that importers are bringing in more goods to stockpile before Trump 2.0 gets fully up and running. Total imported goods rose \$11.6 billion to \$280.9 billion in November, although this is less than the seasonal peak of \$285.0 billion in September this year ahead of the holidays. The Trump administration will certainly have their hands full if they truly wish to turn back the clock more than twenty years ago when the US was a world leader in manufacturing. Stocks and bonds barely lifted their heads to look at the monthly trade statistics this morning, but they will soon if the President-elect acts on his campaign promises. Stay tuned. Story developing.

\$ billions	Exports	Imports	X-M
Mexico	309.4	466.6	-157.2
Canada	322.4	377.2	-54.8
China	131.0	401.4	-270.4
Germany	70.3	146.7	-76.4
Japan	73.2	135.8	-62.6
S. Korea	60.3	120.5	-60.2
Taiwan	38.7	106.2	-67.5
Vietnam	11.7	124.8	-113.1
Top 15	1,341.1	2,312.5	-971.4
Total	1,899.1	2,982.6	-1,083.5

Job openings up (Tuesday)

Breaking economy news. Job openings increased 259 thousand to 8.098 million at the end of November. The preliminary October level of 7.744 million was revised to 7.839 million. It is looking more like the big drop in September was one-off: all hurricane-related down in the South. Hurricane Francine hit Louisiana September 11, 2024, and Hurricane Helene (that caused trouble all the way up in North Carolina) hit the Big Bend area of Florida on September 26, 2024. Job postings are measured as of the final day of the month. The number quitting their jobs fell back to 3.065 million.

Net, net, Fed officials are adamant that the labor market does not need to weaken further to win the battle with inflation and the rise in the demand for labor has picked up significantly from the nadir point in September when 7.372 job openings were posted at the end of the month. Openings at the end of November



were 8.098 million where the biggest jump this month came in Professional and business services (273K), and Finance and insurance (105K), although if the regulatory climate for banks is changing many risk management jobs might be on the chopping block later in the Trump 2.0 year. Anyway you cut it, 8.098 job postings at the end of November is a big number even if many posted help wanted signs are for public relations purposes, getting the company's name out there.

Migrants tend to fill jobs in construction, 17K increase to 276K, Health care and social assistance, 44K rise to 1.496 million, and Accommodation and food services, 102K decline to 848K. The native born population trend is in a permanent downward death spiral, and the President-elect may need to rethink some of the wilder campaign pledges



made in the heat of battle. Half the country did not vote for Trump 2.0 according to our research on Wikipedia. There will be labor shortages if Washington is not careful. Stay tuned.

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