

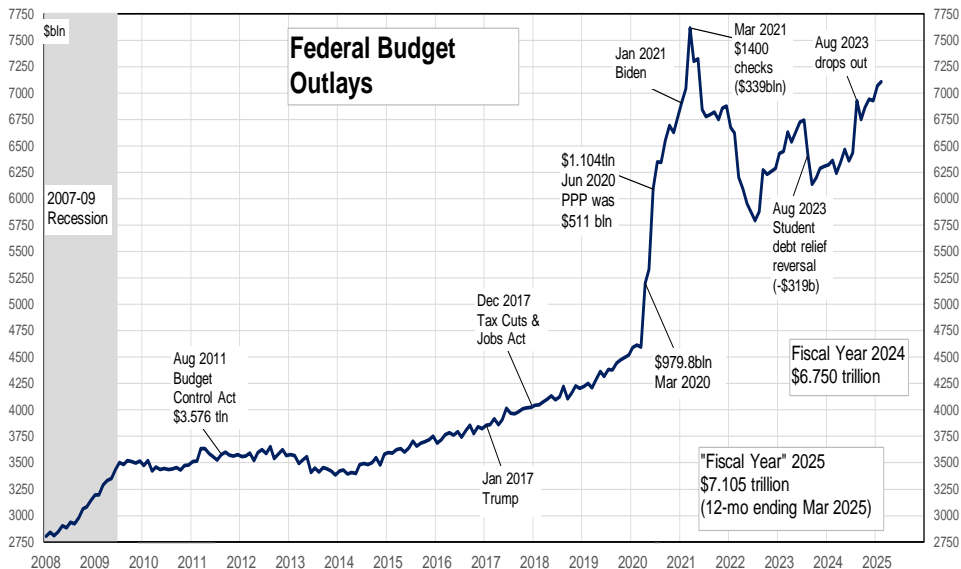
Financial Markets This Week

11 APRIL 2025

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FEDERAL SPENDING UP AND AWAY

Federal government spending up, and then down later perhaps. Doge has penciled in \$150 billion in savings for FY2026 which starts in October. That's good to know. We are halfway through the fiscal year FY2025 with the March Treasury statement released this week and you can make your own judgment: on a 12-month trailing sum basis Federal budget outlays



are running \$7.105 trillion. In FY2024, outlays were \$6.750 trillion. This week it was hard to keep track of all the tariff war announcements out of Washington, and also know where the big beautiful budget bill stands despite the vote in Congress. Looks like long-standing rules for the budget will be broken, broken rules seem to be the norm down in Washington. We will say that these 10-year budget horizon estimates for revenues and outlays to provide some kind of accountability do not work for us as the numbers are too large to be usable. Go back to the 70s like some in Washington want to do and focus on what Federal outlays, revenues, and the Federal budget deficit is forecast to be this year, and next year. Just a quick note on all the import tariff collections pouring into the country. March 2025 customs receipts were \$8.168 billion, which X 12 would be a \$98 billion annual rate. FY2024 customs duties were \$77 billion. We are on our way with import tariff collections of at least 10% on almost all nations and the calendar year 2024 goods imports of \$3.267 trillion.

Social Security In/Out

	\$ bln	Receipts	Payments	Red/Black
FY2019		770.282	888.080	-117.798
FY2020		825.307	940.221	-114.914
FY2021		814.034	982.673	-168.639
FY2022		911.191	1,063.897	-152.706
FY2023		1,020.442	1,192.149	-171.707
FY2024		1,076.984	1,293.782	-216.798
Jan 25		103.464	114.253	-10.789
Feb 25		87.208	115.022	-27.814
Mar 25		96.422	130.503	-34.081

Meanwhile, "hands off our Social Security" as they say, as it is as bankrupt as it has ever been if bankrupt means it takes in less in taxes than it pays out to beneficiaries each year. Our advice to Congress is keep doing what you are doing and don't worry about the mythical date when social security "legally" runs out of money. How was the red ink of \$216.8 billion in FY2024 financed? In the bond market. Auctions easily financed in the market to raise real cash, assuming China won't sell its US Treasury debt in its trade war retaliation. Okay, again, social security swaps the nonmarketable

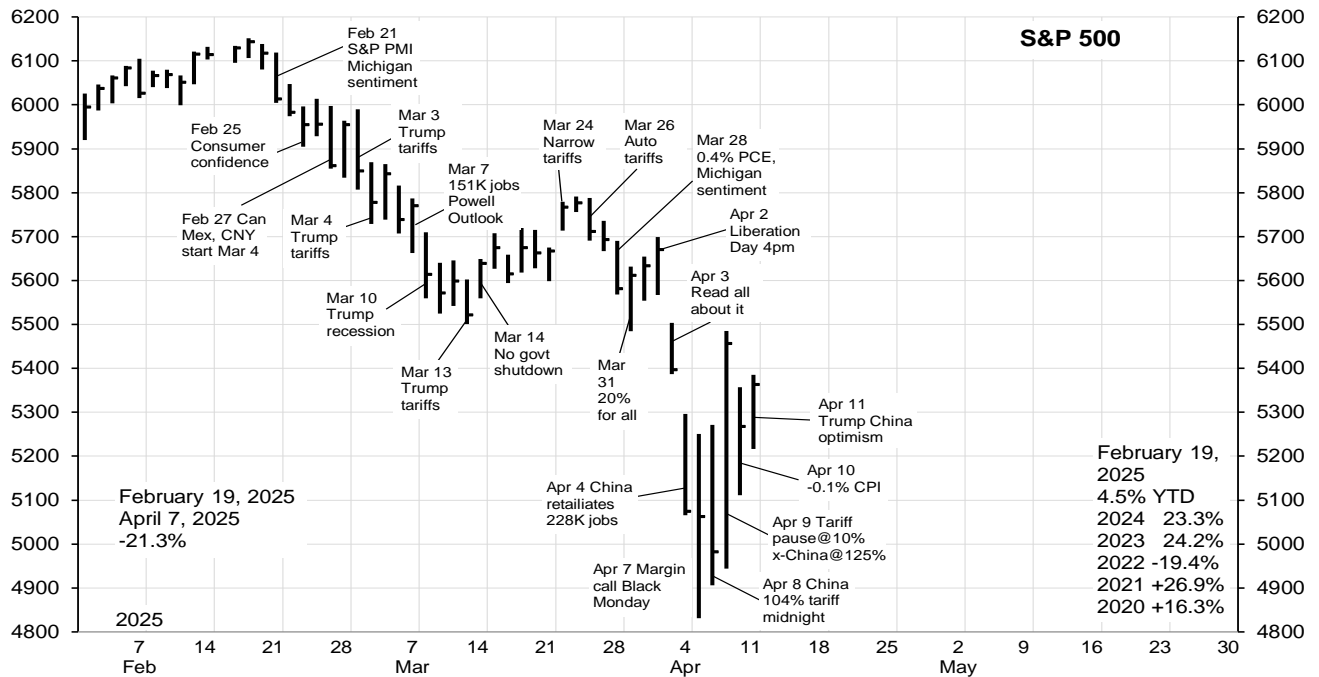
debt it holds (meaning it has no worth to anyone) for marketable debt that the Treasury auctions to finance the entire FY2024 budget deficit of \$1.832 billion. In other words, the benefits over taxes gap is just another few dollars part of the government's budget deficit last year. And the amount doesn't break the bank. Don't waste your time explaining you will have to cut FY2024 benefits 16% to match receipts when you run out of money in 2033 as it is too late. You are already running deficits every year that are financed through general borrowing.

As far as actual budget outlays, Homeland Security is up a lot in the first six months of FY2025 as FEMA Disaster Relief and the National Flood Insurance Fund outlays contributed equally to most of the increase. U.S. Customs and Border Protection was stable at \$10.706 billion. Immigration and Customs Enforcement (ICE) increased 3.5% to \$4.979 billion. State

Federal Government Spending (\$bln) Where to cut?	2 Qtrs FY25	2 Qtrs FY24	Fiscal	Fiscal	Full Year FY 2024
	Q4 24-Q1 25	Q4 23-Q1 24	Year	Year	
			Changes	% chg	
TOTAL BUDGET OUTLAYS	3,567.425	3,252.789	314.636	9.7	6,750.493
Legislative	3.683	3.333	0.350	10.5	6.835
Judicial	4.882	4.652	0.230	4.9	9.480
Agriculture	120.167	112.394	7.773	6.9	203.402
Commodity Credit Corporation	7.725	7.282	0.443	6.1	5.524
Food Stamps	54.125	53.486	0.639	1.2	106.754
Child Nutrition	17.750	17.176	0.574	3.3	32.733
Commerce	15.344	6.561	8.783	133.9	14.831
Defense	443.064	410.381	32.683	8.0	826.277
Military Personnel	115.660	105.493	10.167	9.6	191.945
Operation Maintenance	168.733	157.400	11.333	7.2	332.047
Procurement	83.745	76.311	7.434	9.7	152.259
Research Development	66.368	63.051	3.317	5.3	137.960
Military Construction	6.425	6.011	0.414	6.9	12.068
Education	78.875	80.843	-1.968	--	268.353
Office of Federal Student Aid	34.076	25.264	8.812	34.9	160.693
Energy	26.141	23.969	2.172	9.1	49.315
Health Human Services	901.311	811.469	89.842	11.1	1720.621
Medicare	561.814	478.044	83.770	17.5	1052.675
Medicaid States Grants	319.955	304.445	15.510	5.1	617.517
Homeland Security	58.718	43.636	15.082	34.6	89.290
Housing Urban Development	34.868	35.621	-0.753	-2.1	51.976
Interior	11.798	8.288	3.510	42.4	17.088
Justice	23.001	20.680	2.321	11.2	43.995
Labor	29.898	29.237	0.661	2.3	65.672
State Unemployment Benefits	19.654	18.459	1.195	6.5	36.611
State	15.675	16.914	-1.239	-7.3	37.017
Transportation	55.909	50.154	5.755	11.5	117.389
FAA	11.842	11.201	0.641	5.7	23.096
Federal Highway Admin.	27.523	25.463	2.060	8.1	61.523
Treasury	750.498	653.014	97.484	14.9	1316.852
IRS	168.173	134.514	33.659	25.0	229.985
Premium Tax Credit	65.746	50.633	15.113	29.8	110.195
Earned Income Credit	53.082	47.605	5.477	11.5	60.011
Child Tax Credit	21.904	20.988	0.916	--	26.247
Interest on Public Debt	582.460	522.023	60.437	11.6	1133.037
Veterans Affairs	185.302	151.240	34.062	22.5	325.004
Corps of Engineers	6.165	5.518	0.647	11.7	11.345
Other Defense Civil Programs	40.305	31.940	8.365	26.2	66.220
Environmental Protection	28.211	6.210	22.001	354.3	13.699
Exec. Office of President	-0.226	0.296	-0.522	-176.4	0.607
International Assistance	13.078	13.349	-0.271	-2.0	35.794
NASA	12.265	12.391	-0.126	-1.0	25.015
National Science Foundation	4.717	4.164	0.553	13.3	9.392
Personnel Management	63.452	62.457	0.995	1.6	126.173
Small Business Admin.	1.334	0.960	0.374	39.0	33.197
Social Security Admin.	807.609	741.497	66.112	8.9	1519.734
Retirement Benefits	693.385	634.814	58.571	9.2	1293.782
Federal Disability Payments	78.538	76.491	2.047	2.7	153.918
Other Independent Agencies	7.487	79.537	-72.050	--	77.793

Department spending is down, primarily "Global Health and Child Survival." Environmental Protection (EPA) was higher for one-off clean energy grants and the like made in November and December. Other Independent Agencies was down after the FDIC liquidation of failed banks in the crisis of March 2023 got resolved. Stay tuned. Story developing. Try not to worry about Interest on the Public Debt.

INTEREST RATES



Monday and Tuesday were down hard, but with the rally highs each day on hopes for a reprieve from the tariffs which came to naught. The huge daily matching trading high/low ranges, Monday 7.8%, Tuesday 6.8%, would ordinarily look like a market bottom, but who knows which way the White House will swing next. Well, Trump 2.0 wants factories to come back is the bottom line. The 21.3% loss from the highs this year to the Monday low is now recession-magnitude. Heck, the market only fell as much as 20.4% in the 1990-91 recession, aren't we done yet? No, we're not done yet in terms of volatility even if the week's Monday low held. The range on Wednesday was a stunning 9.7% starting with China upping its tariffs at 7am before Trump dropping the reciprocal tariffs on all but China around 1pm. That's only Wednesday and we did not get to bonds that hit 4.59% Friday.

JPMorgan Chase (JPM) down 27.9% from February high on Monday

Steep sell-off from February with the overall market. The close on Wednesday, April 2 before the Liberation Day announcement from the Rose Garden was \$245.82. Earnings were reported Friday before the open with the stock closing \$227.11 Thursday night. Strong earnings but worries over the macro outlook ahead.

JPM results (billions)

Quarter	Net Income	Provision for Credit Losses	Stock price Qtr end
3.31.2025	14.643	3.305	245.30
12.31.2024	14.005	2.631	239.71
9.30.2024	12.898	3.111	210.86
6.30.2024	18.149	3.052	202.26
3.31.2024	13.419	1.884	182.35
12.31.2023	9.307	2.762	170.10
9.30.2023	13.151	1.384	145.02
6.30.2023	14.472	2.899	145.44
3.31.2023	12.622	2.275	130.31



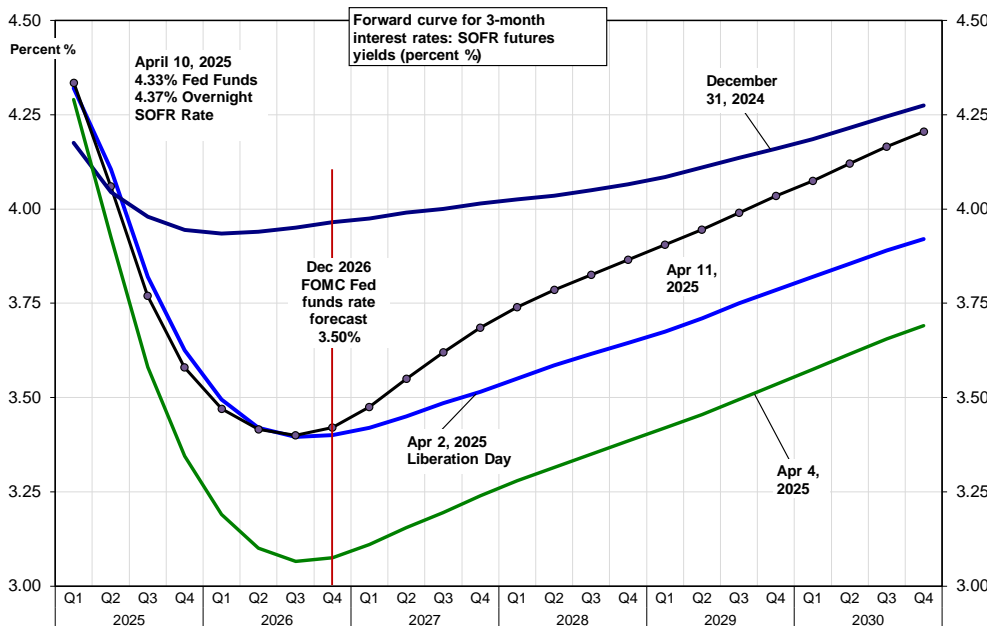
FEDERAL RESERVE POLICY

The Fed meets May 6-7, 2025 to consider its monetary policy. Lots of Fed speakers, policy is in a good place to respond, maybe do nothing for a while... We were struck by New York Fed President Williams saying the current 4.2% unemployment rate could go to 4.5 to 5.5 percent this year. Something to think about as it certainly sounds like a recession. During the stagflation in double-digits in the early 80s, the Fed twice shifted from inflation fighting with higher rates to rate cuts when the job losses mounted. We assume that would be the case again as weak demand in the economy shown by job losses means inflation will eventually turn back around. 10-yr Treasury yields rose as high as 4.59% on Friday, and this backed up the SOFR futures yields sharply after December 2026. It is unclear what is doing this but the H.4.1 data here also show no change in the custody account holdings for foreign official and international accounts so “China” is not selling yet. On April 9 the marketable Treasuries held totaled \$2.932 trillion, down about \$25 billion from year ago levels. The gold stock is still valued at \$11.041 billion unless the White House buys Bitcoin with it.

Selected Fed assets and liabilities						Change from 3/11/20 to Apr 9
Fed H.4.1 statistical release billions, Wednesday data	9-Apr	2-Apr	26-Mar	19-Mar	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4219.496	4219.049	4237.419	4236.787	2523.031	1696.465
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2188.999	2188.999	2188.999	2203.257	1371.846	817.153
Repurchase agreements	0.000	0.000	0.000	0.001	242.375	-242.375
Primary credit (Discount Window)	2.726	2.154	2.234	2.136	0.011	2.715
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	1.831	1.834	1.853	1.858		
Main Street Lending Program	7.301	7.294	7.285	7.276		
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	0.094	0.095	0.086	0.113	0.058	0.036
Federal Reserve Total Assets	6778.4	6774.3	6791.2	6807.0	4360.0	2418.420
3-month Libor % SOFR %	4.42	4.37	4.35	4.29	1.15	3.270
Factors draining reserves						
Currency in circulation	2378.330	2376.726	2373.074	2368.395	1818.957	559.373
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	315.189	301.624	315.970	415.799	372.337	-57.148
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	168.115	233.488	241.371	193.378	1.325	166.790
Federal Reserve Liabilities	3294.102	3347.276	3340.689	3381.331	2580.036	714.066
Reserve Balances (Net Liquidity)	3484.345	3427.049	3450.550	3425.713	1779.990	1704.355
Treasuries within 15 days	58.181	62.513	54.915	43.578	21.427	36.754
Treasuries 16 to 90 days	215.022	210.743	216.641	228.023	221.961	-6.939
Treasuries 91 days to 1 year	417.235	417.119	421.797	421.666	378.403	38.832
Treasuries over 1-yr to 5 years	1445.551	1445.359	1463.220	1462.947	915.101	530.450
Treasuries over 5-yrs to 10 years	530.638	530.587	528.686	528.615	327.906	202.732
Treasuries over 10-years	1552.870	1552.728	1552.159	1551.958	658.232	894.638
Note: QT starts June 1, 2022	Change	4/9/2025	6/1/2022			
U.S. Treasury securities	-1551.283	4219.496	5770.779			
Mortgage-backed securities (MBS)	-518.447	2188.999	2707.446			

Fed Policy-key variables	2025			2026	2027	Long Term
	Fed funds	3.9	3.4	3.1	3.0	3.0
PCE inflation	2.7	2.2	2.0	2.0	2.0	
Core inflation	2.8	2.2	2.0	2.0	2.0	
Unemployed	4.4	4.3	4.3	4.2	4.2	
GDP	1.7	1.8	1.8	1.8	1.8	

March 2025 median Fed forecasts



A 25 bps rate cut is expected in June and in September.

Fed funds futures call Fed policy	
Current target: April 11 -- 4.50%	
Rate+0.17 Contract	Fed decision dates
4.255 Jul 2025	May 7, Jun 18*
3.940 Oct 2025	Adds Jul 30, Sep 17*
Last trade, not settlement price	
*Not strictly true, Jul 2025 could be 1 day at a new rate; 2 days new rate for Oct 2025	

Next up: March PCE inflation report Wednesday, April 30

Monthly % Changes	2025		2024										2024		
	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
Core CPI inflation	0.1	0.2	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
Core PCE inflation		0.4	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
Core PCE YOY		2.8	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1
Core CPI YOY	2.8	3.1	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

OTHER ECONOMIC NEWS

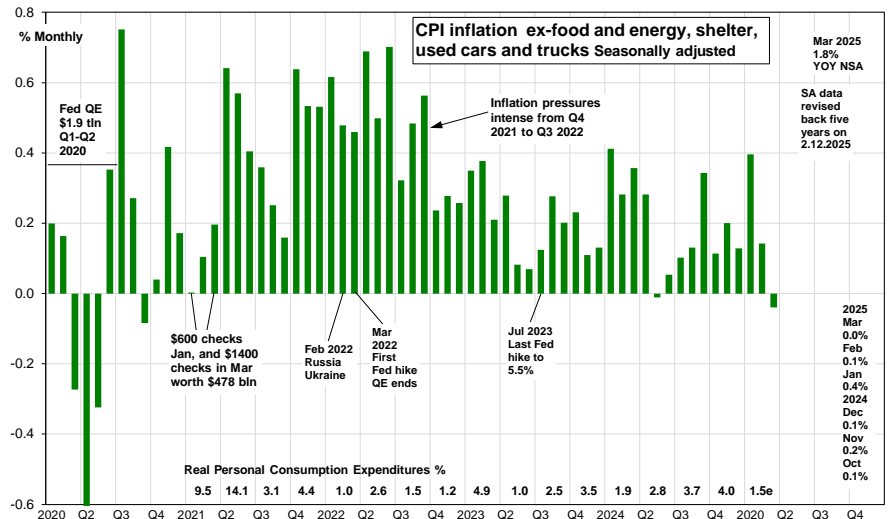
CPI inflation index falls (Thursday)

Breaking economy news. CPI fell in March, a rare occurrence as gasoline prices tumbled 6.3%, also a rare occurrence. The last decline for headline CPI was in the pandemic -0.1% May 2020. Gasoline prices normally rise ahead of the Memorial Day kick-off for the summer driving season.

Net, net, the good news of an inflation soft print in March needs to be taken with a grain of salt because the trade war against China from where most consumer goods that Americans buy come from has gone into hyper drive and one way or another either because of shortages or higher markups from 125% tariffs, prices are going up starting in April and for the foreseeable future. Don't get used to the 0.1% drop in core commodity CPI goods prices in March because it cannot last unless there is a big roll-back of the tariffs on China. We have to admit the weak consumer inflation report surprised us because all reports point to Americans buying more goods in March to get ahead of the tariffs, especially for autos and light trucks. Headline inflation actually fell in March, but this could be for weak economic demand reasons as energy prices like gasoline have fallen on worries about a world economic slowdown bordering on recession.

Meanwhile, if markets are waiting for the trade tariff volatility to lead to a downturn in the economy, it is nowhere yet to be seen in the early April weekly job layoffs data. Jobless claims rose just 4K to 223K in the April 5 week, and the total number on the nation's jobless rolls fell back 43K to 1.85 million in the March 29 week. Federal employees filed just 508 claims in the March 29 week which is nowhere near the tens of thousands of layoffs being talked about by the new Administration. Stay tuned. The economy is in a holding pattern for now with little sign that the trade tariffs to date are pushing up the prices of consumer goods that come from overseas markets. This is a surprise because in countries like Canada, goods prices have jumped sharply this year. It is early days yet however in the potential inflation outbreak as this is still March data and the Liberation Day announcement by Trump 2.0 was not until April 2nd. The bottom line is that if today's inflation report was truly good news and signaling the inflation threat was over, the financial markets would be jumping for joy and instead the stock market is barely changed on the news, and the modest bond market rally of a few basis points has been reversed.

Dec 24	Weight	CPI inflation	Monthly Percent Changes			YOY %
			Jan 2025	Feb 2025	Mar 2025	Mar 2025
100.0	Total		0.5	0.2	-0.1	2.4
13.691	Food		0.4	0.2	0.4	3.0
5.648	Food away from home		0.2	0.4	0.4	3.8
6.216	Energy		1.1	0.2	-2.4	-3.3
2.902	Gasoline		1.8	-1.0	-6.3	-9.8
80.094	Ex-food & energy		0.4	0.2	0.1	2.8
4.393	New vehicles		0.0	-0.1	0.1	0.0
2.391	Used cars/trucks		2.2	0.9	-0.7	0.6
2.480	Clothing		-1.4	0.6	0.4	0.3
1.527	Medical care goods		1.2	0.1	-1.1	1.0
35.483	Shelter		0.4	0.3	0.2	4.0
26.282	Owner equiv. rent		0.3	0.3	0.4	4.4
6.305	Transportation		1.8	-0.8	-1.4	3.1
6.747	Medical care services		0.0	0.3	0.5	3.0
<u>Special: Where inflation might come back down to</u>						
60.705	Services ex-energy		0.5	0.3	0.1	3.7
19.388	Commodities (core)		0.3	0.2	-0.1	-0.1



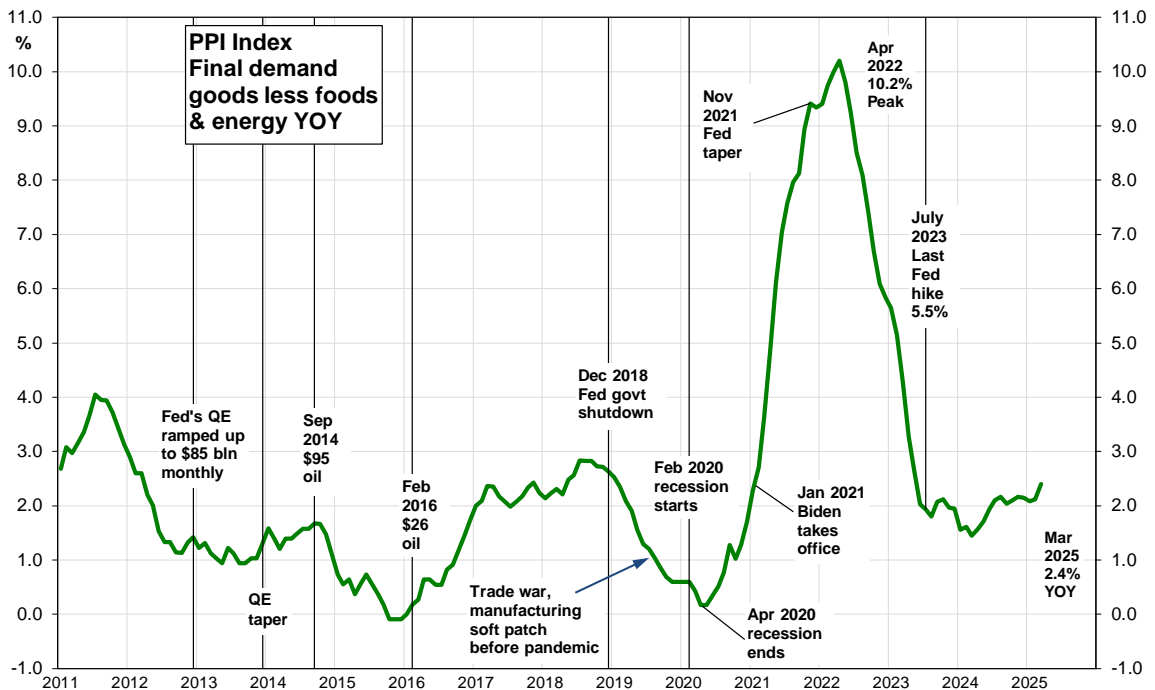
PPI hits the skids (Friday)

Breaking economy news. PPI inflation fell 0.4% in March with both Foods and Energy falling sharply. It is hard to explain this report unless demand in the overall economy is weakening. Car and light truck sales certainly shot higher in March however as consumers try to beat the tariff increases.

Monthly % SA	Final demand goods					Final demand services			
	Total final demand	Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other
Jan	0.6	0.7	1.0	2	0.2	0.5	0.9	1.0	0.3
Feb	0.1	0.3	1.8	-1.3	0.3	0.0	-1.1	0.1	0.5
Mar	-0.4	-0.9	-2.1	-4.0	0.3	-0.2	-0.7	-0.6	0.1

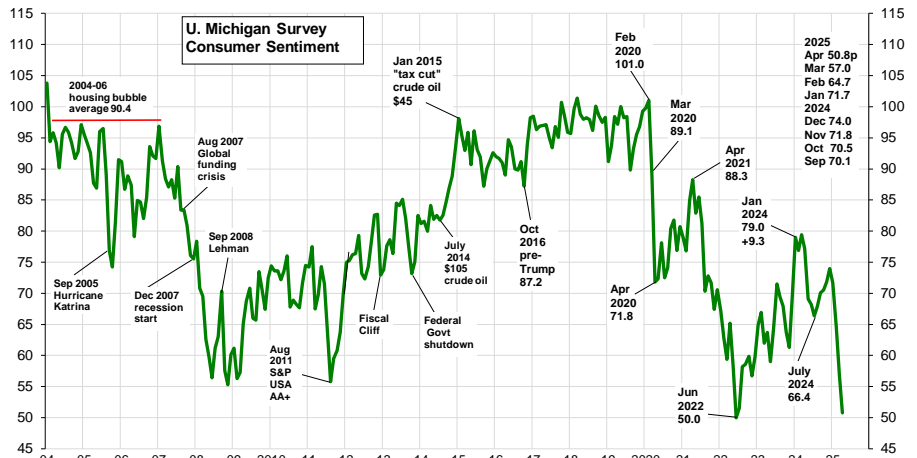
**Final demand goods, less foods and energy is old-fashioned PPI

Net, net, another spectacular deflation report for March this time at the factory level driven by a sharp decline in energy prices as warnings grow that world economic growth is anticipated to stall with the global trade war. Goods prices which will be tarified for some key commodities and for imports from China have picked up notably this year however with strong 0.3% gains in February and March. Pull back the tarp and the deflationary producer price figures are not all they seem to be. Most of the fall in final demand goods was from an 11.1% drop in gasoline. Steel mill products shot up 7.1%. The US economy is not out of the woods when it comes to this new inflation battle from rising tariffs on imported goods coming into the U.S. This on-again, off-again trade threat situation for the global economy could take months to play out as most tariffs have been paused at 10% for countries besides China, although 10% is still 10%, and given the razor-thin margins under which most goods are sold in America, the cost of the products Americans buy is still likely to go somewhat higher.

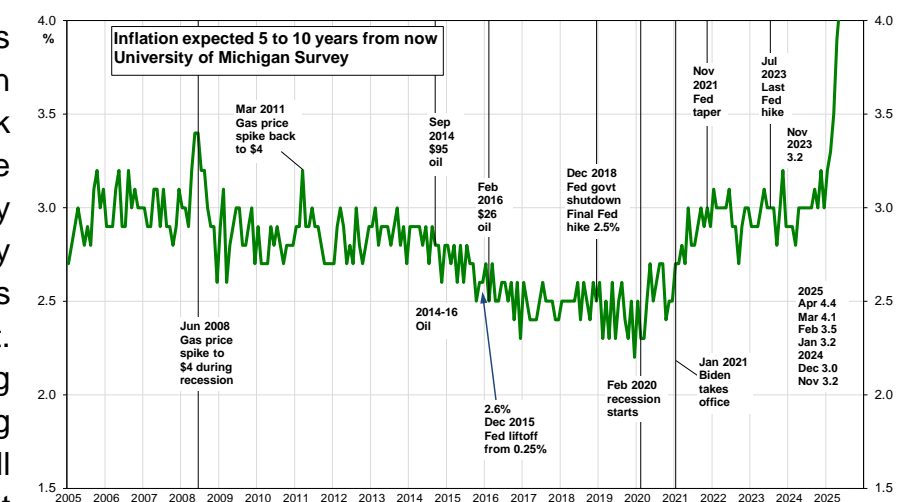
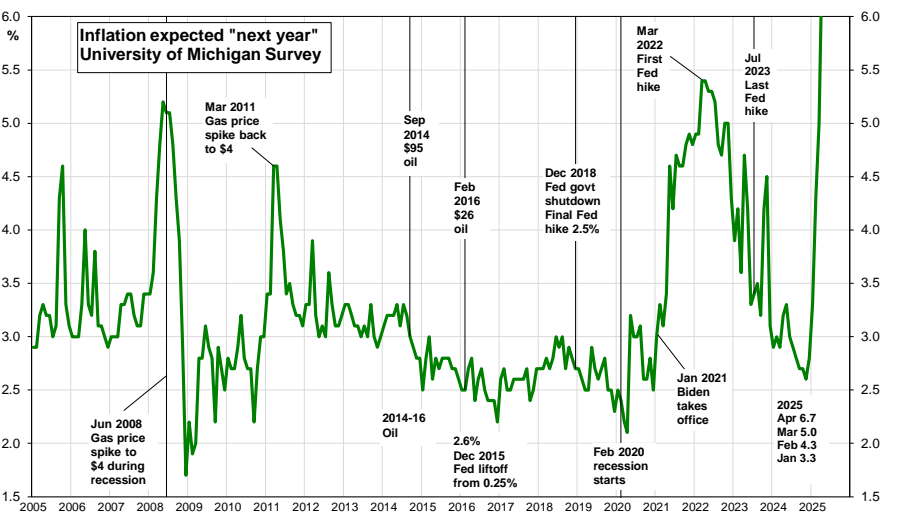


Michigan sentiment hits the skids (Friday)

Breaking economy news. The University of Michigan survey of consumer sentiment keeps tumbling from the 74.0 level in December following the national elections. It is the speed of the descent that looks worrisome rather than the low 50.8 preliminary reading for April. The public's expectations of inflation next year is literally off the charts with April at 6.7% versus 5.0% last month. Long term inflation has moved further off the chart as well at 4.4% up from 4.1% in March.



Net, net, Fed officials can talk a good game about how inflation expectations are well contained, but the court of public opinion is having none of it with the latest sentiment reading on consumers showing outright fear that inflation is literally going to go through the roof and no one will be able to buy what they need at a price they can afford. The Trump trade war is terrifying consumers who cannot make up their mind between what is more likely, a recession or an inflation outbreak. The economic outlook looks increasingly grim and once consumers stock up on goods to try and beat the import tariff hikes, they are likely to retreat into their foxholes and try and wait the trade war out. There are 12 million manufacturing workers in the country, and if helping them is what this trade war is all about, the public simply does not understand why they are the ones that have to pay the price of either recession or hyperinflation of basic consumer goods. Trump 2.0 economic policies are not going down well with the vast majority of Americans, and if consumers stop spending, recession will become a reality. Bet on it. The bond market is; inflation, inflation, inflation is all traders can hear with 10-year Treasury yields soaring to new highs today which will jack up mortgage yields and shut down the entire housing market.



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