

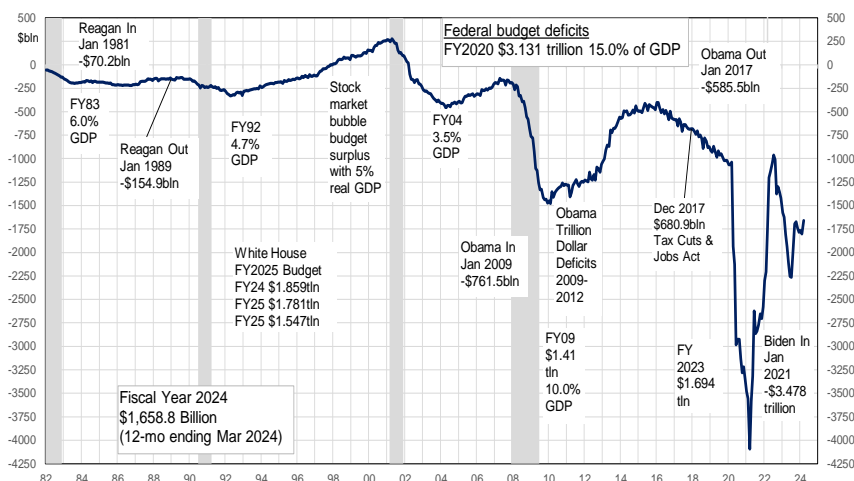
# Financial Markets This Week

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## MORE INFLATION, MORE GOVERNMENT SPENDING

March CPI inflation was hotter than expected in a report on Wednesday. Also on Wednesday, March Federal government deficit spending which causes inflation (read the room) was also hotter than expected. Well, Federal government spending goes up every month. Actually, this might be a good time to raise income taxes, seeing as the recession-magnitude interest rates from the Federal



Reserve are not slowing the economy or inflation down. With half the current fiscal year complete, the Federal deficit in March 2024 is running \$1.658 trillion on a 12-month trailing sum basis; the OMB says it will end up at \$1.859 trillion. The President's FY2025 budget for the year that starts on October 1 shows a deficit estimated at \$1.781 trillion. The way Congress works or doesn't, and depending on the November elections, many of the Administration's proposals may never be enacted. Taking a few of the items, expanding the child credit adds \$210 billion to the deficit in FY2025, \$31 billion as well for some housing proposals including a mortgage relief credit, down payment assistance, and tax credits of \$10,000 if you sell your starter home. Bringing down the FY2025 deficit are things like raising the corporate income tax rate to 28% bringing in \$122 billion, \$75 billion from increasing the top marginal income tax rate for high-income earners, the wealthiest taxpayers get a break as the proposed minimum income tax on them will not bring in \$50 billion until FY2026.

Interest on the public debt is a favorite Wall Street topic, mostly centering on who is going to buy it if it keeps going up. Paying more in interest on the debt means less money to fund other Federal government proposals and projects. Net interest was \$658 billion in FY2023 with the following fiscal year estimates ahead: \$889 billion 2024, \$965 billion 2025, \$1.013 trillion 2026. Calendar year OMB estimates for interest rates (3-mo Treasury bills) 5.1% in 2024, 4.0% 2025, 3.3% in 2026 as the Fed lowers rates with lower inflation. 10-year Treasury yields don't change much 4.4% in 2024, 4.0% in 2025, and 3.9% in 2026. There does not look like a financial crisis here yet although the Fed is assumed to lower its rate to 3.0% in the next few years from 5.5% currently. There would be an issue if Fed rates stay at 5%. The average interest paid on the \$6.1 trillion Treasury bills outstanding is 5.3%. But there is a 2.4% average rate on \$13.9 trillion of Treasury notes, and 3.1% average rate on \$4.5 trillion of Treasury bonds.

Too much Federal government spending? Where to cut. Total outlays are \$3.252 trillion in the first half of FY2024, an increase of 3.3%. Food stamps are down. The Department of Labor is down because of the special assistance the Pension Benefit Guaranty Corp. provided to some underperforming private pension plans last year. Education is down because repayment terms of student loans are no longer being modified this year. Interest on the public debt is up, but the \$522.0 billion amount is overstated: net interest payments to the “public” is \$429.2 billion in the first half of FY 2024.

Social security paid out \$108.6 billion, and took in \$92.3 billion, the red ink difference is \$16.3 billion. Funded by taxpayers not the trust fund. Right now. No surprise. Social security remains as insolvent as it has ever been; no need to “fix it” in the years ahead, we would just continue to fund it out of general revenues, just like it was this month, the month before, and the month before that. Baby boomers will soon be gone.

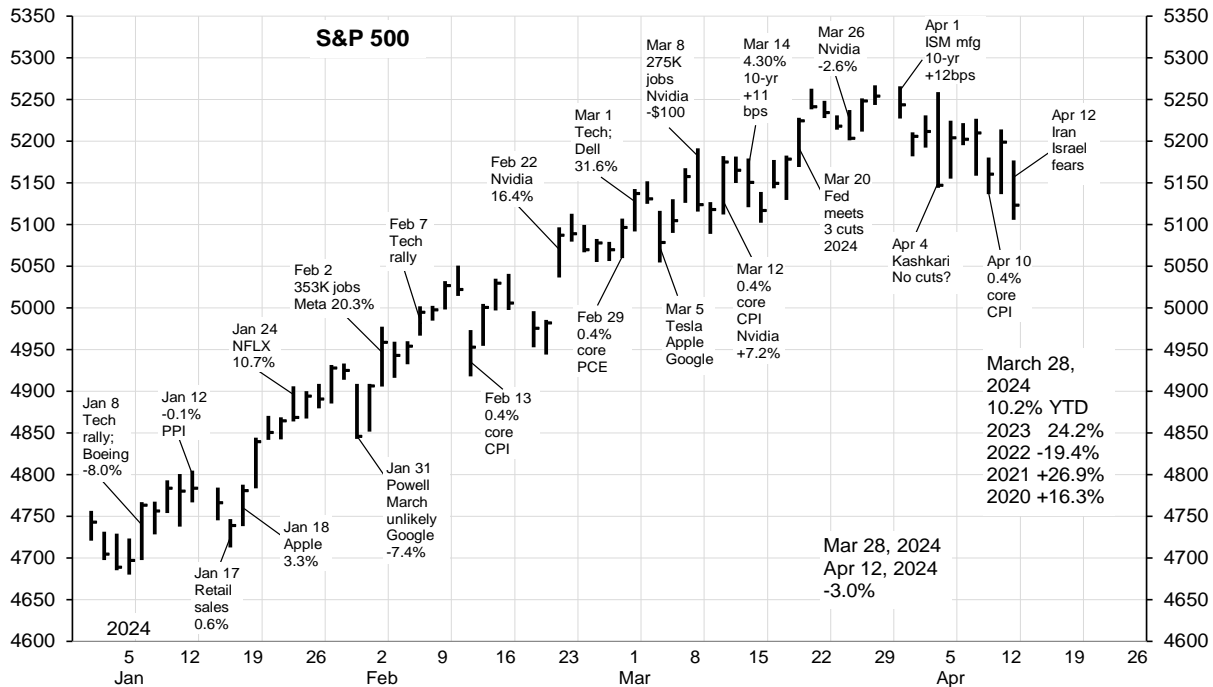
Social Security In/Out

\$ 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
Nov 23	75.087	103.362	-28.275
Dec 23	87.354	103.704	-16.350
Jan 24	100.015	107.337	-7.322
Feb 24	83.589	107.828	-24.239
Mar 24	92.262	108.621	-16.359

Federal Government Spending (\$bln) Where to cut?	2 Qtrs FY24		2 Qtrs FY23		Fiscal	Fiscal	Full Year FY 2023
	Q4 23-Q1 24	Q4 22-Q1 23	Year	Year	Year	Year	
			Changes	% chg			
TOTAL BUDGET OUTLAYS	3,252.702	3,149.258	103.444	3.3			6,134.432
Legislative	3.333	3.338	-0.005	-0.1			6.515
Judicial	4.652	4.481	0.171	3.8			8.995
Agriculture	112.394	132.401	-20.007	-15.1			228.887
Commodity Credit Corporation	9.492	7.256	2.236	30.8			7.318
Food Stamps	53.486	77.352	-23.866	-30.9			134.634
Child Nutrition	17.156	16.543	0.613	3.7			29.235
Commerce	6.474	5.751	0.723	12.6			12.045
Defense	410.381	386.255	24.126	6.2			775.872
Military Personnel	105.493	99.211	6.282	6.3			183.898
Operation Maintenance	157.400	151.205	6.195	4.1			317.563
Procurement	76.311	69.143	7.168	10.4			141.749
Research Development	63.051	58.395	4.656	8.0			121.954
Military Construction	6.011	5.297	0.714	13.5			10.344
Education	80.843	124.164	-43.321	-34.9			-41.108
Office of Federal Student Aid	25.264	65.698	-40.434	-61.5			188.369
Energy	23.969	15.245	8.724	57.2			34.423
Health Human Services	811.469	843.257	-31.788	-3.8			1708.521
Medicare	478.044	496.171	-18.127	-3.7			1024.288
Medicaid States Grants	304.445	309.767	-5.322	-1.7			615.772
Homeland Security	43.636	44.883	-1.247	-2.8			89.032
Housing Urban Development	35.621	29.173	6.448	22.1			55.194
Interior	8.288	7.239	1.049	14.5			15.865
Justice	20.680	20.475	0.205	1.0			44.327
Labor	29.237	59.333	-30.096	-50.7			87.530
State Unemployment Benefits	18.459	14.752	3.707	25.1			30.181
State	16.914	14.445	2.469	17.1			32.997
Transportation	50.154	47.927	2.227	4.6			109.786
FAA	11.200	11.775	-0.575	-4.9			23.824
Federal Highway Admin.	25.463	22.357	3.106	13.9			54.018
Treasury	653.014	540.813	112.201	20.7			1106.950
IRS	134.514	151.728	-17.214	-11.3			254.964
Premium Tax Credit	50.633	39.361	11.272	28.6			82.597
Earned Income Credit	47.605	44.316	3.289	7.4			55.468
Child Tax Credit	20.988	23.472	-2.484	--			28.768
Interest on Public Debt	522.023	384.227	137.796	35.9			879.307
Veterans Affairs	151.240	144.785	6.455	4.5			301.026
Corps of Engineers	5.518	4.582	0.936	20.4			7.806
Other Defense Civil Programs	31.940	35.838	-3.898	-10.9			68.928
Environmental Protection	6.210	4.772	1.438	30.1			12.586
Exec. Office of President	0.296	0.257	0.039	15.2			0.543
International Assistance	13.349	19.646	-6.297	-32.1			36.050
NASA	12.391	12.449	-0.058	-0.5			25.319
National Science Foundation	4.164	3.935	0.229	5.8			8.951
Personnel Management	62.457	60.181	2.276	3.8			122.508
Small Business Admin.	0.960	1.141	-0.181	-15.9			26.072
Social Security Admin.	741.497	685.876	55.621	8.1			1416.328
Retirement Benefits	634.814	578.090	56.724	9.8			1192.149
Federal Disability Payments	76.491	73.626	2.865	3.9			149.667
Other Independent Agencies	79.537	48.126	31.411	--			134.262

Anyway, those nonmarketable government securities that social security holds in trust to pay retirement benefits are not worth anything until the US Treasury cashes them in by selling real, marketable debt in the public debt markets, like the \$119.0 billion 3-yr, 10-yr, 30-yr Treasuries auctioned this week for a combined \$52.0 billion of new cash after rolling over the \$67.0 billion of debt maturing on April 15. Stay tuned. The Federal deficit combined with \$720 billion of Fed QT is too big, and growing faster than the economy.

INTEREST RATES



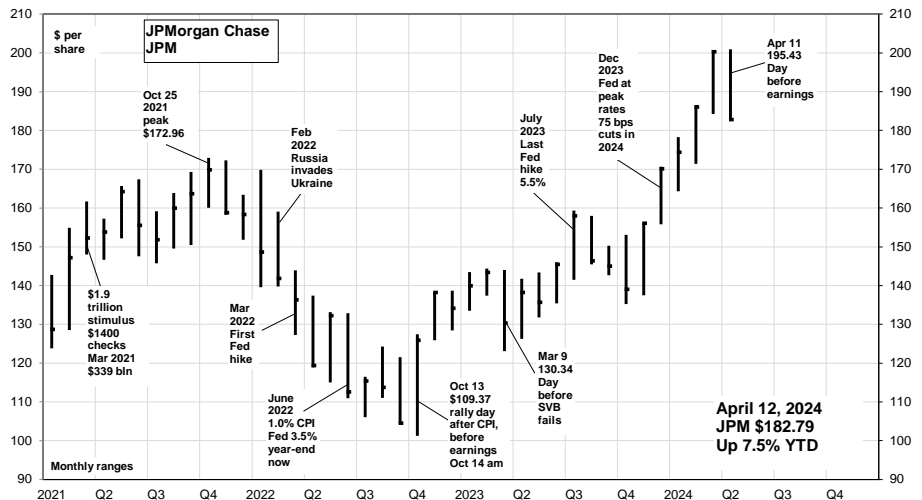
There was an immediate sell-off in stocks on the 0.4% core CPI report on Wednesday, no thinking about it, and a much different reaction than an identical 0.4% core CPI report a month ago on March 12. There had been more Fed speak on the need to see more progress on inflation before cutting rates ahead of Wednesday's CPI report. Stocks fell further on Friday on fears of an imminent attack on Israel by Iran, and perhaps some selling pressure to raise cash for the April 15 tax date on Monday. Weakness in stocks brought market yields back down, including Fed funds futures. Anything is possible of course, but it seems unlikely that core CPI monthly changes will continue to run 0.4% each month, and because core CPI was barely 0.4%, it is easier to forecast better 0.3% core PCE inflation data on April 26. Stocks fell as far as 3.0% Friday from the March 28 record high. 10-yrs close 4.53%.

JPMorgan Chase (JPM) up 7.5% YTD

The bank's stock fell 6.5% on Friday, but the loss was not all due to its earnings report. Geopolitical risks brought down the entire market starting near the open on headlines that an Iran military attack on Israel could be hours away. Investors wanted to see better net interest income going forward. Dimon's annual letter to shareholders on Monday warned of geopolitical risks (China), ongoing wars, Ukraine and Mideast, oh, and a hard-landing risk and a broad range for interest rates from 2% to 8%.

JPM results (billions)

Quarter	Net Income	Provision for Credit Losses	Stock price Qtr end
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
12.31.2022	11.008	2.288	134.10
9.30.2022	9.737	1.537	104.50
6.30.2022	8.649	1.101	112.61
3.31.2022	8.282	1.463	136.32
12.31.2021	10.399	-1.288	158.35
9.30.2021	11.687	-1.527	163.69
6.30.2021	11.948	-2.285	155.54
3.31.2021	14.300	-4.156	152.23

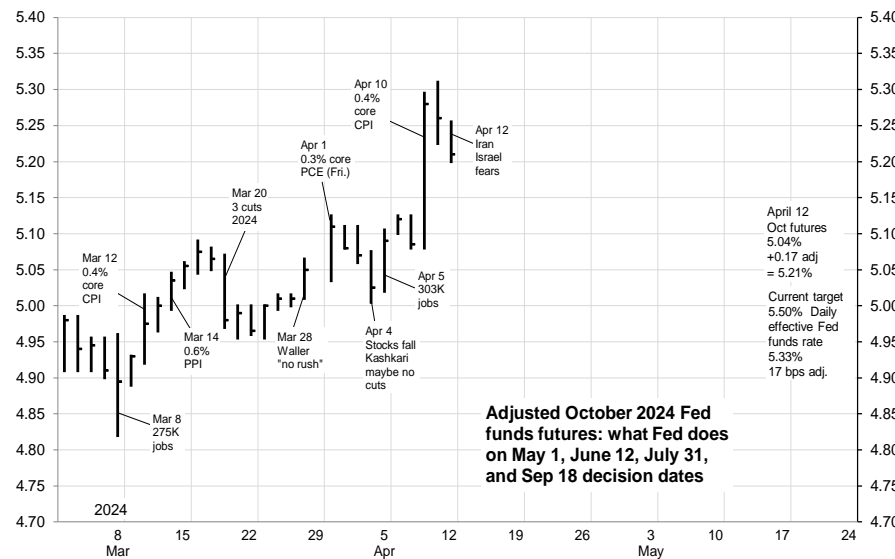


**FEDERAL RESERVE POLICY**

The Fed meets April 30-May 1, 2024 to consider its monetary policy. There were three rate cuts forecast by the FOMC at the March meeting, but now policymakers are abandoning ship like rats down a rusty anchor chain. Couldn't be in any greater hurry after core CPI registered another 0.4% (0.359) monthly change in March, reported on Wednesday. The February monthly change was also 0.4% (0.358) and no one panicked. This week Fed officials have talked up the need for fewer rate cuts, although it is hard to know if they are reading the economic and inflation data tea leaves or are they watching the market-based odds of Fed funds futures. We know we are, and although we wouldn't rule out a June rate cut, we will move out the focus to October Fed funds futures which shows the odds of a rate cut at the upcoming Fed meeting decision dates of May 1, June 12, July 31, and September 18. It is not just inflation, the payroll jobs reports in the last two months have been surprisingly strong. Nevertheless, the pendulum is always swinging and could come back to rate cuts in the near future, meaning June, if March/April core PCE data (released April 26 and May 31) are softer than the last two months of 0.4%-rounded core CPI prints, along with a weaker core CPI report for April due out on May 15. The July 31 Fed decision date is open as well, although we prefer the regular and predictable end of quarter meetings when there are fresh forecasts. By July 31, there would be the June 12 May CPI and July 11 June CPI reports, along with May and June PCE inflation data.

Selected Fed assets and liabilities						Change from 3/11/20 to Apr 10
Fed H.4.1 statistical release billions, Wednesday data	10-Apr	3-Apr	27-Mar	20-Mar	3/11/20*	
<b>Factors adding reserves</b>						
U.S. Treasury securities	4575.846	4575.162	4618.082	4620.435	2523.031	2052.815
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2388.435	2388.435	2388.435	2399.992	1371.846	1016.589
Repurchase agreements	0.001	0.002	0.000	0.003	242.375	-242.374
Primary credit (Discount Window)	5.053	5.451	6.270	2.672	0.011	5.042
Bank Term Funding Program	126.344	130.462	132.806	150.183		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	3.028	3.045	3.059	3.072		
Main Street Lending Program	14.705	14.688	14.671	14.655		
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	0.150	0.187	0.179	0.173	0.058	0.092
<b>Federal Reserve Total Assets</b>	<b>7489.1</b>	<b>7490.0</b>	<b>7535.5</b>	<b>7565.2</b>	<b>4360.0</b>	<b>3129.095</b>
3-month Libor % SOFR %	5.31	5.32	5.33	5.31	1.15	4.160
<b>Factors draining reserves</b>						
Currency in circulation	2347.725	2347.145	2344.024	2342.299	1818.957	528.768
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	672.537	732.828	772.260	812.605	372.337	300.200
Treasury credit facilities contribution	7.438	7.438	7.438	7.438		
Reverse repurchases w/others	455.816	436.631	518.357	496.245	1.325	454.491
<b>Federal Reserve Liabilities</b>	<b>3873.430</b>	<b>3948.818</b>	<b>4063.142</b>	<b>4075.584</b>	<b>2580.036</b>	<b>1293.394</b>
<b>Reserve Balances (Net Liquidity)</b>	<b>3615.691</b>	<b>3541.167</b>	<b>3472.403</b>	<b>3489.577</b>	<b>1779.990</b>	<b>1835.701</b>
Treasuries within 15 days	70.295	70.985	63.612	58.267	21.427	48.868
Treasuries 16 to 90 days	239.556	239.513	265.894	273.686	221.961	17.595
Treasuries 91 days to 1 year	535.303	534.567	533.751	534.164	378.403	156.900
Treasuries over 1-yr to 5 years	1520.551	1520.273	1536.540	1536.304	915.101	605.450
Treasuries over 5-yrs to 10 years	701.407	701.279	709.916	709.808	327.906	373.501
Treasuries over 10-years	1508.735	1508.544	1508.369	1508.207	658.232	850.503
Note: QT starts June 1, 2022	Change	4/10/2024	6/1/2022			
U.S. Treasury securities	-1194.933	4575.846	5770.779			
Mortgage-backed securities (MBS)	-319.011	2388.435	2707.446			

\*\*March 11, 2020 start of coronavirus lockdown of country



August Fed funds futures are discounting 17.5 bps of a 25 bps rate cut—a 70% chance in the next three meetings. October futures completely discount one rate cut before the election.

Fed funds futures call Fed policy			
Current target: April 12 -- 5.50%			
Rate+0.17 Contract	Fed decision dates		
5.325 Aug 2024	May 1, Jun 12, Jul 31		
5.210 Oct 2024	Adds Sep 18		
Last trade, not settlement price			

Next up: March PCE inflation report Friday, April 26															
Monthly	2024												2023		
% Changes	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
Core CPI inflation	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4	0.5	0.3	0.5	0.4
Core PCE inflation		0.3	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.5
Core PCE YOY		2.8	2.9	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8	4.8	4.8	4.9
Core CPI YOY		3.8	3.8	3.9	3.9	4.0	4.1	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6

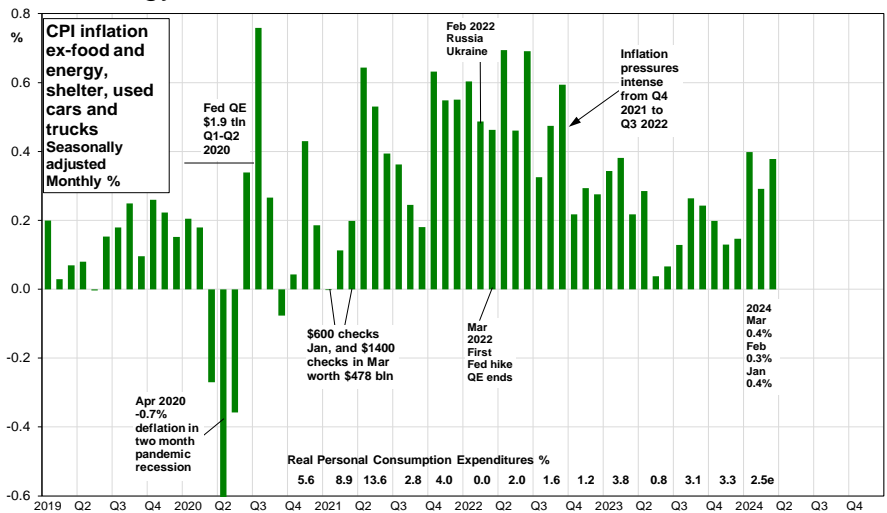
OTHER ECONOMIC NEWS

Inflation out of control (Wednesday)

Breaking economy news. Core CPI inflation isn't under control yet. Core CPI monthly changes have risen 0.4% every month this year. Fed officials couldn't have worse luck with the February and March data just barely 0.4% with the three-digit changes of 0.358% in February and 0.359% in March. Doesn't matter for the stock market which swiftly fell over 1% on the news. The market drumbeat is going to start up calling for Fed officials to hike rates not cut rates at the June meeting.

Net, net, inflation looks out of control with core consumer inflation continuing to run at a faster clip for a third month in a row this year showing the Federal Reserve still has a battle on its hands to bring inflation back down to where it was before the pandemic. Shelter costs are tame and used car prices fell, but core inflation this month is still double what Fed officials would like to see. The extra-core inflation that takes out standard food and energy, and also shelter and used cars and trucks, rose

0.4% in March and has had the worst three-month returns if that is the word, since the most intense inflation pressures after the pandemic from Q4 2021 to Q3 2022. There's no Fed QE or \$600 and \$1400 stimulus checks either to fan the flames of inflation. A puzzle.



There's no soft landing for inflation and the debate at upcoming Fed meetings will be whether or not to tighten the screws of monetary policy restraint a couple of more turns. 5.5% interest rates are not slowing consumer demand. One thing is for certain and that is the Fed has got it wrong again on inflation, after stopping their rate hikes way back in July last year. The results today are proof positive that underlying inflation pressures are not going away. Inflation might not be out of control, but it sure looks that way to investors. Stay tuned.

Dec 23		Monthly Percent Changes			YOY %
Weight	CPI inflation	Jan 2024	Feb 2024	Mar 2024	Mar 2024
100.0	Total	0.3	0.4	0.4	3.5
13.555	Food	0.4	0.0	0.1	2.2
5.388	Food away from home	0.5	0.1	0.3	4.2
6.655	Energy	-0.9	2.3	1.1	2.1
79.790	Ex-food & energy	0.4	0.4	0.4	3.8
3.684	New vehicles	0.0	-0.1	-0.2	-0.1
2.012	Used cars/trucks	-3.4	0.5	-1.1	-2.2
2.512	Clothing	-0.7	0.6	0.7	0.4
1.489	Medical care goods	-0.6	0.1	0.2	2.5
36.191	Shelter	0.6	0.4	0.4	5.7
26.769	Owner equiv. rent	0.6	0.4	0.4	5.9
6.294	Transportation	1.0	1.4	1.5	10.7
6.515	Medical care services	0.7	-0.1	0.6	2.1
<b>Special: Where inflation might come back down to</b>					
60.899	Services ex-energy	0.7	0.5	0.5	5.4
18.891	Commodities (core)	-0.3	0.1	-0.2	-0.7

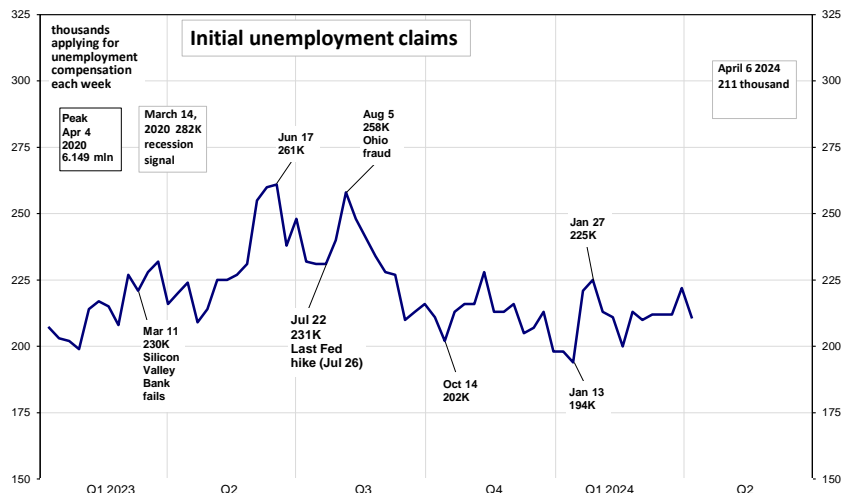
PPI soft print (Thursday)

Breaking economy news. Total final demand producer prices increased 0.2% in March following the

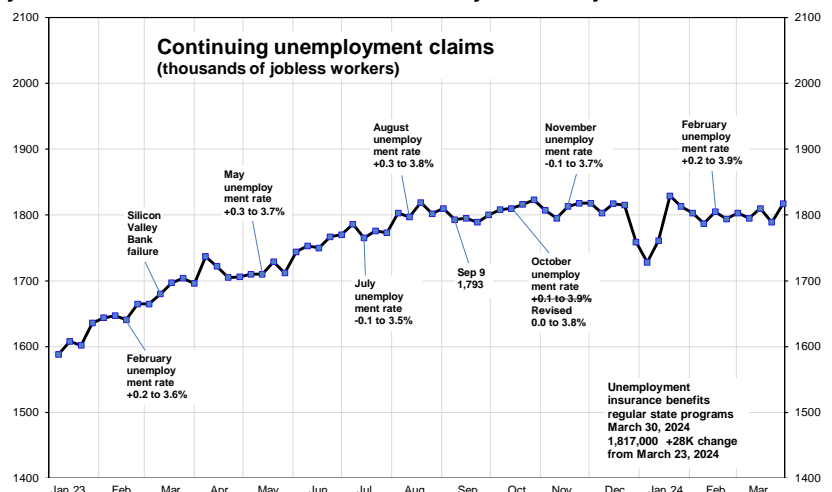
PPI Final demand goods less foods/energy-- Monthly Percent Changes SA												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	0.6	0.3	0.2	0.1	0.1	-0.1	0.0	0.1	0.3	0.1	0.1	0.1
2024	0.3	0.3	0.1									
PPI Final demand goods less foods/energy-- Year/Year Percent Changes NSA												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	5.6	5.1	4.3	3.3	2.7	2.0	1.9	1.8	2.1	2.1	2.0	1.9
2024	1.5	1.6	1.4									

jump at the start of the year, 0.4% in January and 0.6% in February. Q4 2023 was soft at -0.3% October, 0.1% in November, and -0.1% December... of course energy prices dropped every single month of the final quarter last year. The old fashioned PPI with focus on goods before they tried to bolt on services prices rose 0.1% in March and is only 1.4% higher than a year ago. Also released at 830am ET was the weekly jobless claims data, but there is no change in the recent trend.

Net, net, inflation seen from the lens of producers slowed in March which comes as welcome news after yesterday's CPI surprise report for at least pipeline pressures of the future price increases produced by American factories is not likely to overwhelm beleaguered consumers in the months ahead. For what inflation there was at the PPI level, a big part of it was in services, notably the 3.1% rise in prices charged at securities brokers including investment advice which investors would gladly pay more for if the advice told them where the stock market goes next. Stay tuned. The labor markets remain calm where the prior jump in weekly job layoffs came back down this week. Inflation isn't any hotter than it was after yesterday's shock and the



year-to-year increases are barely registering at 2.1% for final demand producer prices. It is difficult to know what the proper course for the Fed's interest rate policy is right now, but certainly, the need to restart its rate hikes, paused since last July, does not seem to be necessary at this juncture. A 5.5% Fed funds rate remains high relative to the policy setting over the last few decades and policymakers can remain vigilant as they await more data on where inflation is heading next. PPI prices tell us that inflation is not worsening... yet. Producer prices were tamer which may spell some relief for consumers in coming months.





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