

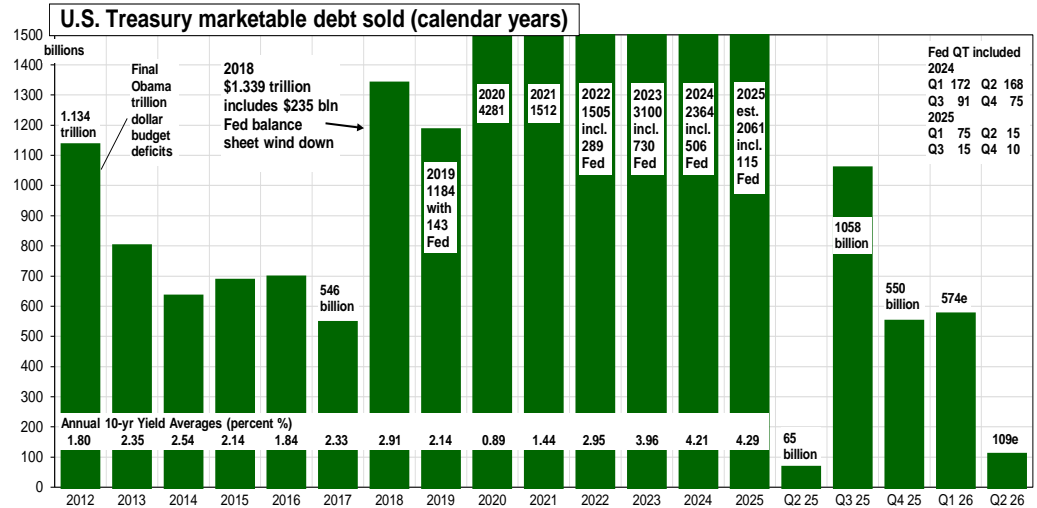
Financial Markets This Week

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US DEBT CRISIS

Nice title. Good way to sell newspapers. Congress points fingers as well even as it is their votes that make it happen. But maybe not so bad. Treasury marketable debt sold, someone bought it and Treasury yields did not rise, \$3.1 trillion 2023, \$2.4



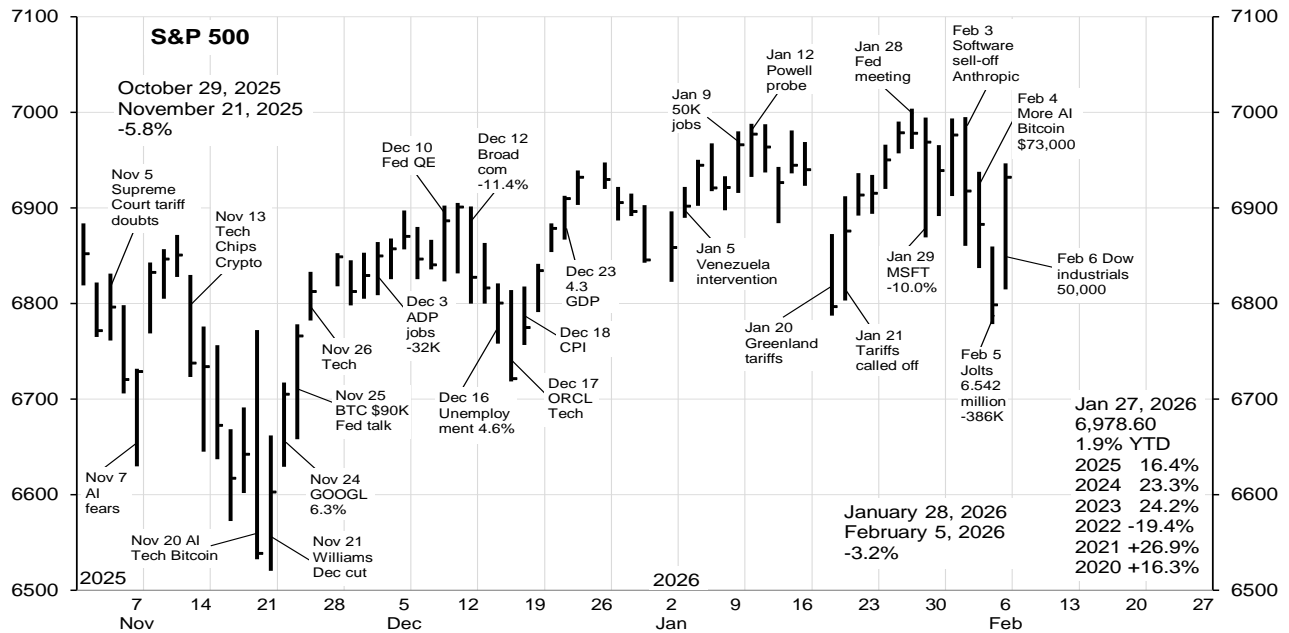
trillion 2024, \$2.1 trillion 2025. No crisis. All manageable. Japan seems to be doing okay with national debt 200% of GDP, and Nikkei 225 stocks at record highs. US debt to GDP latest was 121.0% in Q3 2025, 83.9% if you kick out nonmarketable debt: those “Social Security future obligations”... for now. Baby boom generation will be gone soon enough and the nation will be rich when it no longer helps pay for their health care and retirement benefits. Net, net, the unsustainable path of rising Federal government debt remains sustainable and manageable for now. If you want to help, keep the Federal budget deficit to 3% of GDP each year or \$933 billion. No reason to pay it down.

If you want to worry, you can ponder what might happen if foreigners stop buying Treasuries during a trade war with the U.S. as they held \$9.2 trillion in September 2025. Foreigners come up with dollars due to America’s trade deficit with the world, so going it alone without our trading partners, cutting our imports and paying fewer dollars for the goods, might mean American investors might have to come up with the money to fund the Treasury deficits. Stay tuned. Nothing wrong to report today yet.

\$Trillions	September 2025
37.637	Total Public Debt
7.354	Minus Government Accounts (Social security)
4.201	Minus Fed Treasury holdings (QE/QT)
9.248	Minus Foreign-held Treasury holdings
	Equals
\$16.8	trillion, a better number than “\$37 trillion.”
Nominal GDP was \$31.098 trillion in Q3 2025, so Total Public Debt is 121.0% of the economy.	

Treasury announced its quarterly refunding auctions if you want them which helps raise the \$574 billion new cash needed in Q1 2026. 3-yr note Tuesday, February 10, 10-yr note Wednesday, February 11, and 30-yr bond Thursday, February 12. Maybe wait for another day for a 5% 30-yr yield.

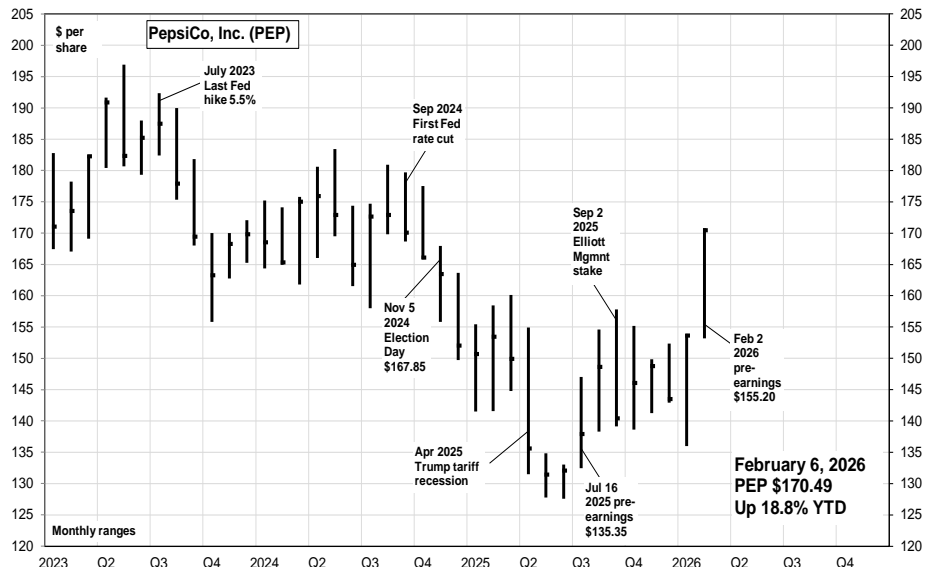
INTEREST RATES



Another chaotic week for markets with the Dow industrials closing above 50,000 for the first time on Friday. Earlier the [S&P 500](#) had been off as much as 3.2% from the January 28 Fed-meeting high on Thursday, the final kick down on the morning's dour labor market reports. Bitcoin crashing as well to the \$60,000 level did not help, nor did the week's earnings reports, including Amazon that fell 5.6%, but that was Friday. [10-yr Treasury yields](#) did not move during the various Treasury quarterly refunding announcements. Yields did drop and break 4.20% on the labor market data on Thursday: 331K first-time jobless claims for the January 31 week at 830am ET, and sharp drop in job openings at the end of December reported at 10am ET. Dramatic comeback in stocks, Bitcoin back at \$70,000 did not hurt. S&P 500 closed Friday up 1.3% YTD, 10-year at 4.22%. Auctions, payroll jobs, CPI ahead.

PepsiCo, Inc. (PEP) up 18.8% YTD

We have had enough watching tech stocks fall this week. We still are not using AI much in our daily lives, except to write this newsletter (check out our podcast!) and search for information on Google (not many ads on Google anymore, but maybe they are selling our searches to the companies we already bought products from). Pepsi this week. Not Coke. Pepsi as a consumer staple is a safe haven many times when AI tech stocks fall. The day after the April 2, 2025 Trump "Liberation Day" speech on tariffs, the S&P 500 fell 4.8% while Pepsi rose 1.5%. The tech rout on Tuesday after Pepsi earnings before the bell helped the stock rally 4.9% for the day. The dividend of 3.3% is higher than where the Trump 2.0 economic agenda wants the Fed funds rate and your savings to be. Drink up.



FEDERAL RESERVE POLICY

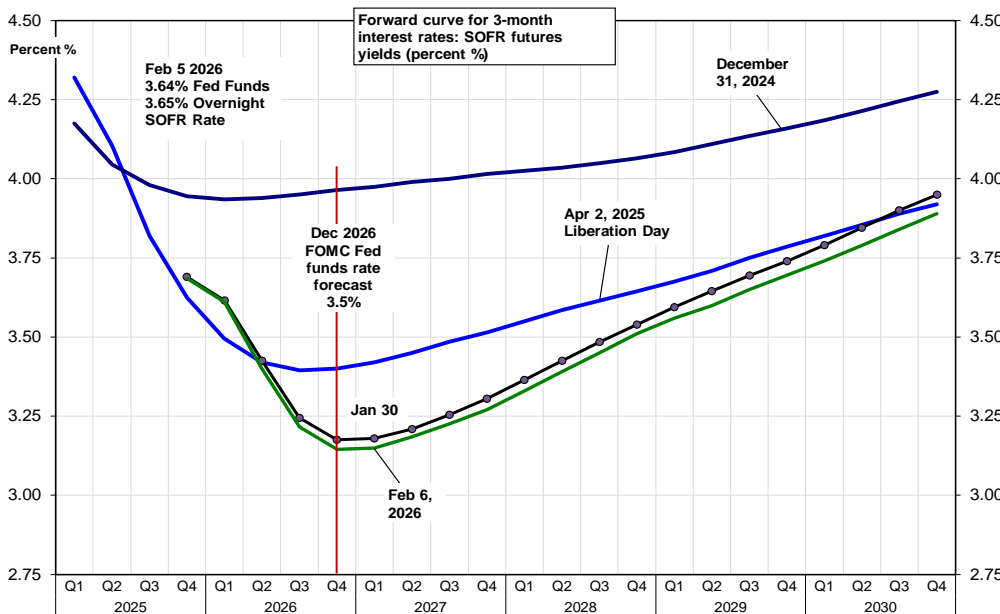
The Fed meets March 17-18, 2026 to consider its monetary policy. A new Chair is on the way in May, but currently, many members do not sound in favor of rate cuts. Surprisingly, this included Trump Fed Chair candidate Fed Vice Chair for Supervision [Bowman who said](#) that while the labor market remains vulnerable, she did not vote for a rate cut in January as the Fed could keep their powder dry after cutting rates 75 bps last year. Not too many voices talking about the need for rate cuts. This could be amplified by the fact that the December Fed forecasts look for just one rate cut in 2026, so it is early for members to talk about the need for rate cuts this year. All one of them. Traditionally, the Fed rides in with all guns blazing when recession fears mount, and the jobless rate moves up. Unfortunately, the chief monthly labor market data, payroll jobs and the unemployment rate seem tainted by the Trump 2.0 economic agenda, mostly the reversal of the migration trend. Payroll jobs growth may be slowing simply due to the 180 on migration since the domestic population (births minus deaths) has barely grown 500 thousand in each of the last three years. The January employment report was delayed to Wednesday, February 11, but the Household Survey which includes the 4.4% unemployment rate will not receive updated "population controls" until the February report on Friday, March 6. Stay tuned. The Jolts and weekly jobless claims data this week were not much to celebrate. Will find out soon enough.

Selected Fed assets and liabilities						Change from 3/11/20 to Feb 4
Fed H.4.1 statistical release billions, Wednesday data	4-Feb	28-Jan	21-Jan	14-Jan	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4281.018	4265.977	4251.156	4243.253	2523.031	1757.987
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2023.710	2023.710	2035.840	2039.024	1371.846	651.864
Repurchase agreements	3.001	0.006	0.001	0.001	242.375	-239.374
Primary credit (Discount Window)	4.515	4.516	3.498	5.370	0.011	4.504
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	0.058	0.059	0.060	0.061		
Main Street Lending Program	1.323	1.561	1.567	1.574		
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	0.022	0.032	0.079	0.122	0.058	-0.036
Federal Reserve Total Assets	6656.9	6638.1	6635.4	6632.7	4360.0	2296.921
3-month Libor % SOFR %	3.65	3.64	3.63	3.64	1.15	2.500
Factors draining reserves						
Currency in circulation	2431.213	2429.415	2430.441	2433.213	1818.957	612.256
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	907.737	952.705	871.169	777.061	372.337	535.400
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	2.414	1.103	3.344	3.223	1.325	1.089
Federal Reserve Liabilities	3719.454	3755.151	3678.918	3570.960	2580.036	1139.418
Reserve Balances (Net Liquidity)	2937.493	2882.940	2956.525	3061.760	1779.990	1157.503
Treasuries within 15 days	77.391	56.032	54.133	68.778	21.427	55.964
Treasuries 16 to 90 days	229.346	228.507	226.957	222.464	221.961	7.385
Treasuries 91 days to 1 year	483.170	475.696	463.982	454.722	378.403	104.767
Treasuries over 1-yr to 5 years	1382.108	1400.674	1400.837	1409.619	915.101	467.007
Treasuries over 5-yr to 10 years	506.014	502.929	502.964	491.646	327.906	178.108
Treasuries over 10-years	1602.989	1602.139	1602.284	1596.025	658.232	944.757
Note: QT starts June 1, 2022	Change	2/4/2026	6/1/2022			
U.S. Treasury securities	-1489.761	4281.018	5770.779			
Mortgage-backed securities (MBS)	-683.736	2023.710	2707.446			

*March 11, 2020 start of coronavirus lockdown of country

Fed Policy-key variables					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



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

Fed funds futures call Fed policy	
Current target: February 6 -- 3.75%	
Rate+0.11 Contract	Fed decision dates
3.700 Apr 2026	Jan 28, Mar 18*
3.500 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 Friday, February 13 at 830am ET															
Monthly	2025											2024			
% Changes	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

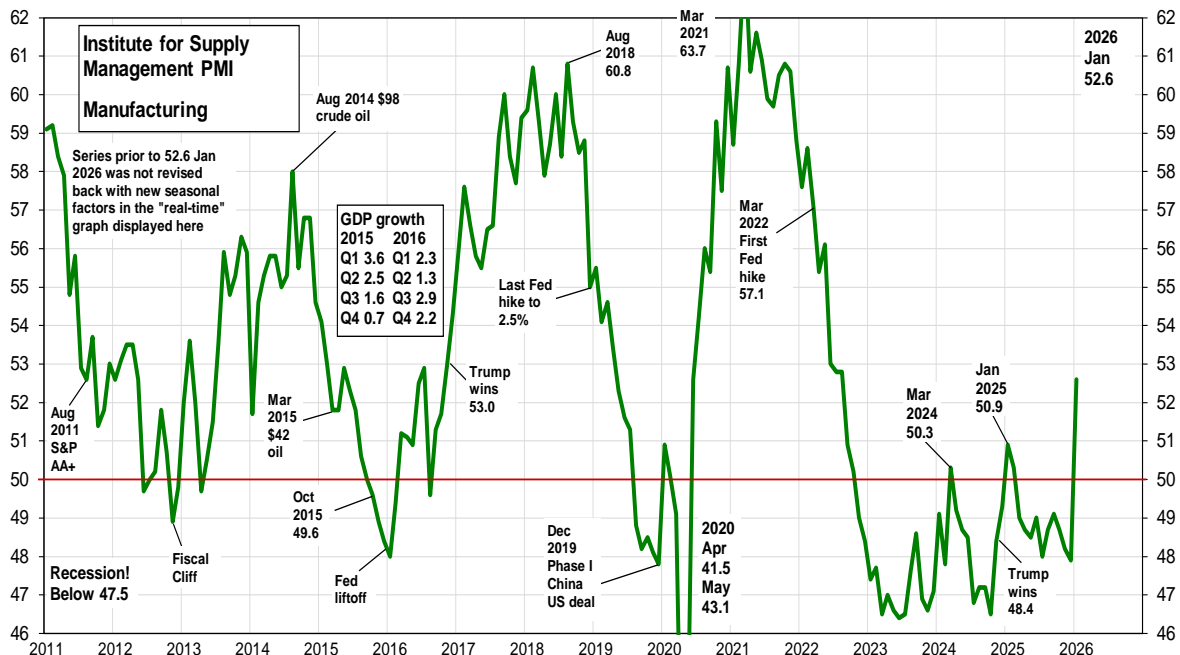
OTHER ECONOMIC NEWS

ISM manufacturing back in the growth column (Monday)

Breaking economy news. ISM manufacturing moved back above 50, showing manufacturing is expanding. About time as factory production measured by the Federal Reserve keeps rising as do key durable goods orders. We count this index as anecdotal evidence about the economy, something for bond traders mostly. There are new seasonal factors if you think survey responses are seasonal, but we don't revise the data in the graph here because we want to keep the levels that the market originally reacted to. That's the idea anyway. This isn't rocket science. Last month ISM said an index level of 42.3 or higher meant no recession for the broader economy. This month's report, after careful study, they say 47.5 is the new recession level dividing line.

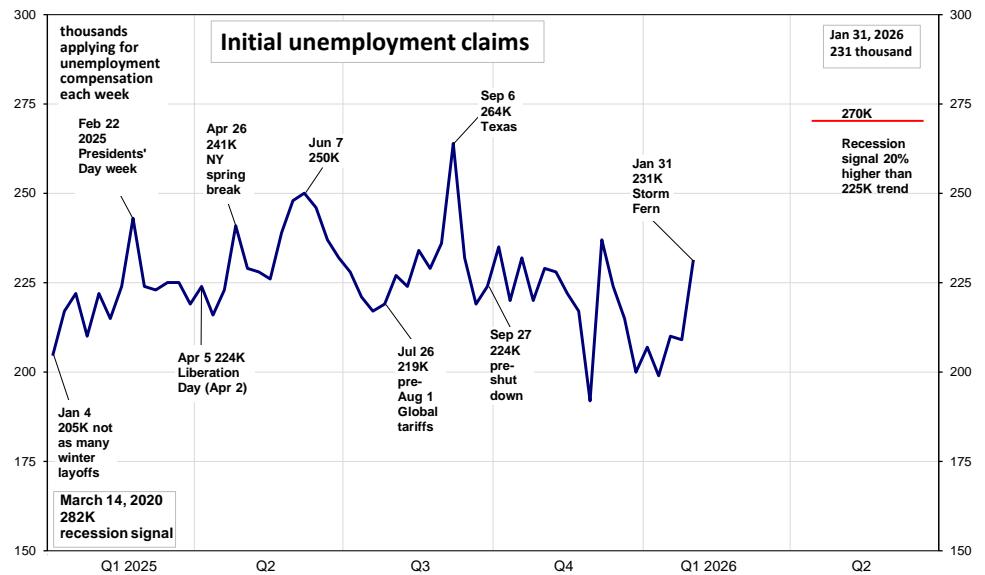
ISM manufacturing index				
	Jan 26	Dec 25	Nov 25	Oct 25
PMI index	52.6	47.9	48.0	48.8
Prices	59.0	58.5	59.5	58.0
Production	55.9	50.7	51.1	48.7
New orders	57.1	47.4	47.3	48.7
Supplier deliveries	54.4	50.8	49.3	54.2
Employment	48.1	44.8	44.1	45.8
Export orders	50.2	46.8	46.2	44.5
Import orders	50.0	44.6	48.4	45.4

Net, net, business confidence at America's factories jumped at the start of the new year with orders climbing sharply as the economic threats from the Federal government shutdown and the distractions from higher import tariffs fall further and further away in the rear-view mirror of concerns for corporations. Today's news is the best sign yet that the economy is advancing at a strong pace, and gives economists greater confidence that growth will be okay in the intermediate term later in 2026 after what could be another harsh, winter-weather first quarter slowdown in GDP for a third consecutive year. Stocks are up sharply as industrial companies are likely to do well despite concerns about the costs of the AI roll-out for tech companies.



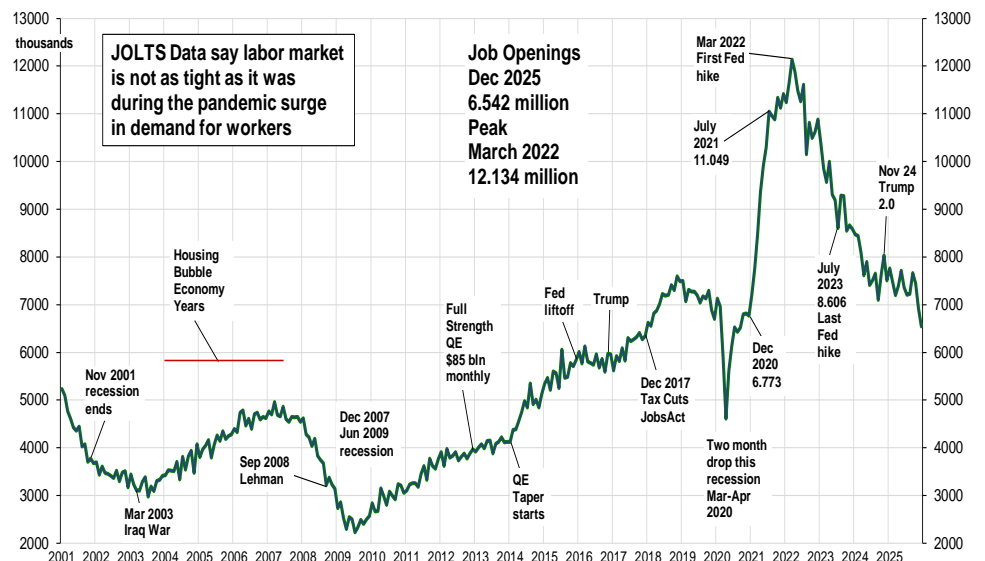
Jolts and jobless claims singing the same tune (Thursday)

Breaking economy news. Double trouble this morning for the labor markets. Weekly jobless claims jumped 22K to 231K in the January 31 week, which saw colder winter weather from winter storm Fern. Then the Federal government shutdown delayed (only two days) Jolts data at 10am ET. At the end of December there were only 6.542 million job openings, and the November data were revised down to 6.928 million from the initial report of 7.146 million.



Net, net, it looks like the news of corporate layoffs is finally starting to find its way into the first-time applications for unemployment benefits in the January 31 week. After you get sacked, it takes time to apply for jobless benefits, and you won't be relying on your Bitcoin savings that is for sure. High-profile companies have been trimming staff in ever increasing amounts since the start of 2026, and jobless workers have begun to apply for compensation. The data do not look amiss although Pennsylvania saw the largest increase in new filings at 5,301 out of the increase in nationwide total not seasonally adjusted filings of 20,018 in January 31 week. Today's report should not have implications for the delayed January 2026 monthly employment report now rescheduled for Wednesday, February 11, but the February employment report for release Friday, March 6 could show some weakness in the labor market. Fed officials took down their caution of risks in the labor markets at the December meeting, but may have to put the warning sign back up when they meet again next month. Stay tuned. The economy is not out of the woods yet on the downside risks to growth and this may mean more Fed rate cuts are on the way this year than markets currently anticipate.

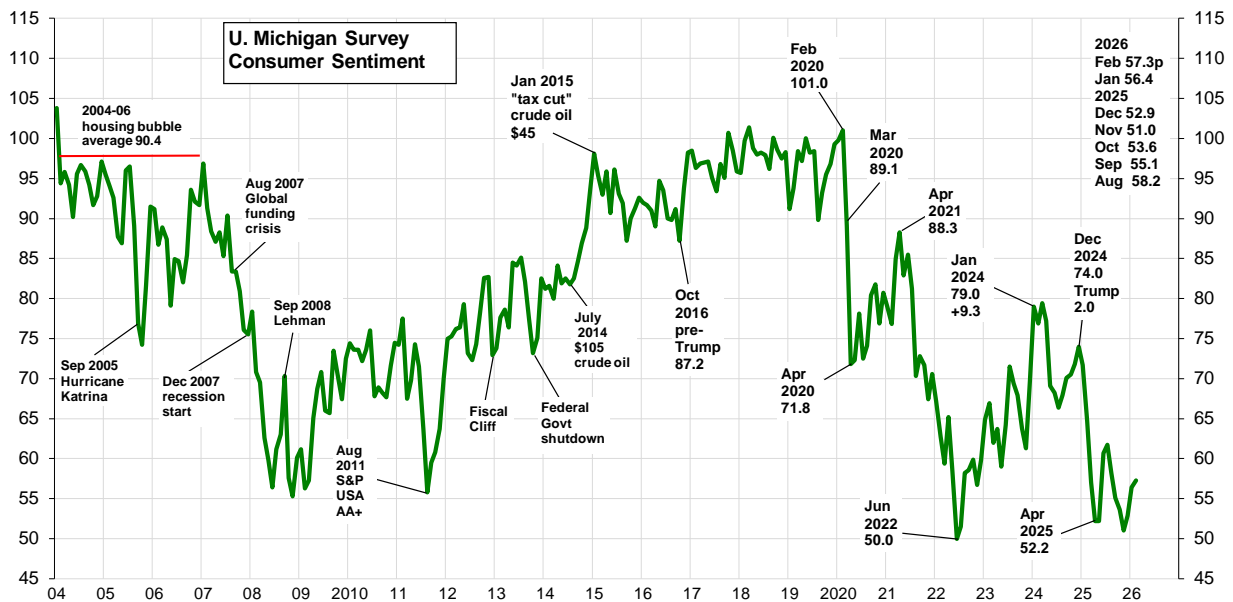
Wow, the Jolts data are absolutely head spinning with companies literally pulling the rug out from under job applicants in the final months of last year. There were 7.4 million job openings in October and now openings are down to just 6.5 million in December. This is exactly what happens in a recession where the demand for labor evaporates overnight and it will be a miracle if the



economy isn't nearing very close to the shores of recession. The Trump 2.0 economic agenda wanted lower rates to bolster growth but they never foresaw that those lower interest rates might come only because the economy is floundering and in need of aid from the nation's central bank. GDP growth may be strong but it matters little if the economy is unable to create new employment opportunities. The Treasury yield curve is adjusting sharply downward in preparation for the many Fed rate cuts to come. All of a sudden the economy is in trouble with the stock market cratering today. Stay tuned. The worst is yet to come. Bet on it.

Michigan Consumer Sentiment (Friday)

Not much to see here. February index 57.3 from 56.4 in January, the same January where auto sales dropped sharply with the inclement weather. Harsh winter weather has held down real consumer spending in the first quarter of the last two years, and 2026 looks like more of the same.



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