

Financial Markets This Week

9 MAY 2025

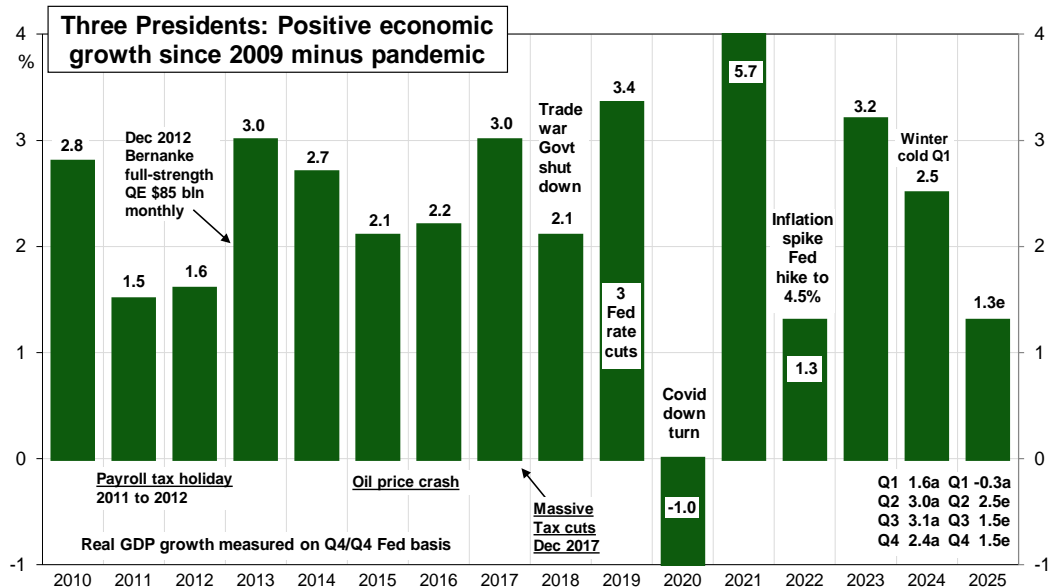
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RECESSION NEARS

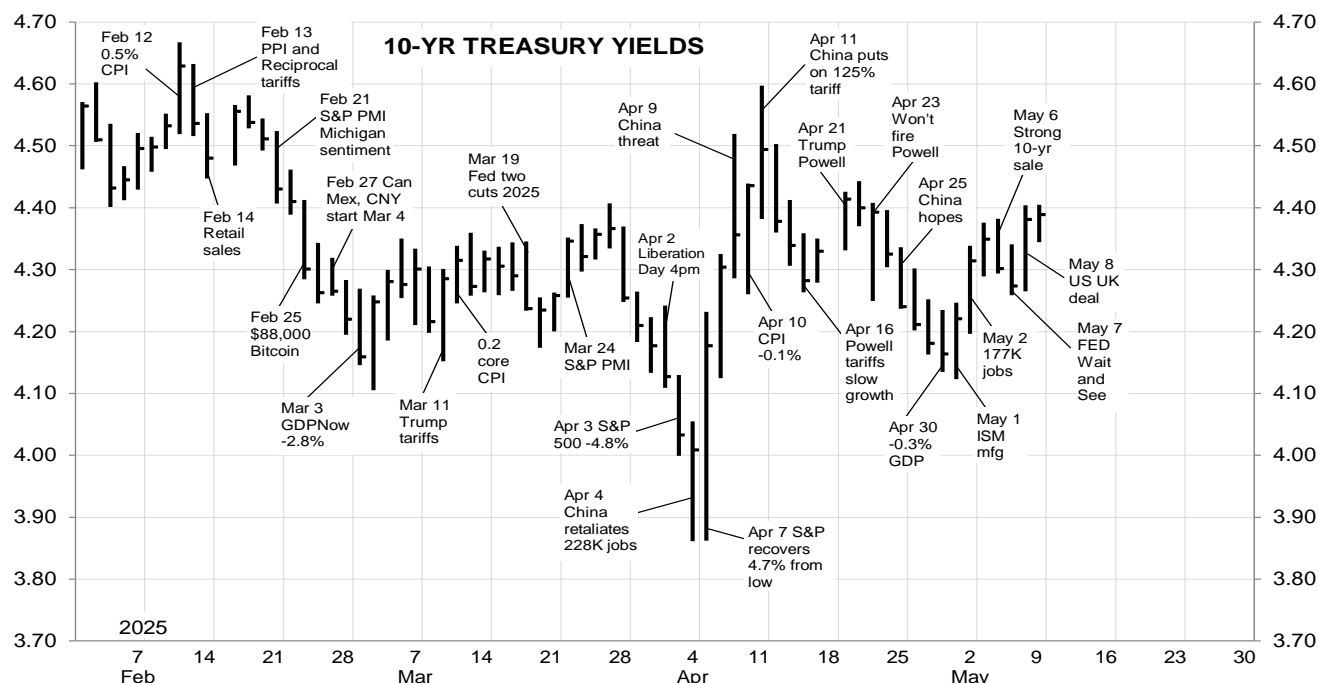
Sometimes we wonder if the Trump 2.0 trade war with the entire world this time around, fight, fight, fight, could even cause a recession. It should be one of the worst economic upside-down shocks for the American growth story following a 2.5% real GDP Q4/Q4 2024 year. But recession doesn't happen every day. And

nothing in economics is forecastable lately. Looking backwards, turn around, you can do it, [Bessent does Economic History](#), so can you, anyway the economy should have been in a recession a couple of years ago with all the signs pointing there. 5.5% recession-magnitude Fed funds rate to fight the worst inflation outbreak since the 80s, \$5 gasoline price shock for consumers, the unemployment rate rising more than five tenths from the low. The yield curve says, well... forget the inverted yield curve which is from another age and apparently no longer indicates when credit conditions are tight enough to restrict bank lending as in "credit is the lifeblood of the economy." But maybe keep your other economist forecasting eye looking at the stock market which is no longer down at the 20%-recession-magnitude loss back on Black Monday, April 7, barely over a month ago.

Crude oil prices are falling as well instead of spiking ahead of many recessions, the 1990-91 recession in particular. Not counting the 2020 recession, GDP growth only slowed to 2.1% in 2018 (Govt shutdown) and 1.3% in 2023 with the inflation spike. We forecast real GDP will slow to 1.3% in 2025, and do not want to pencil in a decline yet without seeing the full tariff threat effect.



INTEREST RATES

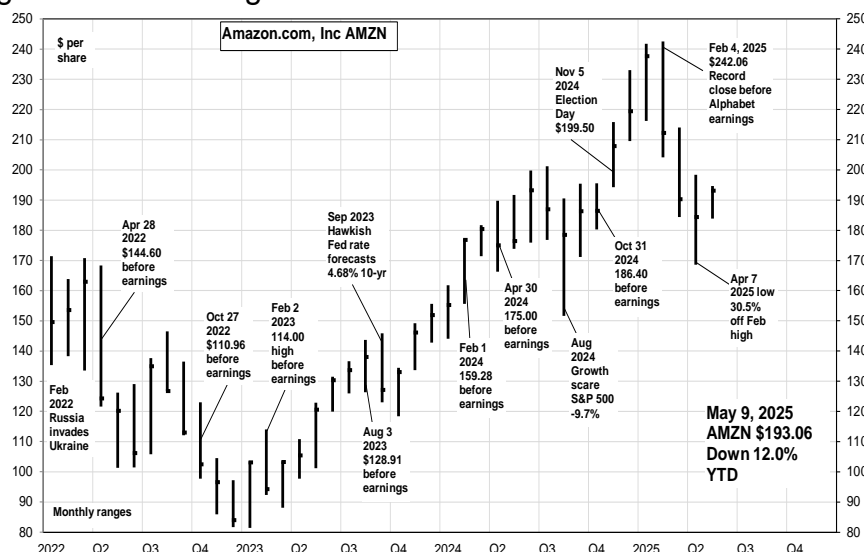


The stock market was little changed this week with the market overly hopeful that the trade talks are on. The President offered an 80% China tariff, down from 145%, but 80% obviously shuts trade down. Unfortunately, markets are now thinking US-China, or China-US talks in Switzerland this weekend are critical, setting themselves up for disappointment, but then again if investors cheer a reduction from 145% to 80% who knows how markets react. Speaking of who knows, the first trade agreement, with the U.K. lifted markets Thursday, the same U.K. that had a 2024 \$11.5 billion wrong-way, not-ripping-us-off trade surplus in goods with the U.S. The problem with tariffs is the same with any price that gets pushed higher; prices go up enough and people stop buying, or in this case, people stop shipping to the U.S. and imports go down meaning customs tariff collections go down not up. Stay tuned.

Amazon.com, Inc. (AMZN) down 12.0% YTD

The company reported earnings Thursday, May 1 (along with Apple, down as much as 5.2% the next day), and Amazon stock fell as much as 2.0% on Friday, May 2, but recovered with the overall market after the better than expected Friday 177K payroll jobs report. Earnings were better than expected, but tariffs and trade policies make any guidance it could give worthless.

Calendar					
Year	Net	Operating	AWS	AWS	Income
Mln \$	Sales	Income	Sales	Income	minus
					AWS
Q1 2025	155,667	18,405	29,267	11,547	6,858
Q4 2024	187,792	21,203	28,786	10,632	10,571
Q3 2024	158,877	17,411	27,452	10,447	6,964
Q2 2024	147,977	14,672	26,281	9,334	5,338
Q1 2024	143,313	15,307	25,037	9,421	5,886
Q4 2023	169,961	13,209	24,204	7,167	6,042
Q3 2023	143,083	11,188	23,059	6,976	4,212
Q2 2023	134,383	7,681	22,140	5,365	2,316
Q1 2023	127,358	4,774	21,354	5,123	-349
Q4 2022	149,204	2,737	21,378	5,205	-2,468
Q3 2022	127,101	2,525	20,538	5,403	-2,878
Q2 2022	121,234	3,317	19,739	5,715	-2,398
Q1 2022	116,444	3,669	18,441	6,518	-2,849



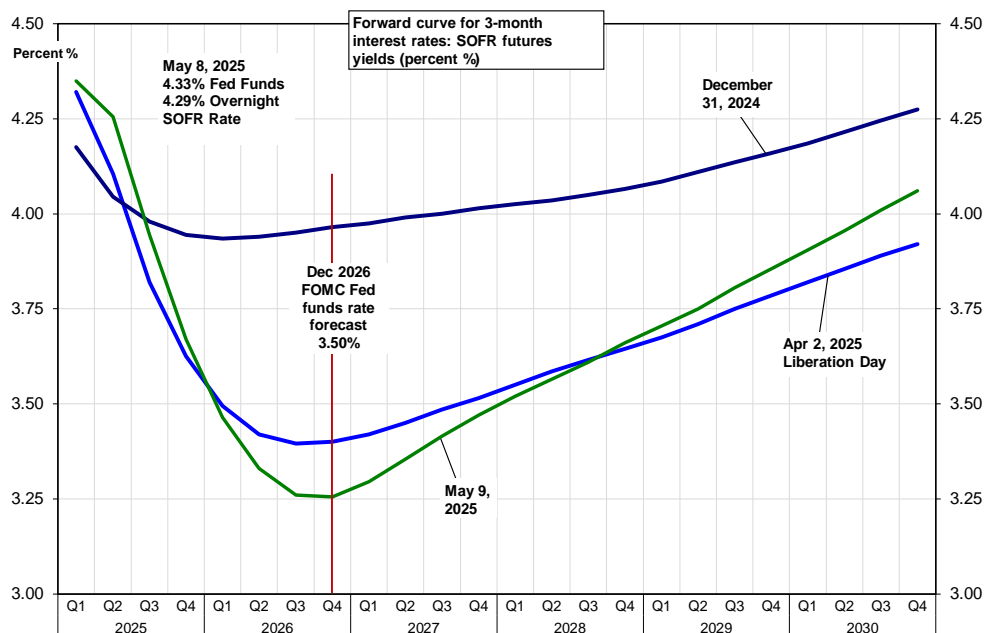
FEDERAL RESERVE POLICY

The Fed met May 6-7, 2025 to consider its monetary policy. No change in rates. Rumors of war, but no war. The word “wait” appears 25 times in the press conference transcript. Wait for greater certainty, wait-and-see. No heads up for a rate cut at the next Fed meeting with forecasts on June 17-18; but they can move fast if they have to, he said. Not fast enough for the President who seems to be tiring of calling Powell names. Seems like Fed officials want to see much weaker payroll jobs than the 177K in April to adjust interest rates lower. There were certainly a lot of Fed speakers on Friday. Same story with risks on both sides for policy: higher inflation and also economic weakness. These Fed officials' comments are just treading water waiting for clarity from the economic data. It is an odd situation, the trade war news notwithstanding, as higher interest rates did not send the economy down or even slow things much. The Fed funds rate peaked at 5.5% in July 2023, then 5.0% in September 2024, 4.75% in November 2024, 4.5% in December 2024, and yet nothing happened or at least interest rates do not appear to be holding the country back.

Selected Fed assets and liabilities						Change from 3/11/20 to May 7
Fed H.4.1 statistical release	7-May	30-Apr	23-Apr	16-Apr	3/11/20*	
billions, Wednesday data						
Factors adding reserves						
U.S. Treasury securities	4216.103	4215.813	4217.694	4217.259	2523.031	1693.072
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2172.945	2172.945	2185.406	2188.873	1371.846	801.099
Repurchase agreements	0.007	0.111	1.000	0.003	242.375	-242.368
Primary credit (Discount Window)	2.462	3.485	3.112	2.713	0.011	2.451
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	1.793	1.806	1.807	1.821		
Main Street Lending Program	6.822	6.812	7.072	7.063		
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	0.060	0.062	0.073	0.103	0.058	0.002
Federal Reserve Total Assets	6762.1	6759.9	6778.0	6778.1	4360.0	2402.046
3-month Libor % SOFR %	4.30	4.41	4.28	4.31	1.15	3.150
Factors draining reserves						
Currency in circulation	2384.812	2381.886	2379.809	2377.963	1818.957	565.855
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	595.860	677.657	576.159	638.783	372.337	223.523
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	154.859	250.601	171.780	54.772	1.325	153.534
Federal Reserve Liabilities	3561.453	3759.573	3569.114	3497.294	2580.036	981.417
Reserve Balances (Net Liquidity)	3200.619	3000.277	3208.915	3280.845	1779.990	1420.629
Treasuries within 15 days	97.996	100.454	59.090	58.916	21.427	76.569
Treasuries 16 to 90 days	173.191	149.087	208.978	210.658	221.961	-48.770
Treasuries 91 days to 1 year	429.892	451.428	420.627	419.053	378.403	51.489
Treasuries over 1-yr to 5 years	1420.173	1420.087	1434.924	1434.751	915.101	505.072
Treasuries over 5-yr to 10 years	536.922	536.897	537.249	537.198	327.906	209.016
Treasuries over 10-years	1557.929	1557.859	1556.827	1556.684	658.232	899.697
Note: QT starts June 1, 2022	Change	5/7/2025	6/1/2022			
U.S. Treasury securities	-1554.676	4216.103	5770.779			
Mortgage-backed securities (MBS)	-534.501	2172.945	2707.446			

*March 11, 2020 start of coronavirus lockdown of country

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



June is unlikely. One and a half 25 bps rate cuts are expected by September.

Fed funds futures call Fed policy	
Current target: May 9 -- 4.50%	
Rate+0.17 Contract	Fed decision dates
4.450 Jul 2025	May 7, Jun 18*
4.135 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	

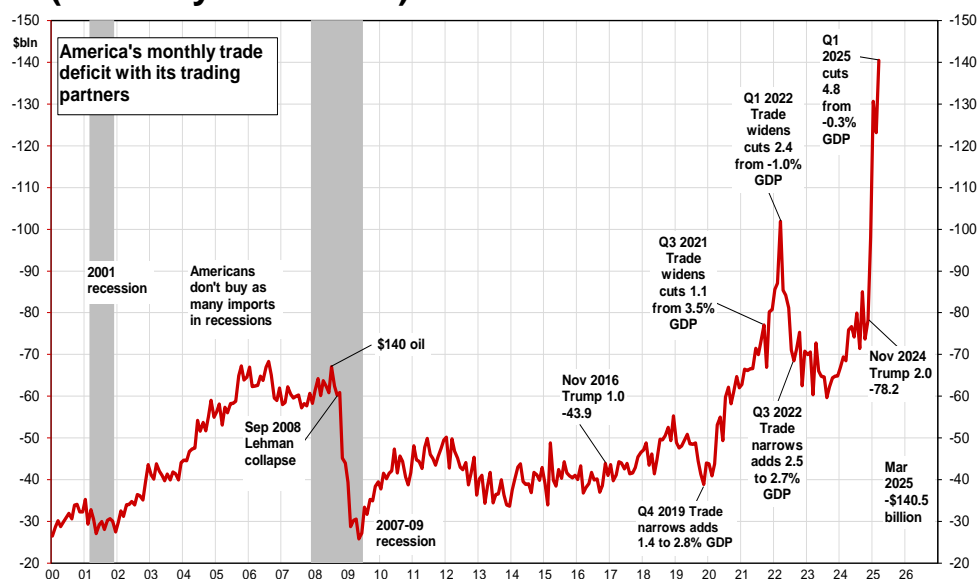
Next up: April CPI inflation report Tuesday, May 13 at 830am ET

Monthly	2025		2024										2024		
% Changes	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	0.0	0.5	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	2.6	3.0	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

Record trade deficit red ink (Tuesday 830am ET)

Breaking economy news. A record high for the trade deficit for goods and services in March of \$140.5 billion from \$123.2 billion in February and \$130.7 billion in January. A lot of red ink. The U.S. isn't winning yet. We would assume the widening is an attempt to bring in goods before the tariffs and that the deficit will narrow in coming months. It is a good thing the dollar no longer reacts to the trade data like it did in the 80s.



Imports surged in 2025 YTD versus comparable 2024, but perhaps not as one thought. Finished metal shapes are up big (whatever they are). Computers and accessories as well, but this has been building before the election last year. Pharma preparations roughly doubled to \$108.2 billion so far this year. Cell phones are 27.7% greater than the prior year. Footwear and TVs about the same, we can't wait for manufacturers to build TVs in the states again.

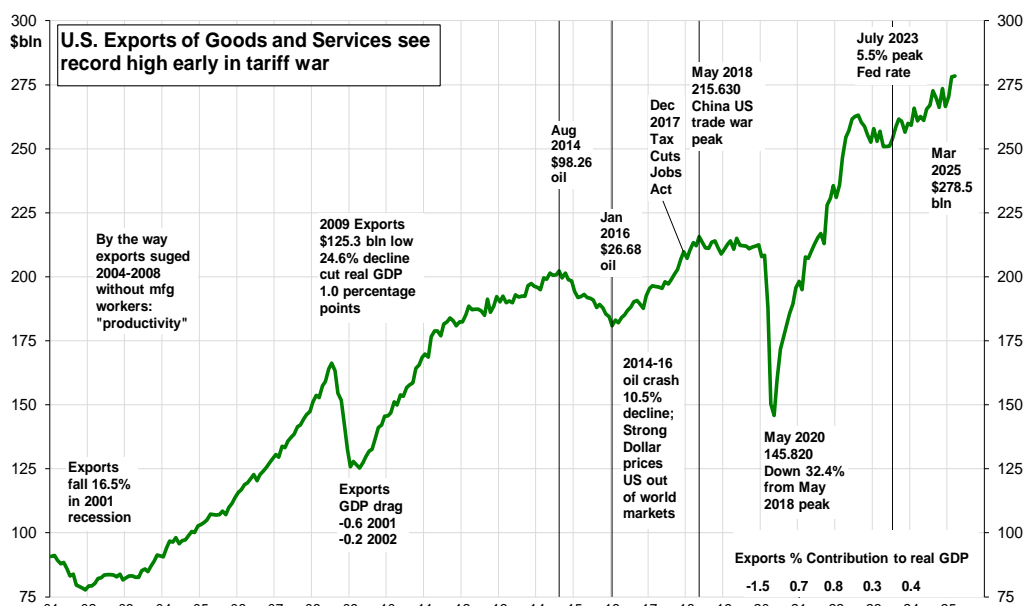
Exports of goods and services were also at a new all-time high in March. Of course, we don't know how the rest of the world will respond with their own tariffs if the trade talks do not go as planned. The only problem with the trade talks of course is the U.S. wants all these products built in the USA, so it is unclear what the talks can center on. Trump 2.0 does not want the imported goods coming in anymore. Stay tuned.

U.S. Imports of Goods from the Rest of the World

			YTD %	Jan-Mar	Jan-Mar
Millions of dollars, seas. adj.	Mar 2025	Feb 2025	Change	2025	2024
Total *	344,272	326,456	26.6	997,780	787,957
<u>Foods, feeds, beverages</u>	19,551	19,623	12.6	59,200	52,583
<u>Industrial supplies, materials</u>	75,526	86,249	53.8	252,186	163,951
Crude oil	12,271	13,501	-3.3	39,755	41,102
Finished metal shapes	21,335	31,668	852.3	87,232	9,160
<u>Capital Goods ex-autos</u>	93,097	89,382	19.7	270,876	226,333
Computers	13,572	13,647	53.4	40,210	26,204
Computer accessories	13,197	11,157	81.7	35,561	19,566
Semiconductors	6,650	6,176	3.9	19,098	18,387
Electric apparatus	9,190	8,902	12.3	26,987	24,024
Telecom equipment	8,906	8,449	28.1	25,633	20,009
Medical equipment	5,666	5,892	12.0	16,989	15,162
<u>Auto vehicles, parts, engines</u>	40,987	38,435	-2.3	117,390	120,147
<u>Consumer goods</u>	103,166	80,679	35.8	262,121	193,048
Pharma preparations	50,422	29,498	97.2	108,199	54,868
Cell phones	11,805	12,355	27.7	34,968	27,392
Toys, games, sporting goods	3,994	3,936	10.1	12,269	11,144
Furniture, household goods	3,918	3,662	3.8	11,056	10,655
TVs	1,304	1,576	-0.9	4,596	4,640
Household appliances	3,468	3,495	8.2	10,384	9,593
Footwear	1,784	1,690	5.5	5,047	4,782
* Total Imports of goods on Census Basis					

Net, net, the markets do not like tariffs and neither do U.S. exporters and importers who are scrambling to keep their business models afloat with the Trump 2.0 unprecedented policies to turn the clocks back decades to when the U.S. was a manufacturing power. The trade deficit increased \$17.3 billion in March to \$140.5 billion, but the increase was more than accounted for by a huge one-month increase in pharmaceutical preparations of \$20.9 billion. Businesses are clearly scrambling as they

try to find a way through this time of unprecedented change, but the worst is undoubtedly yet to come because the import tariff collections did not start to roll in earnest until after the White House Liberation Day announcement on April 2. There are still no trade deals announced in Trump 2.0, but there were many countries with very



big goods trade deficits seasonally adjusted in March for Administration officials to focus on including EU \$48.3 billion, Ireland \$29.3 billion, China \$24.8 billion and Mexico \$16.8 billion. It looks like the trade deficit will be another big drag on GDP growth in the second quarter. So far the President's trade policies are producing more trade deficit red ink instead of less.

U.S. Exports of Goods to the Rest of the World

			YTD %	Jan-Mar	Jan-Mar
Millions of dollars, seas. adj.	Mar 2025	Feb 2025	Change	2025	2024
Total *	181,103	178,563	3.8	532,077	512,589
<u>Foods, feeds, beverages</u>	13,945	13,079	-4.3	40,433	42,228
Meat, poultry, etc.	2,237	2,247	3.0	6,615	6,422
Corn	1,350	1,497	27.9	4,419	3,454
Soybeans	2,148	1,386	-33.2	5,049	7,555
<u>Industrial supplies, materials</u>	64,629	62,456	-0.1	186,519	186,764
Crude oil	9,143	9,150	-9.7	27,482	30,430
Petroleum products, other	6,200	6,578	-8.0	19,094	20,750
<u>Capital Goods ex-autos</u>	57,838	59,336	12.1	173,807	155,095
Semiconductors	5,624	5,954	26.2	17,789	14,091
Electric apparatus	5,050	4,835	9.4	14,816	13,544
Medical equipment	3,651	3,769	-3.5	11,110	11,507
Engines-civilian aircraft	6,300	6,069	19.1	18,246	15,324
Telecom equipment	3,828	3,721	10.1	11,133	10,108
Civilian aircraft	2,960	4,739	44.8	11,926	8,235
<u>Auto vehicles, parts, engines</u>	15,394	14,221	-2.4	42,229	43,266
<u>Consumer goods</u>	21,769	22,011	2.5	65,277	63,701
Pharma preparations	9,221	8,375	4.3	26,098	25,019
Cell phones	2,899	2,981	5.4	8,746	8,295
Gem diamonds	1,162	1,950	1.7	4,340	4,266

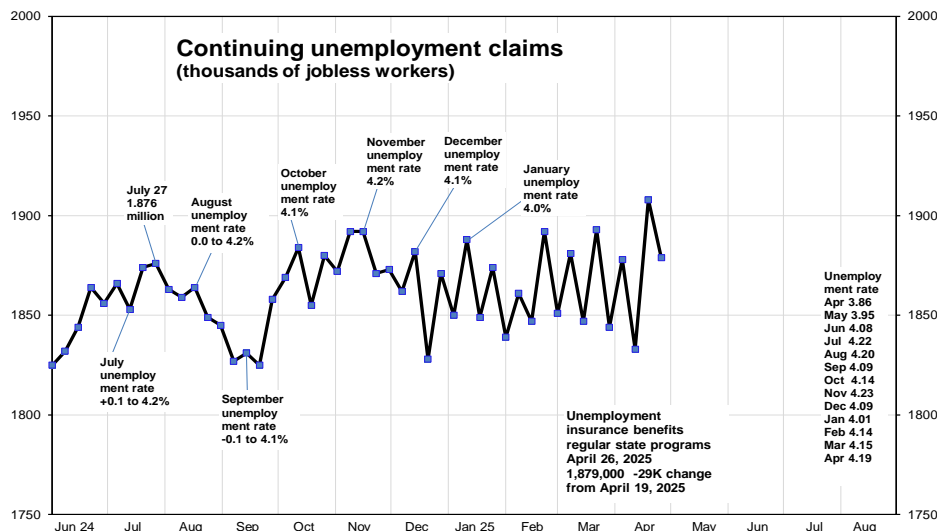
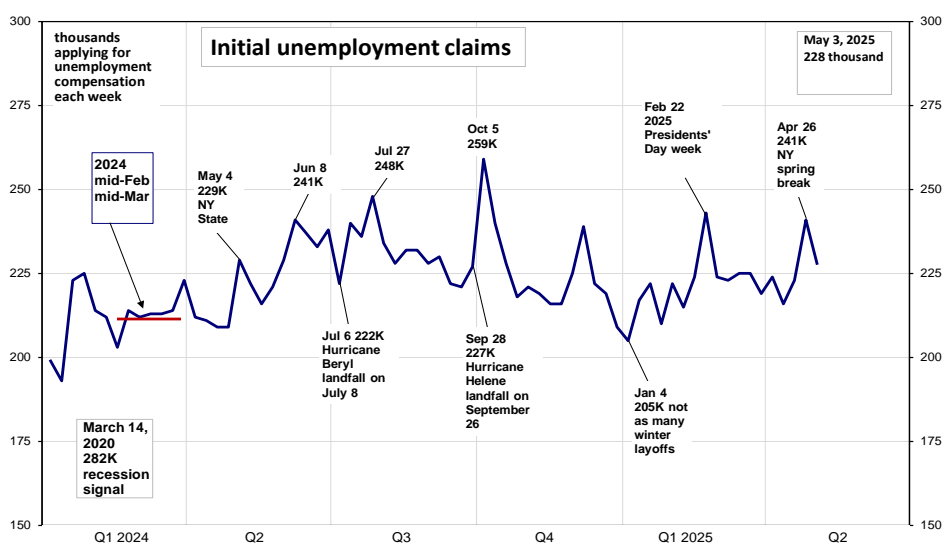
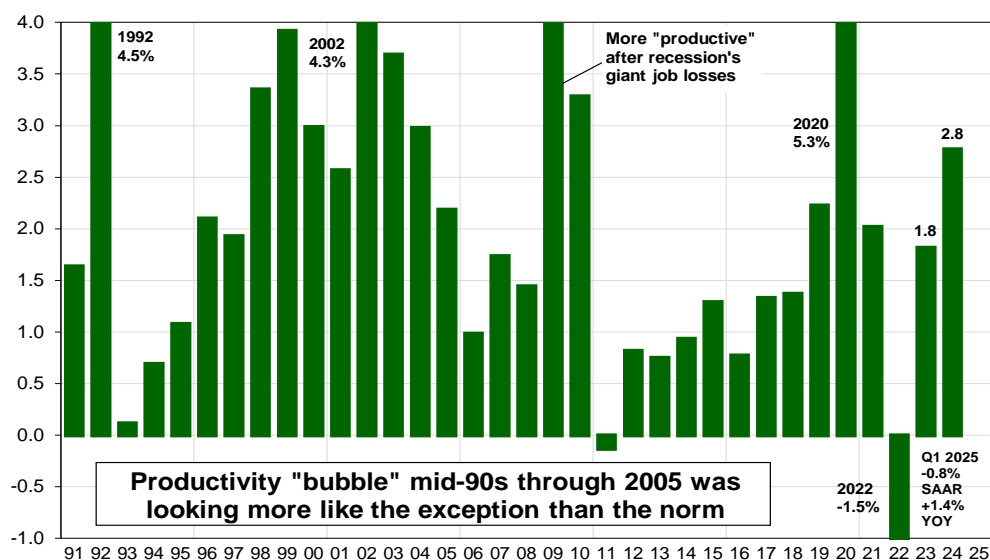
* Total Exports of goods on Census Basis

\$mIn	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Feb 2025	-123,195	-147,042	23,847	278,000	181,897	96,103	401,195	328,939	72,256
Mar 2025	-140,498	-163,521	23,023	278,456	183,231	95,225	418,955	346,752	72,203
Change	-17,303	-16,479	-824	456	1,334	-878	17,760	17,813	-53

Productivity and jobless claims down (Thursday 10am ET)

Breaking economy news. The latest reading from the labor market gives the economy a clean bill of health for now with layoff notices tumbling from more worrisome levels a week ago. Initial filings are down and the total number of Americans receiving benefits are down from 2025 highs made a week earlier. Companies in the

face of trade war uncertainty are holding onto their workers for now. The million dollar question is how long can companies tough it out as first quarter productivity statistics show unit labor costs soared 5.7% which is well above the 2.3% average for last year. Fed Chair Powell said growth was solid in the first quarter despite the 0.3% decline in real GDP, but there are signs the productivity miracle may be fading and calls the story of a resilient economy into question. Productivity fell 0.8% in the first quarter after rising 1.8% in 2023 and 2.8% in 2024. American workers are less productive at the start of the year and this means the strength of the economy may not be as favorable going forward.



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