

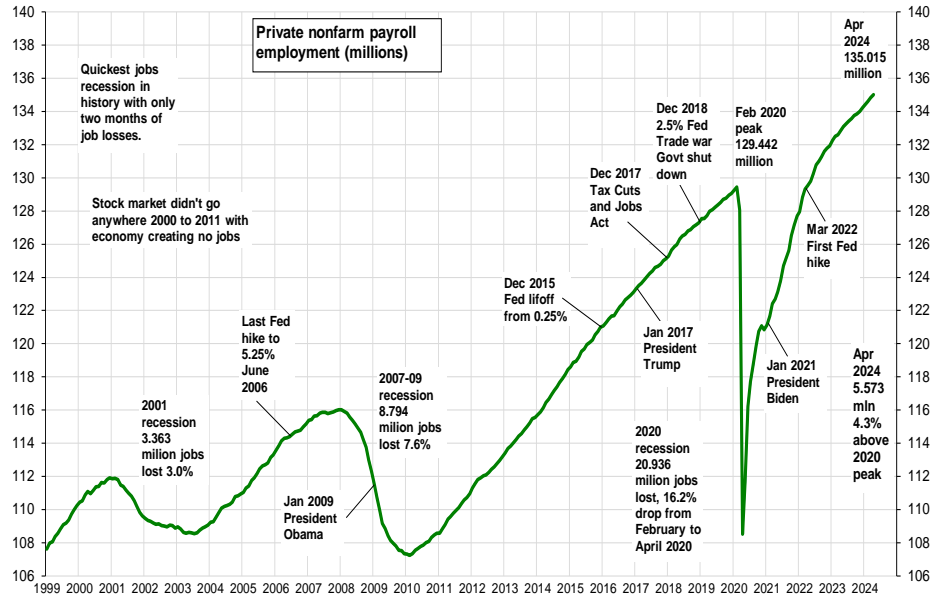
Financial Markets This Week

3 MAY 2024

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175K JOBS

240K payroll jobs were expected for April and the actual number was 175K. The market rallied which is good because the monthly employment report is clear as mud. One interpretation is jobs growth was hot in the first quarter, along with inflation, and now that it has slowed, there is hope that the 0.4% monthly core CPI reports will turn out to be a temporary first quarter one-off as well. The second quarter data will be better for inflation.



The other interpretation is that jobs creation is running at a mid-200K pace, the 315K increase in March was an aberration, and the 175K weaker number corrects it. Payroll jobs will be back to averaging close to 250K per month in the second quarter. Whether a faster 250K pace is a bad outcome for inflation is debatable for as Powell said at the press conference, inflation slowed all last year even with payroll jobs averaging 250K per month. He did not want to say that growth or a strong labor market would create problems for inflation because it did not in 2023.

The 175K increase was reached by some big swings in some of the employment sectors of the economy. State & local government hiring stopped abruptly this month after steady increases. Leisure and hospitality increased 53K in March, helping along the 315K total payroll jobs gain, but fell to an increase of 5K in April; monthly gains in 2023 averaged 46K. Temp help which if it is a leading indicator of recession it has been falling for over a year, with a 16K drag in April. Education and health jobs remain very strong at 95K in April. You out there in the management of companies are out of luck. No wonder purchasing

Monthly changes (000s)	Apr	Mar	Feb	Jan	Dec
Payroll employment	175	315	236	256	290
Private jobs	167	243	181	196	214
Leisure/Hospitality jobs	5	53	26	-3	41
HH Employment Survey*	25	498	-184	-31	-683
Unemployment rate %	3.9	3.8	3.9	3.7	3.7
Participation rate %	62.7	62.7	62.5	62.5	62.5
Not in labor force (mln)	100.083	99.989	100.285	100.265	100.540
... and Want A Job (mln)	5.637	5.443	5.672	5.793	5.671
Average hourly earnings	\$34.75	\$34.68	\$34.56	\$34.51	\$34.34
MTM % Chg	0.2	0.3	0.1	0.5	0.3
YOY % Chg	3.9	4.1	4.3	4.4	4.3

* Household (telephone) Survey of employment behind unemployment rate

purchasing manager surveys are so glum.

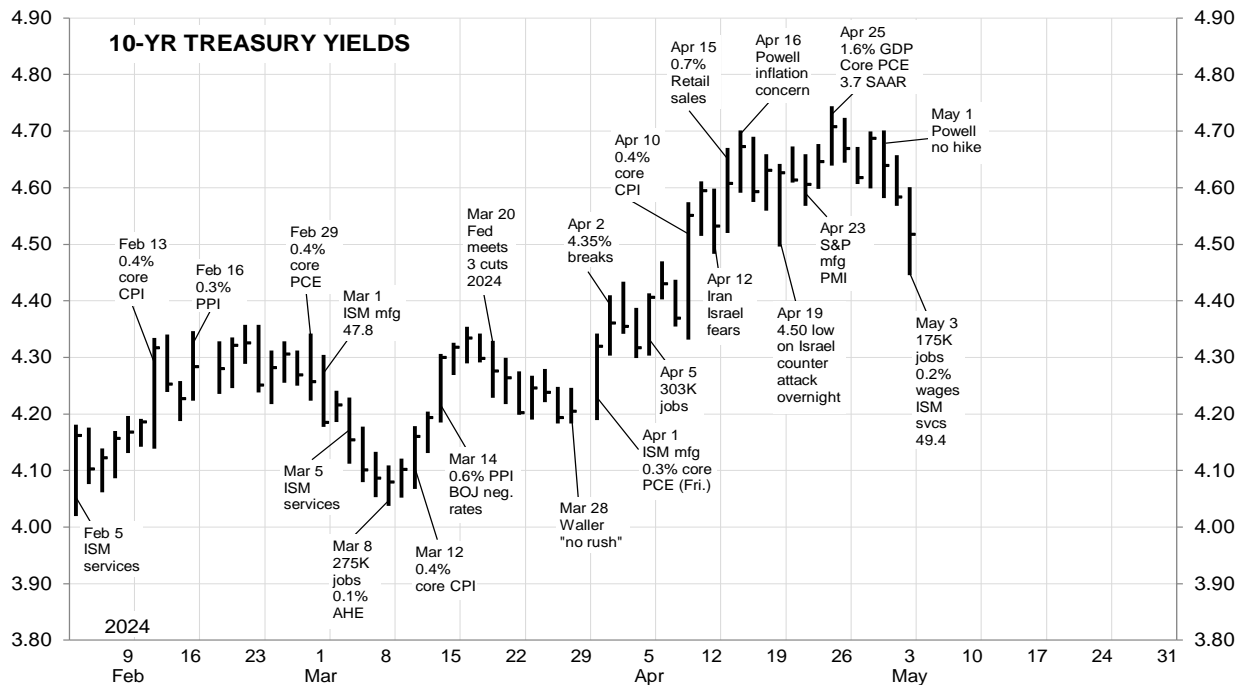
175K is not like a recession as payroll jobs have to decline. What exactly is going on with the Household Survey measure of labor market trends remains confusing. Job losses are enough to be recessionary with the 0.5 percentage point rise in the unemployment rate to 3.9% from the low for this economic cycle. However, unemployment keeps moving up to 3.9% but then comes back off. It was 3.9% in October 2023 which is getting to be a while now, but was revised to 3.8% after the benchmark revision at the start of the year. Lately it cannot make up its mind with 3.9% (3.86) unemployment in February, 3.8% (3.83) in March, and back to 3.9% (3.86) in April, each move up/down only a few hundredths difference.

The breakdown of the Household Survey employment measure is also unsatisfying. Hard to characterize. We can argue about whether 175K is slow, but employment in the Household Survey count is going nowhere... which it does sometimes before recessions. The implications are worse than that especially for politicians because employment is going nowhere for native born Americans over the last year, but employment is higher for foreign born workers. Before getting into the optics/politics of this, we have to look at these data which say the population of native born Americans is unchanged over the last year, while of course foreign born populations is up 3.8%. Clear as mud the employment report this month except for the stock market which managed to hold Friday's rally helped along by Apple earnings. Each slowdown starts with a first step, maybe 175K was it.

Payroll jobs faster in first quarter				4 months	12 months
Dec. 2023		Apr 24	Mar 24	Dec 23 to Apr 24	Dec 22 to Dec 23
Totals	millions				
157.304	Nonfarm Payroll Employment	175	315	236	982
134.228	Total Private (ex-Govt)	167	243	181	787
21.723	Goods-producing	14	39	15	98
0.600	Mining	-4	3	0	-2
12.960	Manufacturing	8	-4	-9	1
1.063	Motor Vehicles & parts	-2	4	-3	1
1.108	Computer/electronics	-1	-2	-3	-6
1.729	Food manufacturing	5	-1	0	7
12.866	Specialty trade contractors	39	39	211	-754
8.120	Construction	9	40	24	99
5.148	Specialty trade contractors	5	23	10	57
112.505	Private Service-providing	153	204	166	689
28.867	Trade, transportation, utilities	52	31	54	144
15.603	Retail stores	20	15	23	75
3.209	General Merchandise	10	20	21	72
3.247	Food & Beverage stores	2	4	7	17
6.521	Transportation/warehousing	22	6	31	55
1.552	Truck transport	0	4	1	6
0.570	Air transportation	1	0	3	4
1.060	Couriers/messengers	8	-1	20	20
1.767	Warehousing and storage	8	0	1	9
3.012	Information	-8	4	-3	1
0.494	Computing, data, web hosting	1	3	0	5
9.233	Financial	6	5	-7	0
2.997	Insurance	8	2	2	13
2.496	Real Estate	0	4	0	5
1.378	Commercial Banking	-3	-1	-4	-11
1.115	Securities/investments	2	0	-2	-2
22.882	Professional/business	-4	10	6	60
2.765	Temp help services	-16	-3	-16	-28
2.558	Management of companies	-1	-4	5	-2
1.673	Architectural/engineering	0	-2	7	16
2.525	Computer systems/services	6	5	5	19
1.194	Legal services	3	-3	3	-3
1.158	Accounting/bookkeeping	2	2	-2	6
25.831	Education and health	95	88	80	363
5.440	Hospitals	14	28	24	88
8.635	Ambulatory health care	33	29	32	120
3.843	Educational services	8	0	-9	27
16.816	Leisure and hospitality	5	53	26	81
1.924	Hotel/motels	1	1	-2	0
12.292	Eating & drinking places	7	29	25	39
23.076	Government	8	72	55	195
2.360	Federal ex-Post Office	3	9	7	27
5.404	State government	6	11	14	47
2.637	State Govt Education	8	8	9	32
14.711	Local government	0	51	34	116
8.039	Local Govt Education	3	18	10	40

Foreign Born 17.9% of Population			
Thousands	Apr 2024	Apr 2023	Change
Foreign born			
Population	48,089	46,328	1,761
Employed	30,482	29,962	520
Unemployed	1,244	950	294
Unempl rate	3.9	3.1	0.8
Not in labor force	16,363	15,416	947
Native born			
Population	219,976	220,115	-139
Employed	131,108	131,113	-5
Unemployed	4,650	4,196	454
Unempl rate	3.4	3.1	0.3
Not in labor force	84,219	84,806	-587
16 years and over, not seasonally adjusted			

INTEREST RATES



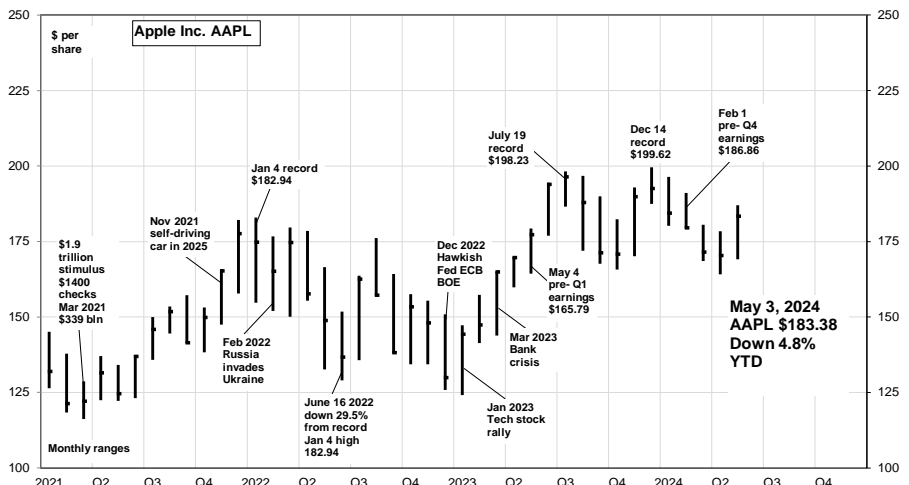
Another volatile, confusing week. October Fed funds futures yields dived twice on Friday, first on 175K jobs and 0.2% average hourly earnings (wages), recovered somewhat, then fell back to lows on ISM services at 10am ET saying we are in a recession, before noticing the prices component went up which means inflation. There may have been an errant 10am headline from a Fed official talking tough about the need to keep rates high due to inflation or downplaying the soft 175K jobs report saying it was the old normal. Things are fine. Market is run by headlines and daytraders lately. 10-year yields closed lower this week at 4.51%. The Treasury refunding announcement Wednesday 830am ET on no increase in regular auction sizes for a while helped, and later at 2pm ET same day, the Fed cutting QT from \$720 billion a year to just \$300 billion. Half a trillion less new cash to raise in markets.

Apple, Inc. (AAPL) \$183.38 down 4.8% YTD Buyback, China sales, WDC

Apple reported Thursday after the bell and the stock closed up 6.0% on Friday. Better than last quarter's earnings when the stock fell as much as 4.1% the day after, something to do with not having a foldable phone for the China market. Still doesn't. On Thursday, China sales were not as weak as expected, and it announced an additional \$110 billion stock repurchase program. Investors are betting on some kind of special AI news announcement at the Worldwide Developers Conference in June.

Calendar

Year	Operating MIn \$	Net Income	Greater Sales	iPhone	China
Q1 2024	27,900	90,753	45,963	16,372	16,372
Q4 2023	40,373	119,575	69,702	20,819	20,819
Q3 2023	26,969	89,498	43,805	15,084	15,084
Q2 2023	22,998	81,797	39,669	15,758	15,758
Q1 2023	28,318	94,836	51,334	17,812	17,812
Q4 2022	36,016	117,154	65,775	23,905	23,905
Q3 2022	24,894	90,146	42,626	15,470	15,470
Q2 2022	23,076	82,959	40,665	14,604	14,604
Q1 2022	29,979	97,278	50,570	18,343	18,343

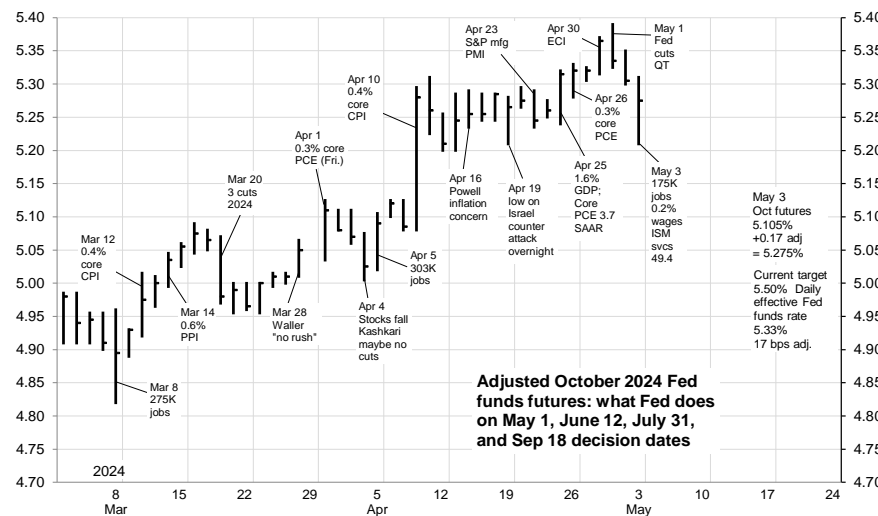


FEDERAL RESERVE POLICY

The Fed met April 30-May 1, 2024 to consider its monetary policy. Most of the news was out quickly. The cut in QT from \$60 billion monthly to \$25 billion monthly starting June 1 was in the press statement at 2pm ET. Seemed more bullish for bonds than the added language in the statement saying rates higher for longer: "In recent months, there has been a lack of further progress toward the Committee's 2 percent inflation objective." We guess that means the January, February, March 0.4% core CPI reports, so just about time for a softer inflation print, maybe the April data on Wednesday, May 15.

Selected Fed assets and liabilities						Change from 3/11/20 to May 1
Fed H.4.1 statistical release billions, Wednesday data	1-May	24-Apr	17-Apr	10-Apr	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4517.906	4539.799	4539.133	4575.846	2523.031	1994.875
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2372.049	2384.720	2388.241	2388.435	1371.846	1000.203
Repurchase agreements	0.000	0.005	0.007	0.001	242.375	-242.375
Primary credit (Discount Window)	6.791	7.018	8.559	5.053	0.011	6.780
Bank Term Funding Program	124.117	125.492	125.706	126.344		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.962	2.975	3.017	3.028		
Main Street Lending Program	14.114	14.518	14.505	14.705		
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	0.124	0.137	0.174	0.150	0.058	0.066
Federal Reserve Total Assets	7413.0	7453.4	7456.5	7489.1	4360.0	3053.021
3-month-Libor-% SOFR %	5.32	5.31	5.31	5.31	1.15	4.170
Factors draining reserves						
Currency in circulation	2346.816	2344.784	2346.705	2347.725	1818.957	527.589
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	890.442	929.379	929.932	672.537	372.337	518.105
Treasury credit facilities contribution	7.438	7.438	7.438	7.438		
Reverse repurchases w/others	438.148	441.215	440.508	455.816	1.325	436.823
Federal Reserve Liabilities	4096.104	4181.725	4126.937	3873.430	2580.036	1516.068
Reserve Balances (Net Liquidity)	3316.943	3271.706	3329.532	3615.691	1779.990	1536.953
Treasuries within 15 days	94.329	61.251	61.999	70.295	21.427	72.902
Treasuries 16 to 90 days	184.358	241.502	244.872	239.556	221.961	-37.603
Treasuries 91 days to 1 year	545.252	525.436	521.232	535.303	378.403	166.849
Treasuries over 1-yr to 5 years	1505.775	1517.921	1517.634	1520.551	915.101	590.674
Treasuries over 5-yrs to 10 years	678.459	684.209	684.107	701.407	327.906	350.553
Treasuries over 10-years	1509.733	1509.480	1509.289	1508.735	658.232	851.501
Note: QT starts June 1, 2022	Change	5/1/2024	6/1/2022			
U.S. Treasury securities	-1252.873	4517.906	5770.779			
Mortgage-backed securities (MBS)	-335.397	2372.049	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Then early in the press conference Q&A with news reporters (and at least one plant) Powell first said the current 5.5% level of rates was restrictive, and a couple of minutes later said a rate hike was unlikely. The S&P 500 moved to up as much as 1.2% on all this Fed news before crashing and burning when someone shouted fire in the theatre. By Friday, the employment report was softer than expected and market odds of a rate cut by September moved higher. Inflation data are key and plenty of theories and statistical analysis saying the inflation outbreak in the first quarter was an aberration, seasonal defect of some sort. Stay tuned.



August Fed funds futures say it is not looking good on a rate cut by July 31. October futures discount 22.5 bps of one 25 bps rate cut before the election, meaning September really. Last week it was 18 bps.

Fed funds futures call Fed policy		
Current target: May 3 -- 5.50%		
Rate+0.17 Contract Fed decision dates		
5.400	Aug 2024	May 1, Jun 12, Jul 31
5.275	Oct 2024	Adds Sep 18
Settlement prices, not last trade		

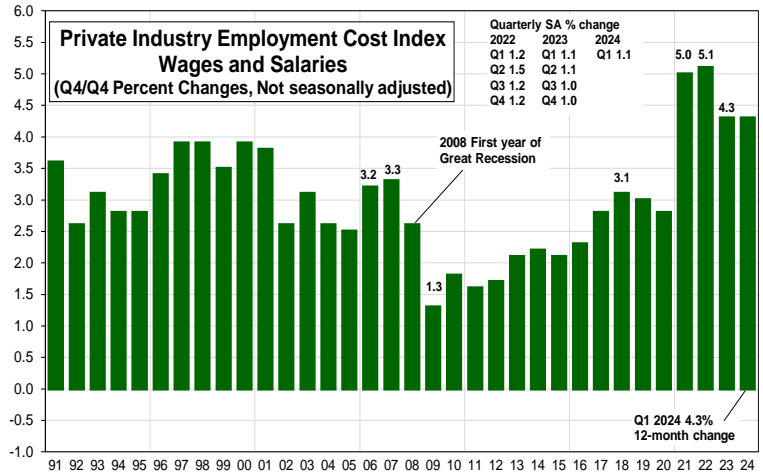
Next up: April CPI inflation report Wednesday, May 15

Monthly % Changes	2024														2023
	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	
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	0.3	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	2.8	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	4.0	4.1	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6

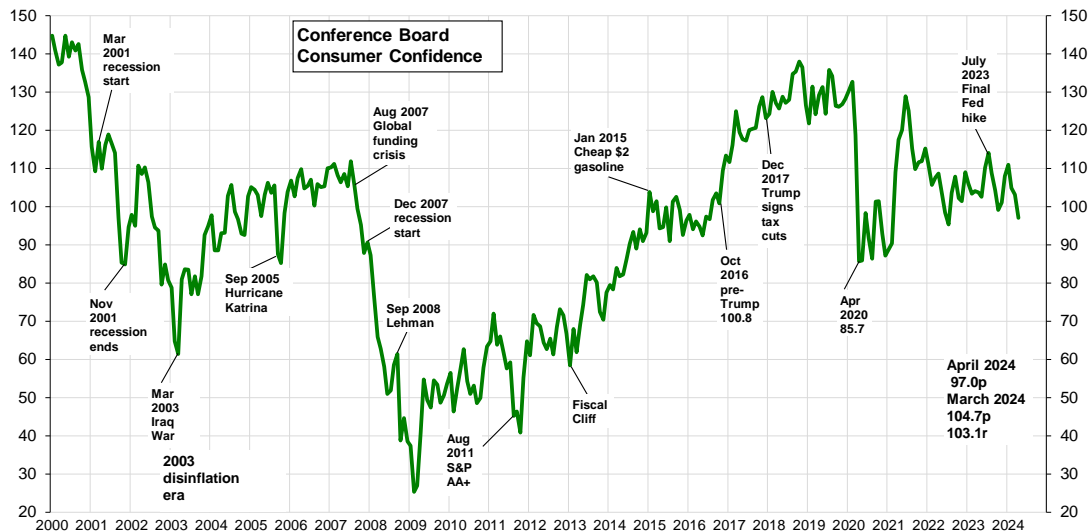
OTHER ECONOMIC NEWS

Employer pays you too much, consumer confidence down (Tuesday)

Breaking economy news. Wages and salaries for private industry workers within the employment cost index (ECI) for the first quarter rose 1.1%, and the 0.9% increase in Q4 2023 has been revised up a tick to 1.0%. Wage increases are probably higher than Fed officials would like to see, but today's report is not a deal killer for an interest rate cut later this year. On a year-year basis, wages and salaries are running 4.3% in Q1 2024, the same as the last quarter of 2023, but are down from the peak of 5.7% in Q2 2022.



Net, net, company employment costs remain higher than before the pandemic and will continue to put upward pressure on consumer prices, especially in service industries. Fed Chair Powell has said wages were not the key to the nation's inflation outlook, but employment costs remain sticky and certainly won't help in the war on inflation. Worker wages are affordable for companies if productivity trends hold up, but if not, lower profits can be the result. Unemployment nationwide is higher than last year, but you wouldn't know it as employer wages and salary costs remain relatively firm. If there is an excess of job seekers, then companies do not have to pay up to bring new employees on board.

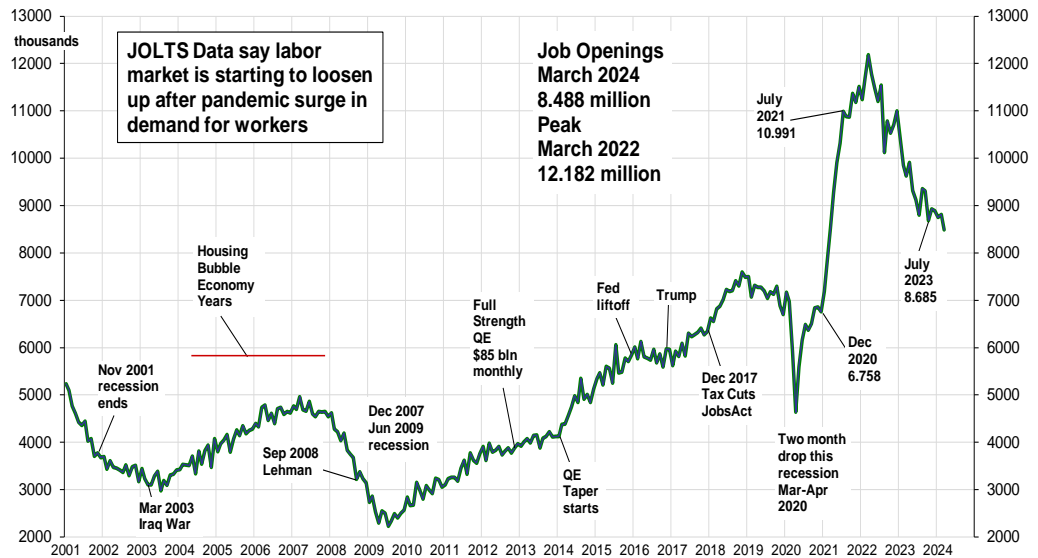


Economy less hot today (Wednesday)

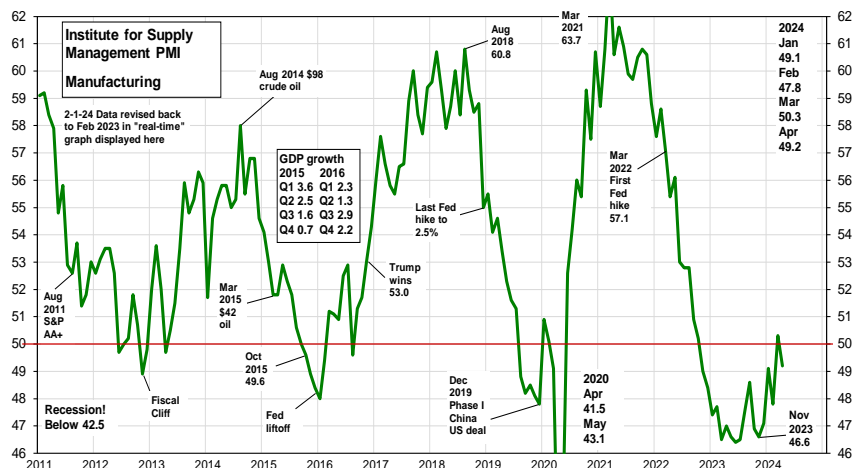
Breaking economy news. Jolts data for the end of March show 8.488 million openings which is the lowest since the pandemic surge. This is a decline of 325 thousand as the February preliminary number of 8.756 million was revised up 57K to 8.813 million. Fewer people quit this month which normally means caution: quitters fell 198K to 3.329 million at the end of March. The number of quitters is tumbling like it would if the economy were already in a recession. Meanwhile, ISM purchasing managers say manufacturing is back in recession, the index slipping back below the 50 level that divides expansion from contraction: 49.2 in April versus 50.3 in March. Inflation was worse in the report with prices increasing 5.1 points to 60.9. Finally, construction spending fell 0.2% in March to \$716.5 billion, even as it remains 11.1% higher than a year ago, thanks to CHIPS Act semiconductor plant construction rising 25.8% the last year to \$222.6 billion in March.

Net, net, the economic news is not quite as hot and is actually noticeably cooler for the labor market where job openings are less plentiful. Manufacturing is back in a recession according to purchasing managers and private business construction is lower, led by power projects and commercial premises. Fed

officials may yet be able to thread the needle and engineer a soft landing for the economy where the majority of Americans get to keep their jobs and enjoy fewer price increases in many of the goods and services they buy as well. Companies are posting fewer job openings and fewer workers are quitting which means caution prevails for workers on the overall economic outlook. The Fed's interest rate policy is still restrictive and policymakers have telegraphed that it is likely to remain so, and this messaging may translate into slower economic growth by the second half of the year.

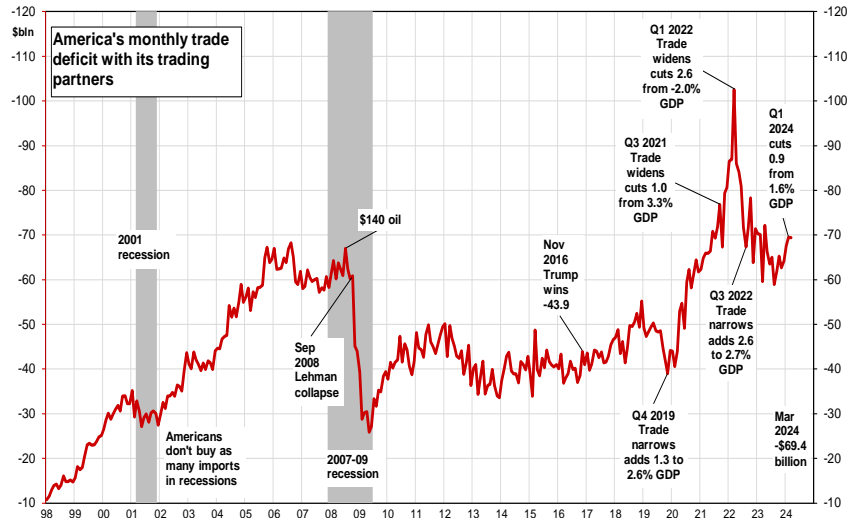


ISM manufacturing index				
	Apr 24	Mar 24	Feb 24	Jan 24
PMI index	49.2	50.3	47.8	49.1
Prices	60.9	55.8	52.5	52.9
Production	51.3	54.6	48.4	50.4
New orders	49.1	51.4	49.2	52.5
Supplier deliveries	48.9	49.9	50.1	49.1
Employment	48.6	47.4	45.9	47.1
Export orders	48.7	51.6	51.6	45.2



Time stands still (Thursday)

Breaking economy news. Time stands still for the economy where the data show little or no change. Productivity increased 0.3% in Q1 2024 and that was the biggest change. Weekly jobless claims were unchanged, 208K for initial claims in the April 27 week, and 1.774 million for continuing claims in the April 20 week. The March trade deficit was \$69.4 billion versus \$69.5 billion in March. The deficit with China was unchanged in Q1 2024 from last year.



Productivity rose barely by 0.3% in Q1 2024, but wages or hourly compensation rose 5.0%, so unit labor costs jumped 4.7%. There may be a seasonal issue here where unit labor costs increased 7.1% in the first quarter of 2023 as well, before slowing sharply down to zero in the final quarter of last year.

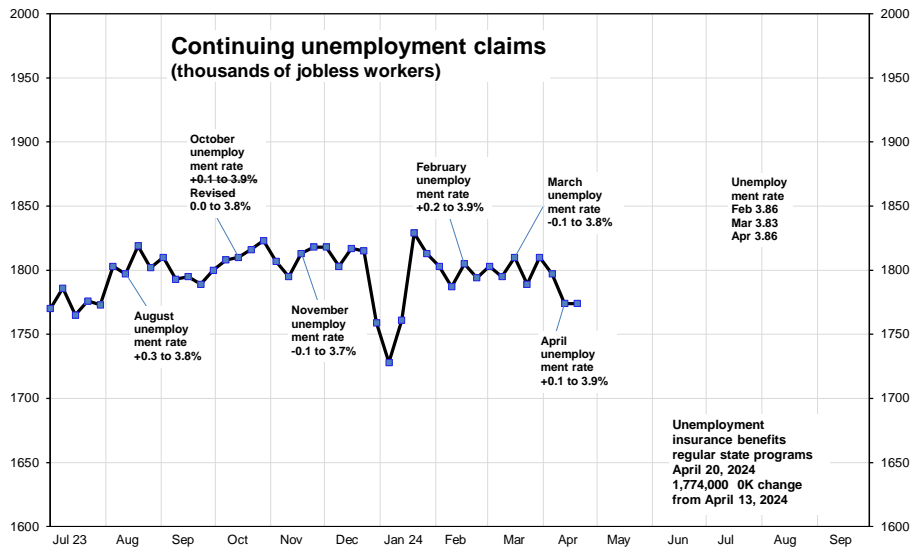
US Imports \$mIn						
	2024-2023	2024	2023	2023	2022	2021
	YTD-% chg	Jan-Mar	Jan-Mar	2023	2022	2021
Mexico	3.8	119,849.8	115,493.6	475,606.7	454,774.7	382,588.7
China	-2.0	97,629.0	99,663.2	427,229.2	536,307.1	504,286.2

The trade deficit was steady in March at \$69.4 billion and we already know that net exports in Q1 2024 subtracted 0.9 percentage points from Q1 2024 1.6% real GDP growth. Powell said yesterday he did not believe the economy was experiencing stagflation, and real GDP would have been 2.5% if not for the widening trade imbalance. The US trade imbalance with China is somehow unchanged in the first quarter at \$60.8 billion this year versus \$60.8 billion last year. But US exports to China are off sharply in 2024, the result of unknown trade frictions or domestic demand in China perhaps.

U.S. Imports of Goods from the Rest of the World						
Millions of dollars	Mar 2024	Feb 2024	Change	Jan-Mar 2024	Jan-Mar 2023	
Total *	261,345	265,589	1.0	787,784	779,820	
Foods, feeds, beverages	17,643	18,287	3.5	52,914	51,143	
Industrial supplies, materials	53,475	55,069	-7.9	163,492	177,452	
Crude oil	13,548	13,648	-1.2	40,887	41,385	
Finished metal shapes	3,018	2,830	-12.1	8,830	10,049	
Capital Goods ex-autos	75,731	75,671	4.9	226,409	215,801	
Computers	9,185	9,345	18.8	26,267	22,116	
Computer accessories	6,832	5,901	21.1	19,168	15,830	
Semiconductors	6,188	5,989	-3.4	18,703	19,354	
Electric apparatus	7,886	8,063	-2.4	24,146	24,739	
Telecom equipment	6,397	7,138	-0.9	20,278	20,472	
Medical equipment	4,999	4,990	6.7	14,986	14,047	
Auto vehicles, parts, engines	37,281	41,947	10.0	120,108	109,238	
Consumer goods	66,796	63,750	-0.6	192,691	193,943	
Pharma preparations	19,420	16,924	8.2	54,524	50,370	
Cell phones	8,393	10,095	-13.2	27,234	31,369	
Toys, games, sporting goods	3,556	3,899	-12.0	11,080	12,584	
Furniture, household goods	3,916	3,581	7.6	10,647	9,895	
Household appliances	3,590	3,146	4.4	9,753	9,343	
Other goods	10,419	10,866	-0.2	32,171	32,244	
* Total Imports of goods on Census Basis						

Net, net, Fed officials fighting inflation probably did not like the sharp increase in unit labor costs in the first quarter which backs up the actual inflation outbreak in the consumer inflation indexes. Workers were paid more, but they are not as productive, so costs of production are going up which will keep upward pressure on prices. The trade deficit is unlikely to be a drag on GDP growth in the second quarter, but economists are holding their breath because it is election time and the talk of trade war and sanctions and tariffs are in the air. A 10% increase in tariffs on all imports would add about a percentage point to inflation. Stay tuned. The labor market is rock solid with no measurable increase in company layoffs, but for how long is the question. The risks of a hard landing with recession-level job losses will continue to climb if the current level of restrictive monetary policy is

unable to bring inflation down. Powell ruled out another rate hike for now, but the Committee's patience will soon wear thin if prices continue rising at this rate.



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