

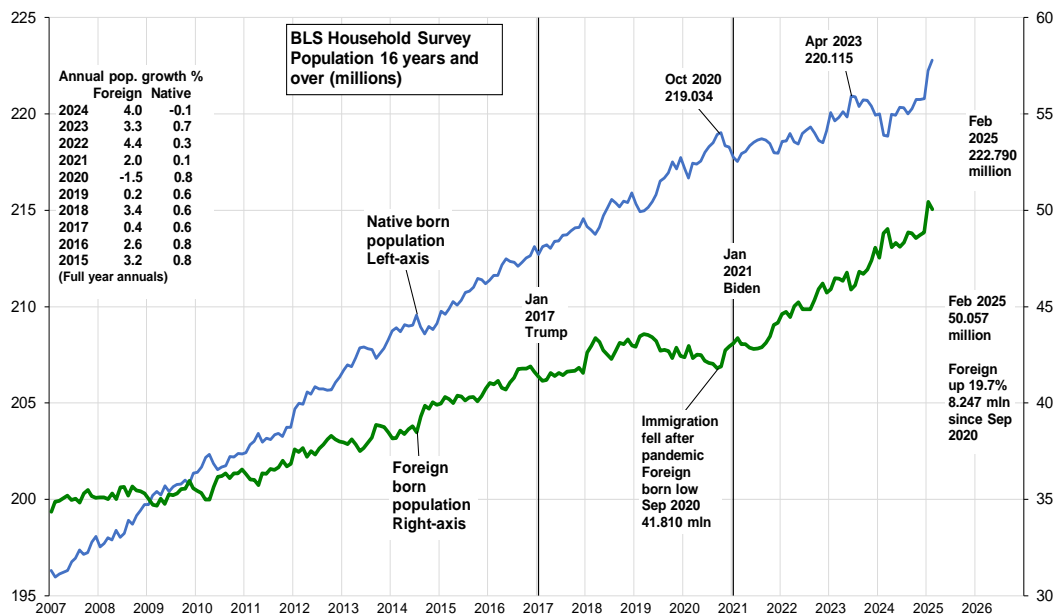
Financial Markets This Week

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Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

JOBS SLOW THIS YEAR

Nonfarm payroll jobs slowed in Friday's report to 151K in February and 125K in January versus 261K in November when Trump was elected and 323K in December. We thought we would return to the Household Survey measure of jobs or at least population as one has to wonder where the workers are going to come from if the



Administration in theory thinks we should build the \$3.3 trillion of imported goods last year here in the USA. It looks like the economy will be facing the headwinds of shortages in the next few years, shortages of goods until the new factories can be built, shortages of labor as the immigration surge comes to a halt. From the pandemic lowpoint in September 2020, the foreign born population shot up by nearly 20%, adding 8.247 million more “workers” (16 years and older) to a count of just over 50 million people in February 2025. Full year 2024 growth was 4.0% for foreign-born and the native American population fell 0.1%. Both series were adjusted sharply higher in January 2025 when the Census Bureau found more people out there with most of increase coming from net international migration. We will see where the trend goes from January 2025 onward, but we think we know the answer. Powell at last September’s press conference tried to explain it was this increase in labor supply from migration that is responsible for joblessness and not a weak economy or business conditions. The latest year-on-year statistics show the native born population saw more unemployment. We were never a fan of labor supply, but certainly the immigration surge is over for now.

Back to the payroll jobs survey with slower jobs of 151K in February and 125K in January. Blame the weather.

Foreign Born 18.3% of Population			
Thousands	Feb 2025	Feb 2024	Change
Foreign born			
Population	50,057	48,810	1,247
Employed	31,687	31,002	685
Unemployed	1,555	1,519	36
Unempl rate	4.7	4.7	0.0
Not in labor force	16,816	16,289	527
Native born			
Population	222,790	218,901	3,889
Employed	130,857	129,313	1,544
Unemployed	6,017	5,451	566
Unempl rate	4.4	4.0	0.4
Not in labor force	85,915	84,137	1,778
Civilian noninstitutional population			
16 years and over, not seasonally adjusted			

It was cold in January/February this winter, and restaurants and bars shed about 30K jobs in each month. Federal government jobs minus the Post Office fell 7K in February to 2.405 million, and the new head of the National Economic Council Hassett cheerfully acknowledged on Friday that there are more job cuts to come. There was a temporary grocery strike at Kroger and Food stores fell 15K. Trump said on Friday indeed that government workers going over to factories is what they would like to see. Manufacturing jobs increased 10K in February, mostly autos. We will see. It is hard to imagine factories returning to the USA and if they did, the companies would probably go out of business because no one could afford the prices they would need to charge.

Here are our comments after the report. The economy is off to a slow start under the new president. You can't have mass firings of Federal workers and government contractors and

Payroll jobs two-month slowdown

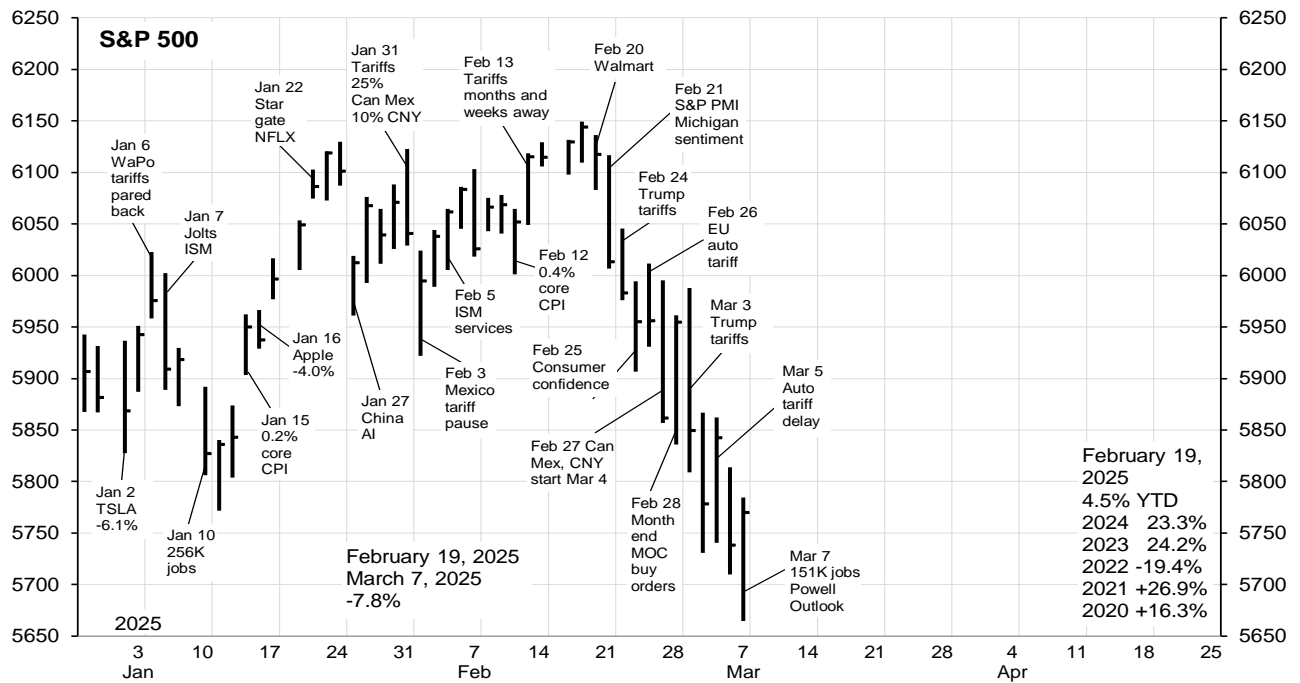
Dec. 2024		Feb 25	Jan 25	Dec 24	12 months Dec 23 to Dec 24	12 months Dec 22 to Dec 23
Totals						
158.942	Nonfarm Payroll Employment	151	125	323	2012	2594
135.382	Total Private (ex-Govt)	140	81	287	1559	1860
21.673	Goods-producing	34	-7	4	72	194
0.585	Mining	5	-4	-1	-9	12
12.760	Manufacturing	10	-5	-10	-105	-24
1.008	Motor Vehicles & parts	9	-10	-3	-20	-3
1.015	Computer/electronics	-3	-5	-4	-28	-17
1.770	Food manufacturing	1	-2	-3	17	33
8.289	Construction	19	2	15	190	207
5.248	Specialty trade contractors	15	-1	5	112	118
113.709	Private Service-providing	106	88	283	1487	1666
29.033	Trade, transportation, utilities	21	45	81	179	107
15.538	Retail stores	-6	30	34	-6	28
3.273	General Merchandise	10	30	8	48	105
3.235	Food & Beverage stores	-15	-1	-2	19	-9
6.723	Transportation/warehousing	18	19	34	136	-14
1.517	Truck transport	-2	0	-1	-18	-53
0.569	Air transportation	4	2	4	7	32
1.153	Couriers/messengers	24	15	33	79	-6
1.844	Warehousing and storage	-3	-4	0	15	-39
2.944	Information	5	3	17	-18	-125
0.484	Computing, data, web hosting	1	5	4	0	1
9.206	Financial	21	14	12	30	35
3.019	Insurance	5	12	2	37	35
2.481	Real Estate	10	6	6	11	39
1.369	Commercial Banking	-5	-3	-3	-17	-8
1.128	Securities/investments	4	-1	5	16	31
22.614	Professional/business	-2	-39	36	-50	-127
2.552	Temp help services	-12	-10	2	-159	-286
2.622	Management of companies	-1	-5	6	7	26
1.729	Architectural/engineering	3	6	7	54	40
2.446	Computer systems/services	-10	0	1	-6	-32
1.192	Legal services	-3	1	0	-10	21
1.141	Accounting/bookkeeping	-1	0	-5	-9	22
26.931	Education and health	73	66	83	999	1155
5.641	Hospitals	15	12	15	209	185
8.934	Ambulatory health care	26	20	19	330	317
3.992	Educational services	10	2	7	80	151
16.979	Leisure and hospitality	-16	-14	47	251	487
1.949	Hotel/motels	4	1	5	29	80
12.365	Eating & drinking places	-28	-30	38	130	250
23.560	Government	11	44	36	453	734
2.413	Federal ex-Post Office	-7	0	6	48	88
5.512	State government	1	19	19	134	242
2.630	State Govt Education	-5	15	12	37	135
15.036	Local government	20	20	14	273	399
8.186	Local Govt Education	10	10	5	109	202

think it is not going to mean job losses for the private sector. Tariffs are a price hike and a brake on economic growth which includes hiring. In fact, jobs are headed in the minus direction if migrants are sent home because the US population bust means there are no native born Americans to take those jobs. Changing the pattern of migration from in to out means fewer workers to build houses, wash dishes in restaurants, and comfort your mother in hospice care. Migration policies and import tariffs are going to bring down the level of private jobs sooner or later. Looks like it is happening sooner.

Monthly changes (000s)	Feb	Jan	Dec	Nov	Oct
Payroll employment	151	125	323	261	44
Private jobs	140	81	287	244	-1
Leisure/Hospitality jobs	-16	-14	47	54	9
HH Employment Survey*	-588	2234	478	-273	-346
Unemployment rate %	4.1	4.0	4.1	4.2	4.1
Participation rate %	62.4	62.6	62.5	62.5	62.5
Not in labor force (mln)	102.487	101.941	101.091	101.159	100.861
... and Want A Job (mln)	5.893	5.479	5.505	5.483	5.652
Average hourly earnings	\$35.93	\$35.83	\$35.68	\$35.61	\$35.48
MTM % Chg	0.3	0.4	0.2	0.4	0.4
YOY % Chg	4.0	3.9	4.0	4.2	4.1

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES



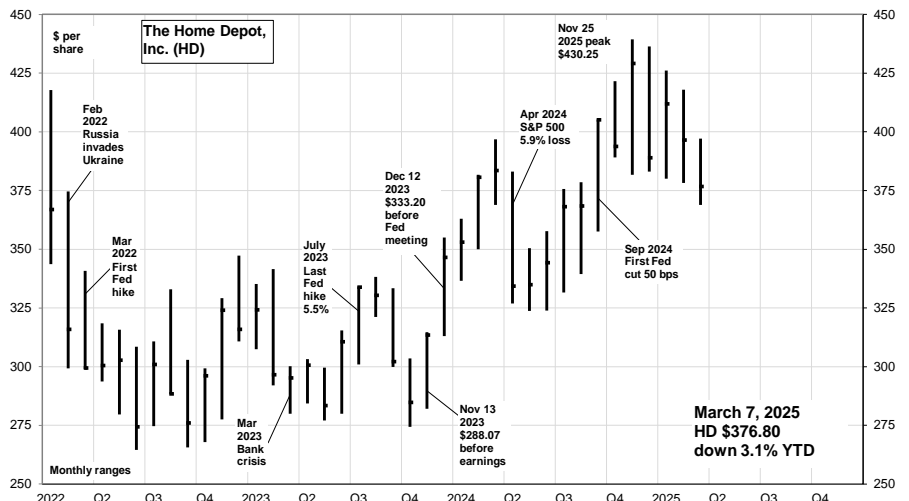
Hard to match the many news headlines up with the stock market price action this week. This included the big drop with a lag to the payroll jobs data and the climb back as well. Stocks bottomed about ten minutes before Powell spoke at 1230pm Friday, but the White House was also making statements or about to. For the move down from February 19 this year, the S&P 500 fell as much as 7.8% on Friday to 5,666.29. Riggged game. Bond yields broke 4.20% on Monday on the ISM manufacturing weakness in new orders and then Atlanta Fed GDPNow revised to -2.8% in Q1 2025 from -1.5%. Bond yields hit the 4.11% yield low for the week on Tuesday when stocks were crashing on more Trump tariff news, but yields recovered unlike stocks. On Wednesday German bonds had the worst day since 1990 on defense spending plans with 10-yr yields up 30 bps to 2.79%. 10-yr US closes week 4.30%.

The Home Depot, Inc. (HD) down 12.4% from November 2024 peak

The stock was \$382.42 on Monday, February 24 and rallied as much as 4.9% the next day after earnings were released before the open. The stock was \$383.24 on September 17, 2024 before the surprise Fed first 50 bps rate cut was announced the next day. The company says high mortgage rates continue to hurt business. Home improvement spending by consumers continues to come down to normal levels following the Covid home renovation surge.

\$mln	Operating	Average	Retail
Quarter	Net sales	Income	Ticket Sales NSA
2.2.25	39,704	4,495	\$89.11 36,716
10.27.24	40,217	5,418	\$88.65 42,758
7.28.24	43,175	6,534	\$89.90 45,445
4.28.24	36,418	5,079	\$90.68 39,127
1.28.24	34,786	4,143	\$88.87 36,365
10.29.23	37,710	5,406	\$89.36 41,915
7.30.23	42,916	6,589	\$90.07 46,253
4.30.23	37,257	5,551	\$91.92 39,722
1.29.23	35,831	4,752	\$90.05 38,281

Retail sales building material/garden qtr avg NSA

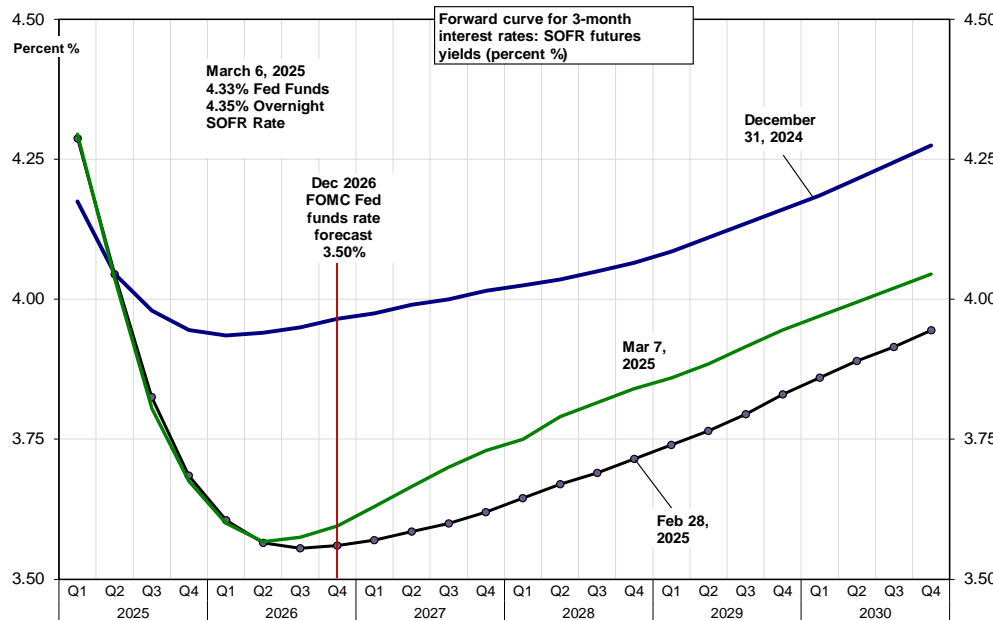


FEDERAL RESERVE POLICY

The Fed meets March 18-19, 2025 to consider its monetary policy. The focus is on the forecasts and whether those two 25 bps rate cuts this year get changed to three cuts maybe. Fed Governor Waller said two or three cuts on Thursday before the jobs report. [Powell spoke on the economic outlook](#) at 1230pm on Friday and took questions from the moderator. Apparently he is doing what a lot of people are doing and that is trying to avoid criticism from the President and from Congress. Just checked one of our old Econ 101 textbooks and it is in there: import tariffs are bad. Powell took a clever way out by saying, “the new Administration is in the process of implementing significant policy changes in four distinct areas: trade, immigration, fiscal policy, and regulation. It is the net effect of these policy changes that will matter for the economy and for the path of monetary policy.” In other words, Powell does not have to get drawn into whether Fed officials believe import tariffs are inflationary. There are some officials saying tariffs would be a one-off price adjustment and not light a match to another inflation outbreak. Although the pandemic inflation stemming from supply disruptions was also supposed to be temporary.

Selected Fed assets and liabilities						Change from 3/11/20 to Mar 5
Fed H.4.1 statistical release billions, Wednesday data	5-Mar	26-Feb	19-Feb	12-Feb	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4241.570	4251.338	4251.251	4265.982	2523.031	1718.539
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2203.309	2303.309	2217.572	2217.559	1371.846	831.463
Repurchase agreements	0.084	0.097	0.000	0.100	242.375	-242.291
Primary credit (Discount Window)	3.092	3.342	3.234	3.033	0.011	3.081
Bank Term Funding Program	0.079	0.106	0.188	0.195		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.881	1.892	1.905	1.910		
Main Street Lending Program	7.339	7.331	7.324	7.402		
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	0.133	0.096	0.091	0.073	0.058	0.075
Federal Reserve Total Assets	6807.4	6816.7	6833.4	6864.8	4360.0	2447.416
3-month Libor % SOFR %	4.34	4.33	4.35	4.32	1.15	3.190
Factors draining reserves						
Currency in circulation	2363.066	2356.013	2354.017	2350.536	1818.957	544.109
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	522.818	568.550	738.938	809.154	372.337	150.481
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	139.493	126.058	73.196	67.670	1.325	138.168
Federal Reserve Liabilities	3426.269	3435.954	3557.268	3609.347	2580.036	846.233
Reserve Balances (Net Liquidity)	3381.174	3380.755	3276.141	3255.407	1779.990	1601.184
Treasuries within 15 days	14.074	49.773	62.103	89.286	21.427	-7.353
Treasuries 16 to 90 days	261.313	228.750	217.322	187.267	221.961	39.352
Treasuries 91 days to 1 year	425.742	432.720	431.813	448.369	378.403	47.339
Treasuries over 1-yr to 5 years	1461.448	1460.319	1460.303	1450.277	915.101	546.347
Treasuries over 5-yrs to 10 years	527.811	531.262	531.257	549.210	327.906	199.905
Treasuries over 10-years	1551.182	1548.514	1548.452	1541.573	658.232	892.950
Note: QT starts June 1, 2022	Change	3/5/2025	6/1/2022			
U.S. Treasury securities	-1529.209	4241.570	5770.779			
Mortgage-backed securities (MBS)	-504.137	2203.309	2707.446			

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



A 25 bps rate cut is discounted in June 2025.

Fed funds futures call Fed policy	
Current target: March 7 -- 4.50%	
Rate+0.17 Contract	Fed decision dates
4.495 Apr 2025	Mar 19
4.235 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: February CPI inflation report Wednesday, March 12															
Monthly % Changes	2025					2024					2023				
	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov
Core CPI inflation	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3	0.4	0.4	0.4	0.3	0.3
Core PCE inflation	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1
Core PCE YOY	2.6	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2
Core CPI YOY	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0

OTHER ECONOMIC NEWS

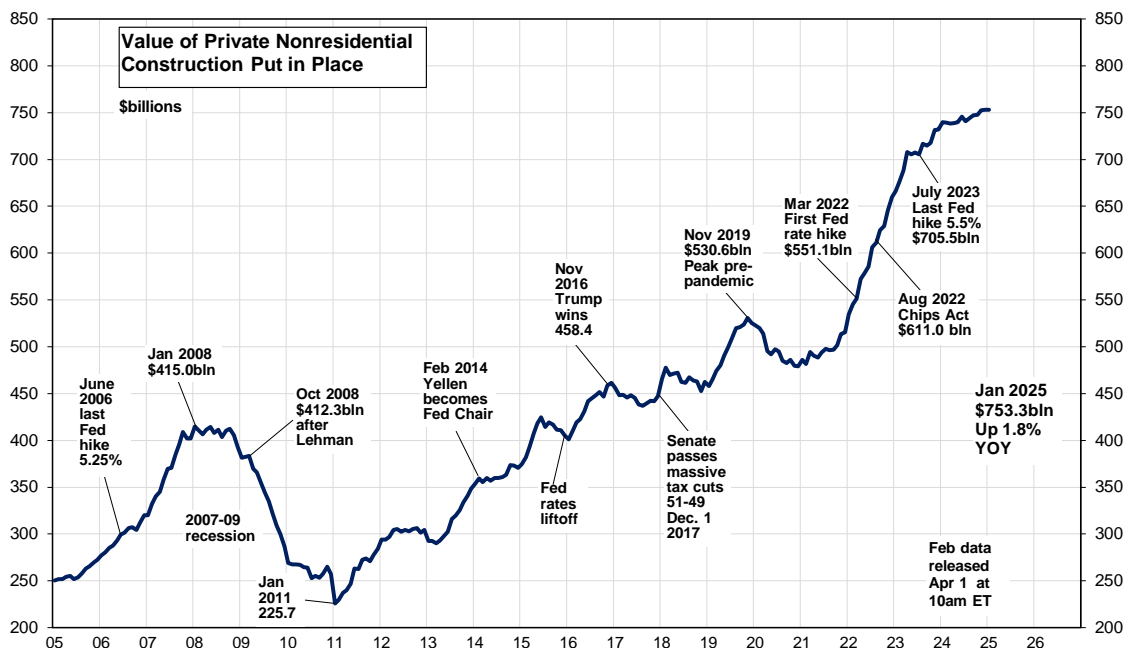
Manufacturing is back sort of (Monday)

Breaking economy news. February ISM manufacturing index and Commerce Department nonresidential construction spending for January. The ISM components don't look great with employment down, new orders down harder, and inflation picking up already. Nonresidential construction spending in January was unchanged: business spending on these new projects have not added more than a tenth of a percentage point to real GDP growth since the first quarter of 2024.

Net, net, US factories were back in the plus column for a second month this year in February, but pull back the tarp and the foundation for manufacturing growth ahead looks less likely as new orders and staffing levels plummeted, and prices pressures are already jumping in advance of the changes announced by Washington.

ISM manufacturing index				
	Feb 25	Jan 25	Dec 24	Nov 24
PMI index	50.3	50.9	49.2	48.4
Prices	62.4	54.9	52.5	50.3
Production	50.7	52.5	49.9	47.5
New orders	48.6	55.1	52.1	50.3
Supplier deliveries	54.5	50.9	50.1	48.7
Employment	47.6	50.3	45.4	48.1
Export orders	51.4	52.4	50.0	48.7
Import orders	52.6	51.1	49.7	47.6

Things could grow even worse ahead of the looming trade war deluge of tariffs where a retaliation on the part of America's three biggest trading partners could lead export-driven US factories to scale back their operations in a hurry. Manufacturing company executives may be simply whistling in the dark here with their headline overall optimism before the tariffs hit. In other news, companies did not increase the construction of major infrastructure, commercial premises and office space either this month, and manufacturing plant construction actually fell 0.3% in January, although the recent building of semiconductor plants has left manufacturing construction activity 5.6% higher than a year ago. Time will tell if US companies throw in the towel and bring factories back to America as Washington dictates. Our bet is companies will not as it is too costly to produce many of last year's staggering \$3.3 trillion of imported goods in this country, and the wishful make-it-all here boat sailed away a long, long time ago. There are not enough workers to produce \$3.3 trillion of goods anyway, and the idea that you can send fired Federal government workers onto the factory floors is a pipedream.



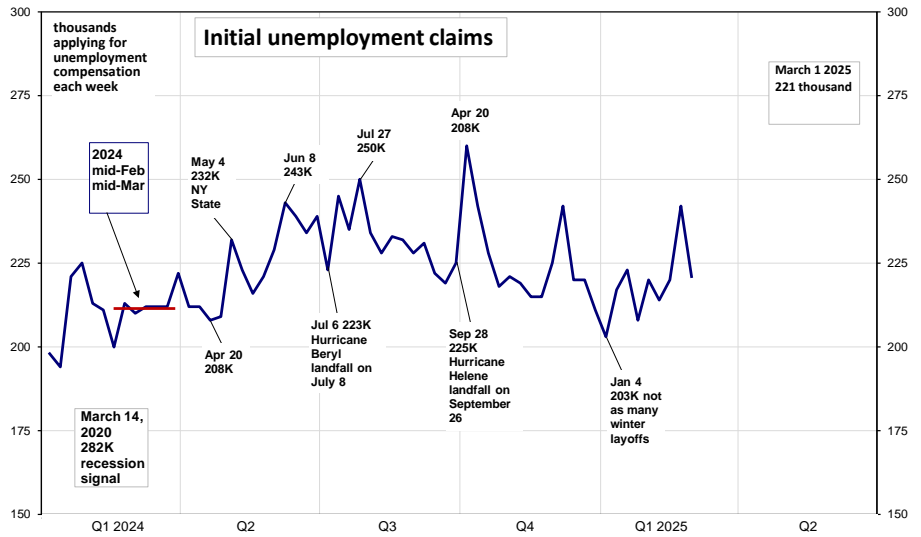
Record red ink in trade not job layoffs (Thursday)

\$mIn	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Dec 2024	-98,062	-123,281	25,219	266,520	170,077	96,442	364,581	293,358	71,223
Jan 2025	-131,382	-156,767	25,385	269,819	172,779	97,040	401,201	329,546	71,655
Change	-33,320	-33,486	166	3,299	2,702	598	36,620	36,188	432

Breaking economy news. Companies

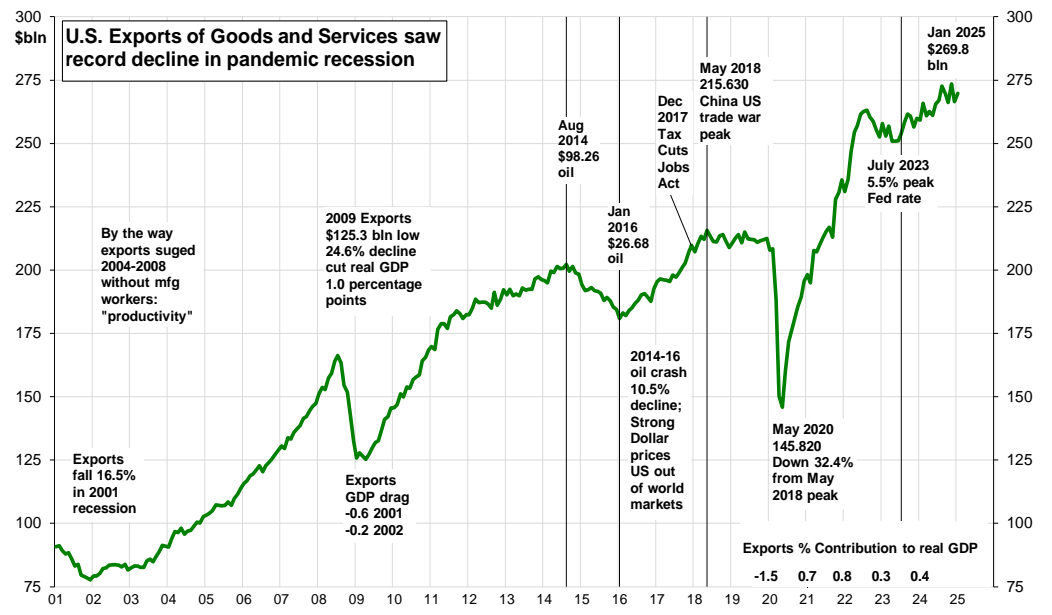
worldwide are making a grab for the goods trying to get ahead of price increases and potential shortages before the long winter of trade wars and sanctions sets in and turns how the world economy runs upside down. For January 2025, exports rose 1.2% to \$269.8 billion while imports jumped higher by 10.0% to \$401.2 billion which puts the trade deficit at \$131.4 billion a new record. If countries have been ripping America off for years in the terms of trade, this month they outdid themselves, giving the

Trump administration a warm welcome and something to shoot for. It was not a completely clean report and there may be offsets coming to the higher trade deficit; imports of goods jumped \$36.2 billion, but \$20.5 billion was just in the one category of Finished metal shapes whatever that is. There is some trying to beat the tariffs aspects with computers increasing \$3.0 billion to \$13.0 billion in January. And Pharmaceutical



preparations jumped \$5.2 billion to \$28.3 billion in January. Stay tuned. There are some one-off quirks in today's record red ink for the trade deficit, but there is nothing in here to make the Trump administration turn off the tariffs and halt the disruption to the pattern of trade between nations established over the last three decades. The only good news is that job layoffs are not pointing the

way to recession ahead with weekly layoffs dropping back sharply by 21K to 221K in the March 1 week. Federal employees are applying for benefits in their own special program, 1,634 applied in the February 22 week, over double the 614 new applications for unemployment benefits the week before and just 330 in the same week a year ago. The numbers are going to



go higher if the reports of planned Federal government layoffs and the shutdown of entire departments go through. The pain predicted ahead from the planned changes from the incoming Administration is not here yet. Wait for it. Winter is still coming for the economy even with springtime just a week away.

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