

# Financial Markets This Week

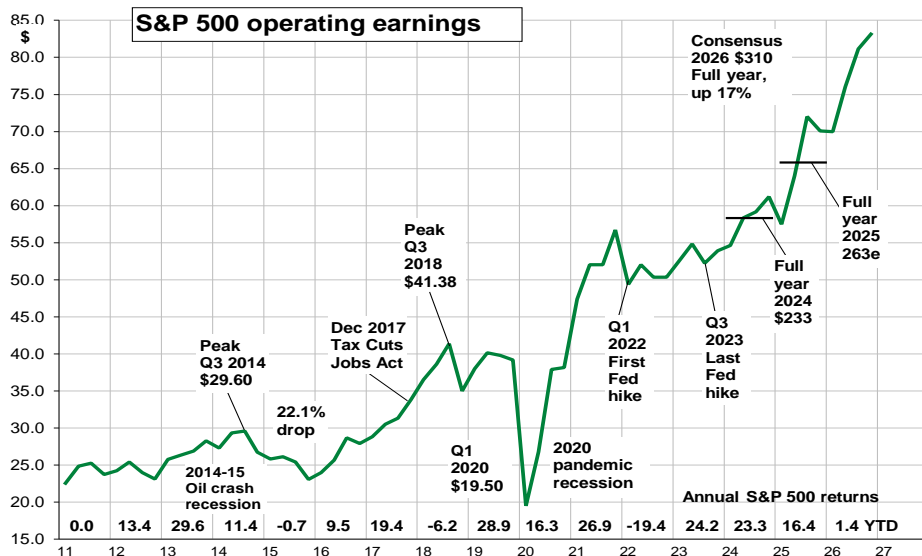
30 JANUARY 2026

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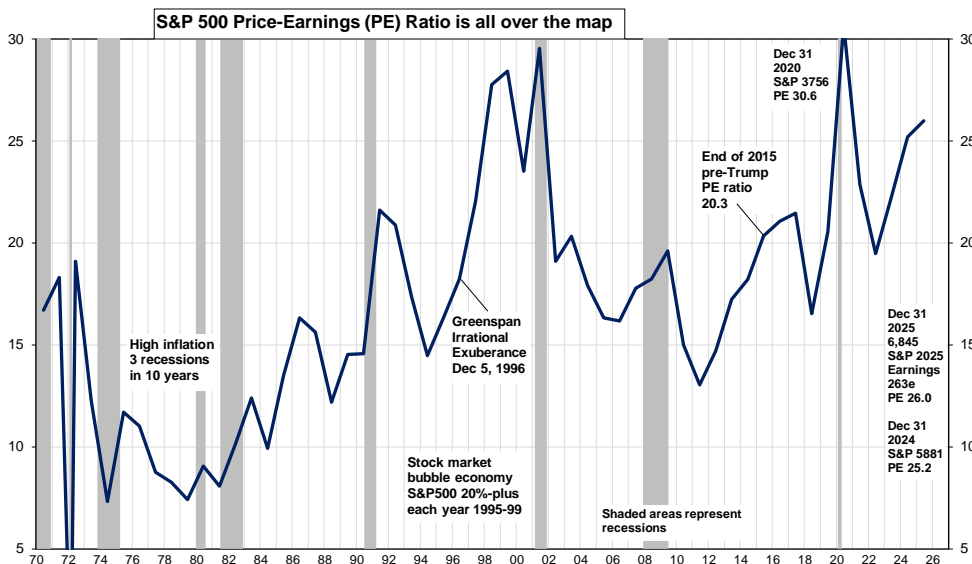
## STOCKS 7,000

The S&P 500 rose 16.4% in 2025 and somehow, despite the import tariffs and uncertainty coming out of Washington, earnings tagged along with an estimated full year rise of 13.0% last year with companies still to report Q4 earnings. Earnings estimates for 2026 are up another 17% higher which seems to argue for a fourth year of double-digit stock market gains if fundamentals matter.

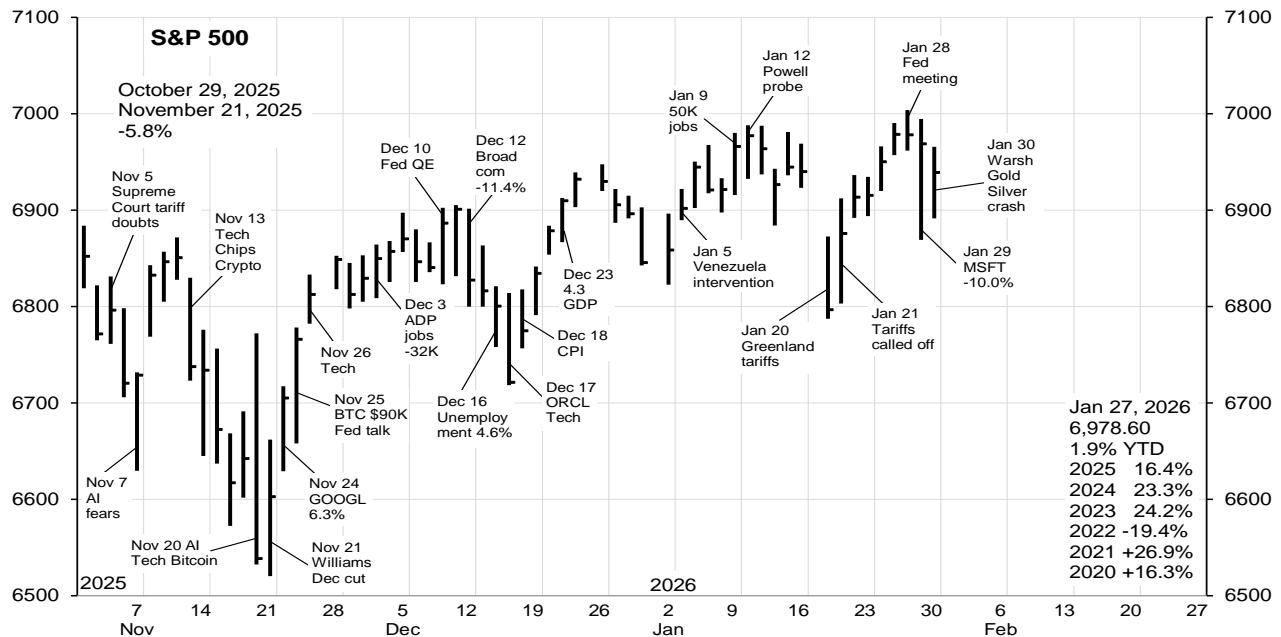
Speaking of fundamentals, the PE ratio closed a second straight year at over 25 times earnings. When Greenspan made his irrational exuberance comment 30 years ago the PE ratio was under 20. The PE ratio's recent low was 19.5 in 2022 when stocks sold off 19.4% with the Fed rate hikes to 4.5% by the end of the year to fight inflation and the Russia Ukraine conflict beginning at the start of that year. It isn't clear what could bring down the stock market in the near term with the 2026 earnings estimates so high. Perhaps one of the market leaders stumbles, like those on the Top 7 list of companies with 35% of the S&P 500. A sudden escalation of geopolitical risks perhaps. Stay tuned. The S&P 500 closed at 6,939.03 on Friday and if stocks are still here at year-end and earnings go sky-high with a 17% gain in 2026, then the PE ratio would be 22.3.



| S&P 500 Weights   |          |
|-------------------|----------|
| Top 7: 35% of S&P |          |
| 7.86              | NVIDIA   |
| 6.42              | AAPL     |
| 5.42              | MSFT     |
| 3.95              | AMZN     |
| 3.31              | GOOGL    |
| 2.70              | Meta     |
| 2.65              | GOOG     |
| 2.63              | Broadcom |



INTEREST RATES

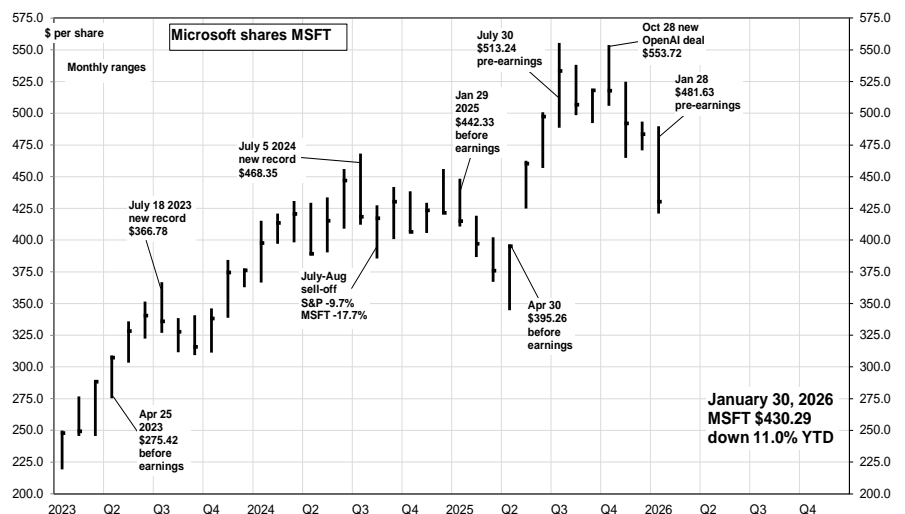


Big nothing for 10-yr Treasury yields on Wednesday Fed day (only 8 meetings a year) with a 6 bps 4.22 to 4.28 percent range. The headlines on the Fed statement dropping the employment market downside risks (darn, no recession), perhaps pushed yields to the 4.28% Wednesday high for the week, but bonds rallied a little at 230pm ET when Powell took the press conference stage. He was asked a few times how economic growth can be “solid” with limited job gains. Stocks new record above 7,000 overnight on Wednesday before the Fed meeting results. Chaos on Thursday after Microsoft announced earnings. Dollar continued climbing after Warsh Fed announcement, and “rate cuts are coming” news (Treasury curve did steepen a little) triggered sell-offs in gold and silver. Silver Friday \$118.45 high \$74.0 low, close \$83.92 down 26.7% on the day. Too late to sell the family silver.

Microsoft (MSFT) down 11.0% YTD

Never thought we would see a major company make so much money and yet see the stock plunge 10% the next day. Questions over AI still perhaps, but looks like hedge funds battling over market neutral pairs-trading positioning as well: Buy Alphabet, sell Microsoft. Didn’t help that Morgan Stanley dropped Microsoft the next day as a top-pick, high-conviction stock even with keeping a \$650 price target somehow. Intelligent Cloud revenue 29% YOY versus 28% YOY last quarter. Not enough.

| Calendar Year | Productivity       |                   |                         |        |
|---------------|--------------------|-------------------|-------------------------|--------|
|               | Business Processes | Intelligent Cloud | More Personal Computing |        |
| Q4 2025       | 81,273             | 34,116            | 32,907                  | 14,250 |
| Q3 2025       | 77,673             | 33,020            | 30,897                  | 13,756 |
| Q2 2025       | 76,441             | 33,112            | 29,878                  | 13,451 |
| Q1 2025       | 70,066             | 29,944            | 26,751                  | 13,371 |
| Q4 2024       | 69,632             | 29,437            | 25,544                  | 14,651 |
| Q3 2024       | 65,585             | 28,317            | 24,092                  | 13,176 |
| Q2 2024       | 64,727             | 28,627            | 23,785                  | 12,315 |
| Q1 2024       | 61,858             | 27,113            | 22,141                  | 12,604 |
| Q4 2023       | 62,020             | 25,854            | 21,525                  | 14,641 |
| Q4 2025       | 38,275             | 20,599            | 13,873                  | 3,803  |
| Q3 2025       | 37,961             | 20,407            | 13,391                  | 4,163  |
| Q2 2025       | 34,323             | 18,993            | 12,140                  | 3,190  |
| Q1 2025       | 32,000             | 17,379            | 11,095                  | 3,526  |
| Q4 2024       | 31,653             | 16,885            | 10,851                  | 3,917  |
| Q3 2024       | 30,552             | 16,516            | 10,503                  | 3,533  |
| Q2 2024       | 27,925             | 15,706            | 9,835                   | 2,384  |
| Q1 2024       | 27,581             | 15,143            | 9,515                   | 2,923  |
| Q4 2023       | 27,032             | 14,515            | 9,555                   | 2,962  |



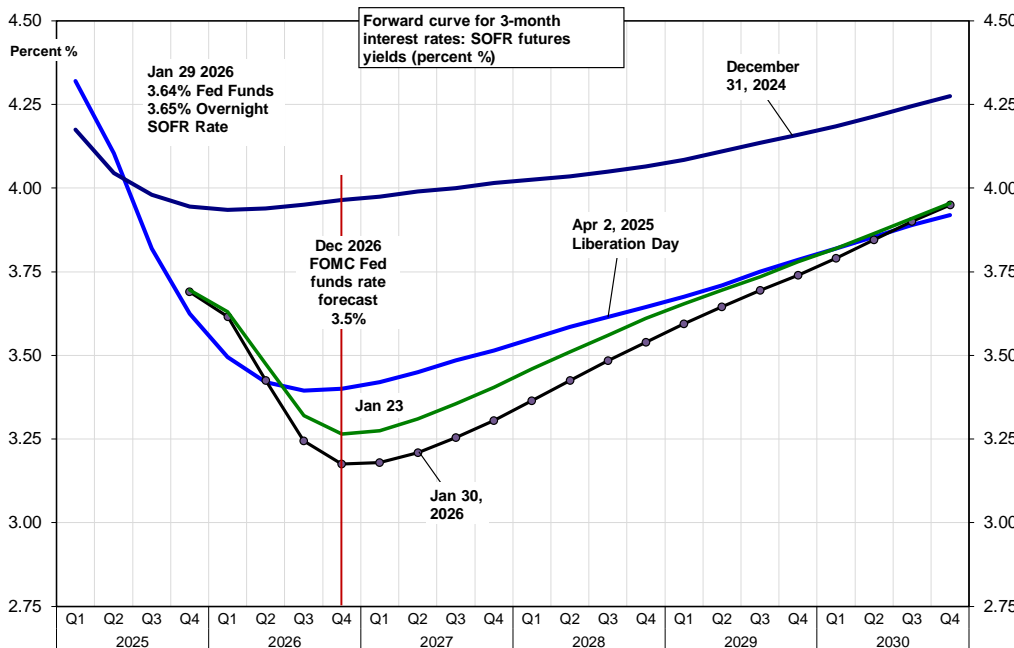
FEDERAL RESERVE POLICY

The Fed met January 27-28, 2026 to consider its monetary policy. The countdown to the May 2026 Chair turnover continues as do the final legacy Fed deliberations trying to juggle the risks to the two mandates of inflation and unemployment. Trump said Tuesday he had someone in mind to be announced pretty soon and, "You'll see rates come down a lot." Well, the President's men on the FOMC got the message and Fed governors Waller and Miran dissented in favor of a 25 bps cut this week. The [press statement](#) dropped the December meeting reference to a deteriorating labor market, the worries there were the main reason for 3 rate cuts in 2025. The change in the third sentence of the second paragraph "The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months." Powell did say in the opening press conference statement that core PCE would be 3.0% in December up from 2.8% year-on-year in November, although his estimate was before receiving December PPI data on Friday, January 30. 3.0% is where the December FOMC forecast was and guessing at 2.5% by Q4 2026. Stay tuned. Solid growth and low job gains keep Fed rates steady for now. [Breaking: it's Warsh for Fed Chair. Good luck to him.]

| Selected Fed assets and liabilities     |                 |                 |                 |                 |                 | Change from 3/11/20 to Jan 28 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------------------|
| Fed H.4.1 statistical release           | 28-Jan          | 21-Jan          | 14-Jan          | 7-Jan           | 3/11/20*        |                               |
| billions, Wednesday data                |                 |                 |                 |                 |                 |                               |
| <b>Factors adding reserves</b>          |                 |                 |                 |                 |                 |                               |
| U.S. Treasury securities                | 4265.977        | 4251.156        | 4243.253        | 4235.527        | 2523.031        | 1742.946                      |
| Federal agency debt securities          | 2.347           | 2.347           | 2.347           | 2.347           | 2.347           | 0.000                         |
| Mortgage-backed securities (MBS)        | 2023.710        | 2035.840        | 2039.024        | 2039.024        | 1371.846        | 651.864                       |
| Repurchase agreements                   | 0.006           | 0.001           | 0.001           | 0.000           | 242.375         | -242.369                      |
| Primary credit (Discount Window)        | 4.516           | 3.498           | 5.370           | 7.225           | 0.011           | 4.505                         |
| 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            | 0.059           | 0.060           | 0.061           | 0.062           |                 |                               |
| Main Street Lending Program             | 1.561           | 1.567           | 1.574           | 1.571           |                 |                               |
| 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            | 0.032           | 0.079           | 0.122           | 0.481           | 0.058           | -0.026                        |
| <b>Federal Reserve Total Assets</b>     | <b>6638.1</b>   | <b>6635.4</b>   | <b>6632.7</b>   | <b>6624.6</b>   | <b>4360.0</b>   | <b>2278.065</b>               |
| 3-month Libor % SOFR %                  | 3.64            | 3.63            | 3.64            | 3.65            | 1.15            | 2.490                         |
| <b>Factors draining reserves</b>        |                 |                 |                 |                 |                 |                               |
| Currency in circulation                 | 2429.415        | 2430.441        | 2433.213        | 2441.944        | 1818.957        | 610.458                       |
| Term Deposit Facility                   | 0.000           | 0.000           | 0.000           | 0.000           | 0.000           | 0.000                         |
| U.S. Treasury Account at Fed            | 952.705         | 871.169         | 777.061         | 783.571         | 372.337         | 580.368                       |
| Treasury credit facilities contribution | 0.821           | 0.821           | 0.821           | 0.821           |                 |                               |
| Reverse repurchases w/others            | 1.103           | 3.344           | 3.223           | 4.582           | 1.325           | -0.222                        |
| <b>Federal Reserve Liabilities</b>      | <b>3755.151</b> | <b>3678.918</b> | <b>3570.960</b> | <b>3601.561</b> | <b>2580.036</b> | <b>1175.115</b>               |
| <b>Reserve Balances (Net Liquidity)</b> | <b>2892.940</b> | <b>2956.525</b> | <b>3061.760</b> | <b>3022.997</b> | <b>1779.990</b> | <b>1102.950</b>               |
| Treasuries within 15 days               | 56.032          | 54.133          | 68.778          | 69.223          | 21.427          | 34.605                        |
| Treasuries 16 to 90 days                | 228.507         | 226.957         | 222.464         | 214.862         | 221.961         | 6.546                         |
| Treasuries 91 days to 1 year            | 475.696         | 463.982         | 454.722         | 453.783         | 378.403         | 97.293                        |
| Treasuries over 1-yr to 5 years         | 1400.674        | 1400.837        | 1409.619        | 1401.095        | 915.101         | 485.573                       |
| Treasuries over 5-yr to 10 years        | 502.929         | 502.964         | 491.646         | 500.394         | 327.906         | 175.023                       |
| Treasuries over 10-years                | 1602.139        | 1602.284        | 1596.025        | 1596.170        | 658.232         | 943.907                       |
| Note: QT starts June 1, 2022            | Change          | 1/28/2026       | 6/1/2022        |                 |                 |                               |
| U.S. Treasury securities                | -1504.802       | 4265.977        | 5770.779        |                 |                 |                               |
| Mortgage-backed securities (MBS)        | -683.736        | 2023.710        | 2707.446        |                 |                 |                               |

| Fed Policy-key variables | 2025 |      |      |      | Long Term |
|--------------------------|------|------|------|------|-----------|
|                          | 2025 | 2026 | 2027 | 2028 |           |
| 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



All but 2.5 bps of a 25 basis point cut to 3.5% is discounted by the June 2026 meeting.

| Fed funds futures call Fed policy          |                      |
|--|----------------------|
| Current target: January 30 -- 3.75%        |                      |
| Rate+0.11 Contract                         | Fed decision dates   |
| 3.705 Apr 2026                             | Jan 28, Mar 18*      |
| 3.525 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 |                      |

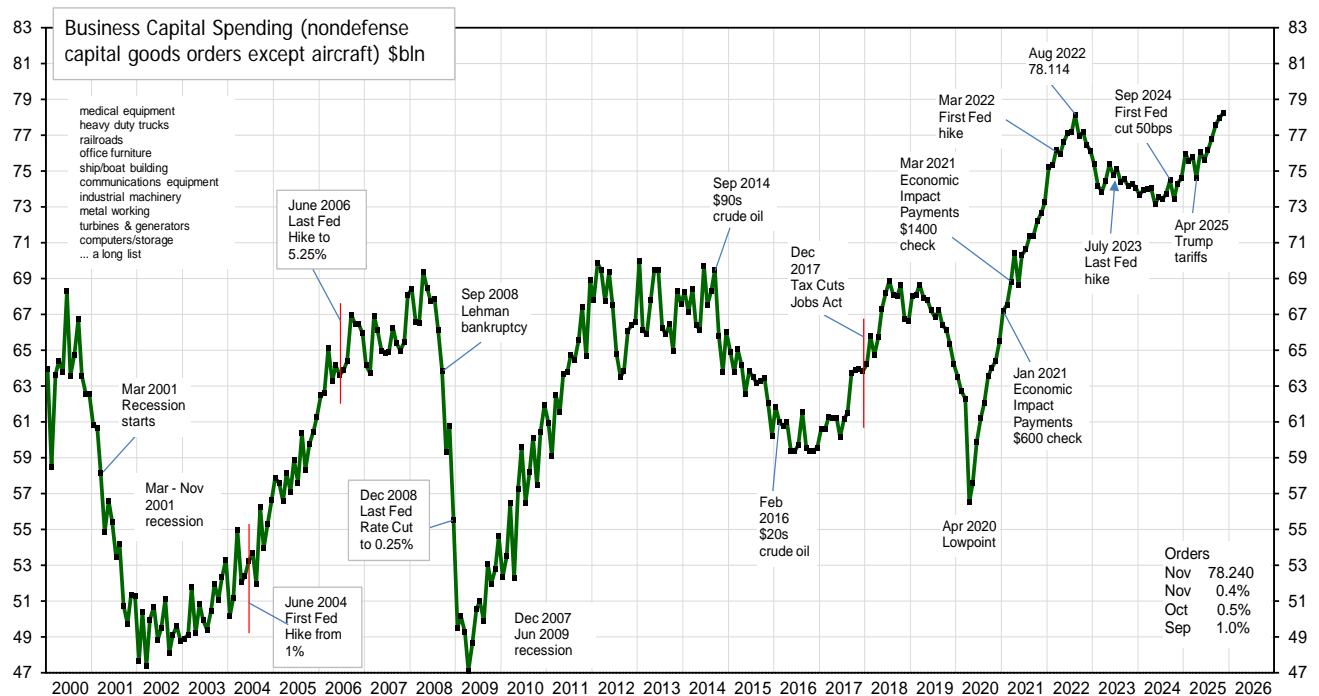
| Next up: January CPI inflation report Wednesday, February 11 at 830am ET |      |     |     |     |     |     |     |     |     |     |     |      |     |     |     |
|--|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|-----|-----|
| Monthly % Changes  | 2025 |     |     |     |     |     |     |     |     |     |     | 2024 |     |     |     |
|  | Dec  | Nov | Oct | Sep | Aug | Jul | Jun | May | Apr | Mar | Feb | Jan  | Dec | Nov | Oct |
| Core CPI inflation   | 0.2  | 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 |
| Core PCE inflation   | na   | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.1 | 0.4 | 0.3  | 0.2 | 0.1 | 0.3 |
| Core PCE YOY   | 3.0  | 2.8 | 2.7 | 2.8 | 2.9 | 2.9 | 2.8 | 2.8 | 2.6 | 2.7 | 3.0 | 2.8  | 3.0 | 3.0 | 3.0 |
| Core CPI YOY   | 2.6  | 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 |

OTHER ECONOMIC NEWS

Durable goods orders record highs (Monday)

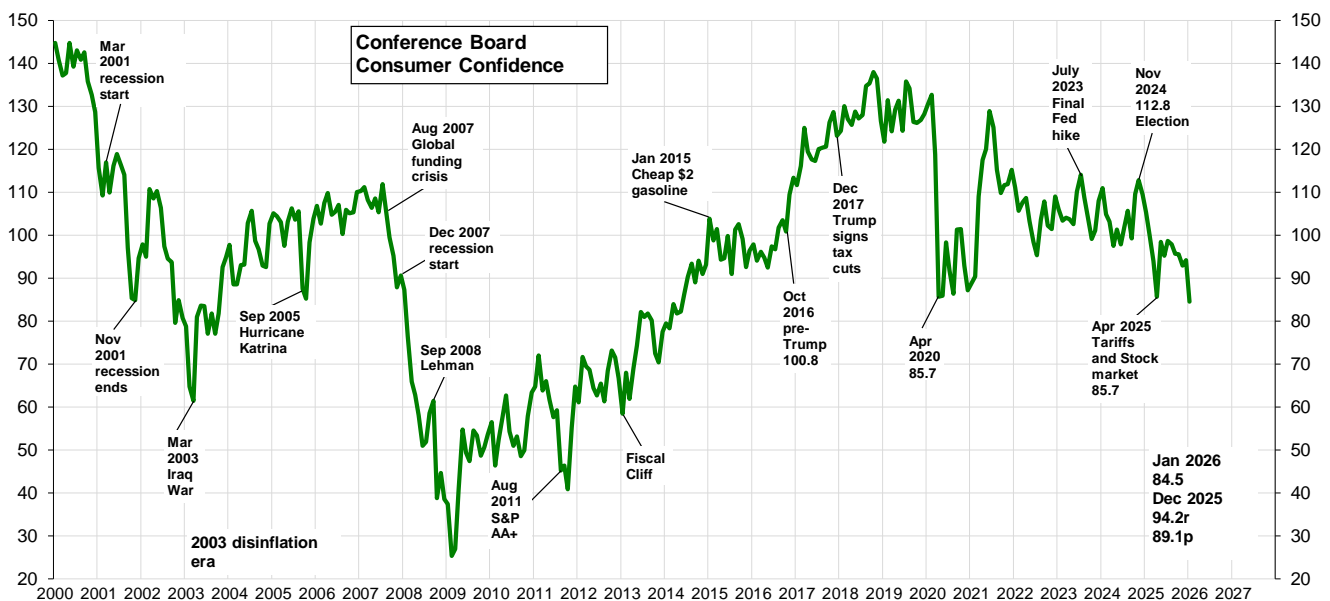
Breaking economy news. Our monthly proxy for business investment within the durable goods orders data hit a new record in November. Nondefense capital goods orders ex-aircraft rose 0.7% to \$78.393 billion in November 2025 which breaks the old record of \$78.114 billion in August 2022 under the Biden administration’s industrial policies. Maybe Fed officials should drop the labor market indicators as guidance for interest rates and look at business capex orders instead. The new highs could be due to the big tax bill’s favorable depreciation rules for new equipment. The economy is normally indifferent as to the reasons why because spending is spending, and more of it from any source makes GDP go up. Durable orders go down in a recession and right now they are doing the opposite.

And with the shutdown data delays still impacting economic releases, as luck would have it, the factory orders data for November were released on Thursday which always revise the “advance” durables report, although normally factory orders are a couple of weeks later. On Monday then nondefense capital goods orders ex-aircraft were 1.0% in September, 0.2% in October and 0.7% in November to \$78.393 billion for the month. On Thursday after “factory orders,” now called New Orders for Manufactured Goods, nondefense capital goods orders ex-aircraft were 1.0% in September, 0.5% in October and 0.4% in November to \$78.240 billion for the month. Still a record high. Stay tuned.



## Consumer confidence collapsed to start the year (Tuesday)

Breaking economy news. The Conference Board can sure write a good news headline “confidence collapsed,” but the prior month revision was a quite a big one on the upside, where December was 89.1 and now they say it is 5.1 points higher at 94.2, from which a large 9.7 point collapse in January brought the index down to 84.5. It is hard to know what to do with the 84.5 low confidence reading, down from 112.8 in November 2024 when Trump was elected because real consumer spending in the GDP accounts has been moderate to strong after a cold winter weather 0.6% Q1 2025: 2.5% Q2 2025, 3.5% Q3 2025, and we estimate 3.0% in Q4 2025. Being down in the dumps since Trump 2.0 in terms of confidence has not hurt spending that makes the economy go round. The stock market yawned on the consumer confidence report at 10am as equity markets continue to focus on, well, we aren't sure what stock investors are looking at as they wait for the inevitable new record highs regardless of the news.



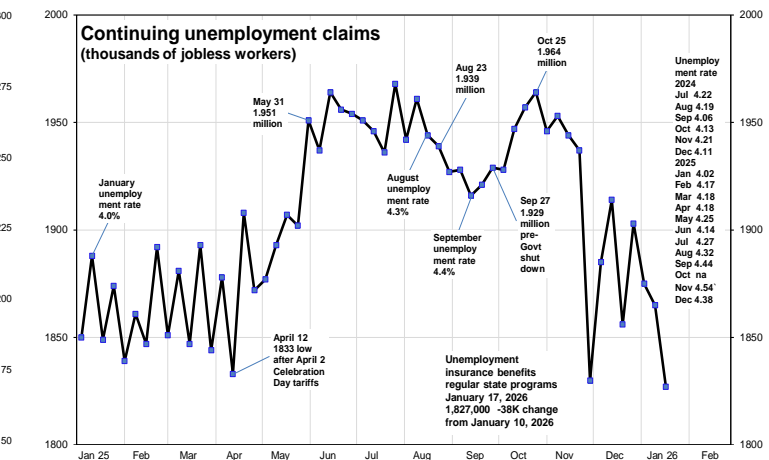
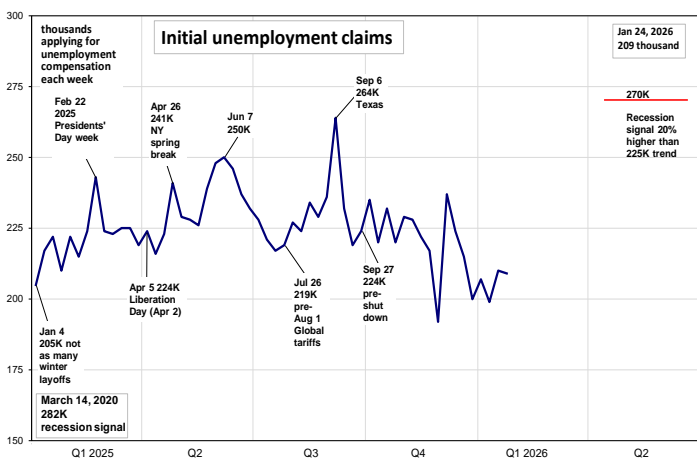
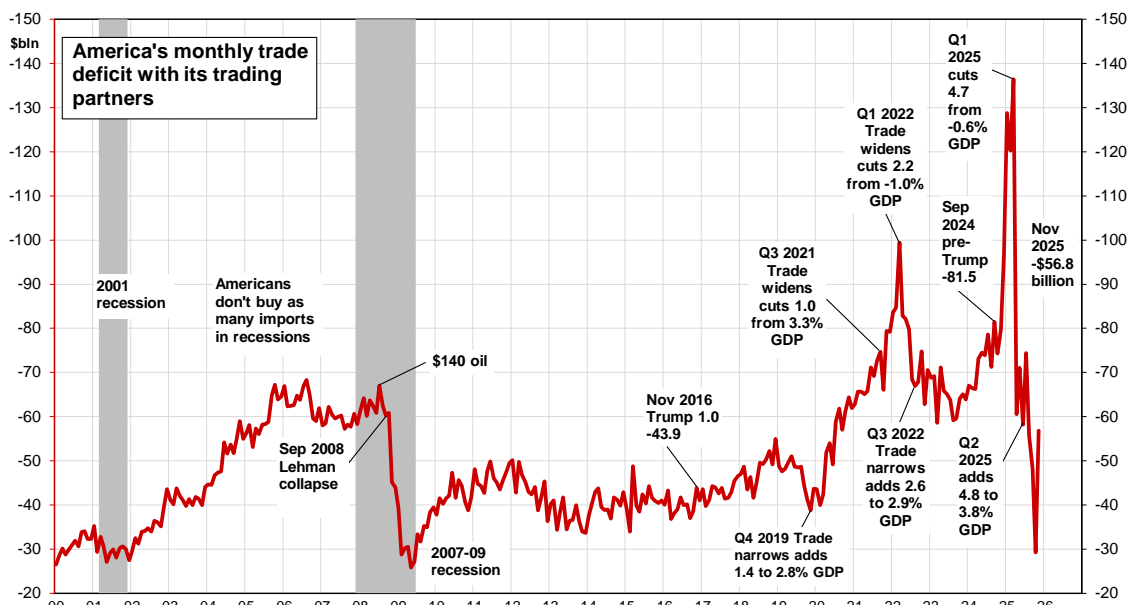
That was Consumer Confidence, but the most eco news clicks on Tuesday was on the new population [estimates from the Census Bureau](#) under the Department of Commerce, obviously not vetted first by Trump 2.0 economic officials. Coming someday soon, there will be no new US residents each year to work in the nation's shops and malls and hotels and hospitals or factories. The population slowdown, on which US economic growth and spending depends, was 1.761 million for the resident population in the year ending July 2025, but most of that, 1.262 million, was due to migration. The surprising estimates show incoming international migration is still everywhere in the USA, every state, yet in Minnesota, the in-the-news influx is just 12.5 thousand against California 109.3 thousand, New York 95.6 thousand, Florida 178.7 thousand, Texas 167.5 thousand. Looks like people might be looking for wrong-doing in the wrong places. The obvious question given that births will keep shrinking relative to deaths is where are workers in the future going to come from. Stay tuned.

Trade deficit and jobless claims (Thursday)

Breaking economy news. Jobless claims little changed at 209K but so low it should ordinarily mean a larger than expected payroll jobs number on Friday, February 6. Too bad these are not normal times. Continuing unemployment claims, the total number of jobless Americans, well, don't ask. You can look, but don't ask. The trade deficit bounced back to \$56.8 billion. Never made sense that America could go without imported goods for too long, as no US factories have appeared to build them here, that is if companies could find workers for the factories with the sharp change in the migration trend to outward.

| \$mIn    | Trade balance |         |          | Exports |         |          | Imports |         |          |
|----------|---------------|---------|----------|---------|---------|----------|---------|---------|----------|
|          | Total         | Goods   | Services | Total   | Goods   | Services | Total   | Goods   | Services |
| Oct 2025 | -29,206       | -58,982 | 29,777   | 302,919 | 196,745 | 106,174  | 332,124 | 255,727 | 76,397   |
| Nov 2025 | -56,825       | -86,900 | 30,075   | 292,052 | 185,641 | 106,411  | 348,877 | 272,541 | 76,336   |
| Change   | -27,619       | -27,918 | 298      | -10,867 | -11,104 | 237      | 16,753  | 16,814  | -61      |

The trade deficit increased to \$56.8 billion in November from \$29.2 billion in October, not too much narrower than the Q3 2025 average of \$59.4 billion, so the boost to real GDP in Q4 2025 will be less. The first estimate of Q4 2025 real GDP is Friday, February 20 and after the trade data the Atlanta Fed GDPNow estimate dropped from 5.4% to 4.2% where Q3 2025 growth was 4.4%. The trade deficit widened, but the imports from China (not seasonally adjusted) were \$21.0 billion in November, down 44.5% from \$37.8 billion a year ago.



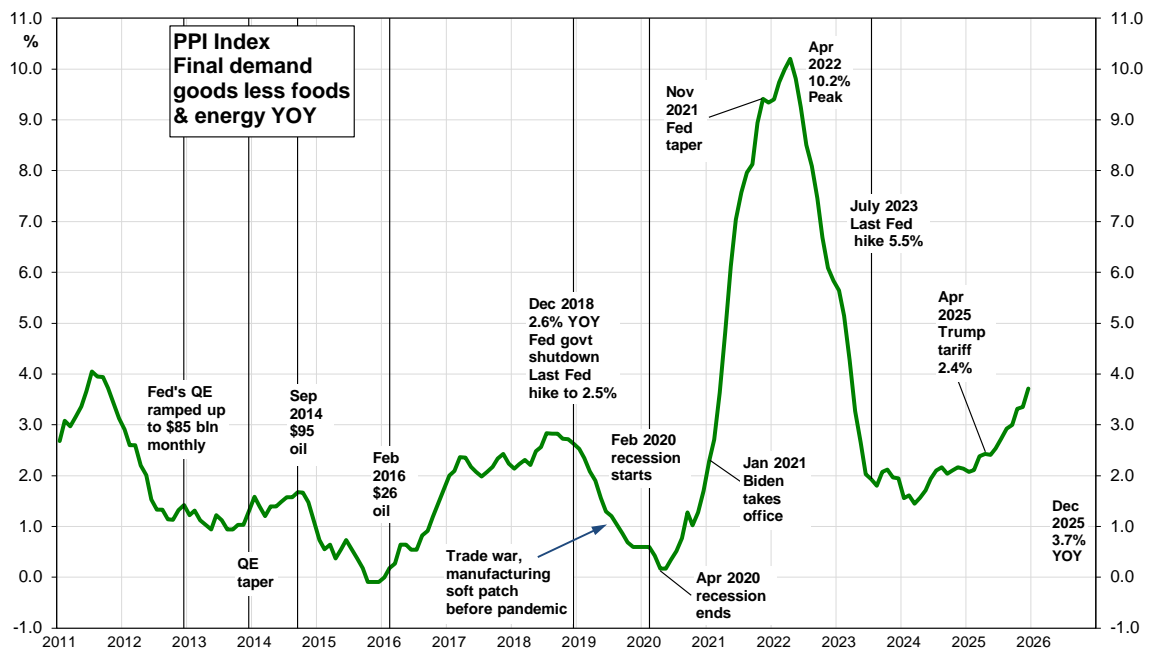
PPI inflation (Friday)

Breaking economy news. A delayed PPI report for December. The total index rose 0.5% versus 0.2% consensus and that was all stock futures needed to drop about 0.1% before recovering back to square one. But frankly, stocks have lots more to consider with earnings this week, Bitcoin, gold, silver, oil, and the President's post at 648am ET Friday that Warsh was the one for Fed Chair. Warsh's name had been floated as the pick shortly after 9pm ET Thursday evening.

| Monthly % SA | Final demand goods |       |       |        |                       | Final demand services |       |                                |       |
|--------------|--------------------|-------|-------|--------|-----------------------|-----------------------|-------|--------------------------------|-------|
|              | Total final demand | Total | Foods | Energy | Less foods and energy | Total                 | Trade | Transportation and warehousing | Other |
| 2025         |                    |       |       |        |                       |                       |       |                                |       |
| 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   | 0.0   | 1.1    | 0.2                   | 0.0                   | -0.1  | -0.7                           | 0.1   |
| Jul          | 0.8                | 0.6   | 1.4   | 0.7    | 0.4                   | 0.9                   | 1.0   | 1.5                            | 0.7   |
| Aug          | -0.2               | 0.2   | 0.0   | -0.3   | 0.4                   | -0.3                  | -2.1  | 0.7                            | 0.3   |
| Sep          | 0.7                | 0.8   | 0.9   | 2.9    | 0.2                   | 0.6                   | 1.5   | 0.8                            | 0.2   |
| Oct          | 0.1                | -0.4  | -0.6  | -3.3   | 0.5                   | 0.3                   | -0.8  | 0.0                            | 0.8   |
| Nov          | 0.2                | 0.8   | 0.0   | 3.7    | 0.2                   | 0.0                   | -0.6  | 0.8                            | 0.2   |
| Dec          | 0.5                | 0.0   | -0.3  | -1.4   | 0.4                   | 0.7                   | 1.7   | 0.5                            | 0.3   |

\*\*Final demand goods, less foods and energy is old-fashioned PPI

There are a lot of moving parts to the PPI index, too many, but old-fashioned PPI as we call it, or more precisely, PPI Commodity data for Final demand goods less foods and energy, rose 0.4% in December. These core factory prices look like they are taking off, 2.4% year-year in April 2025 when the Trump tariffs were announced and now 3.7% in December. Time will tell whether the tariffs stop adding to inflation pressures in the first quarter of 2026 as some at the Federal Reserve believe.



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