

Financial Markets This Week

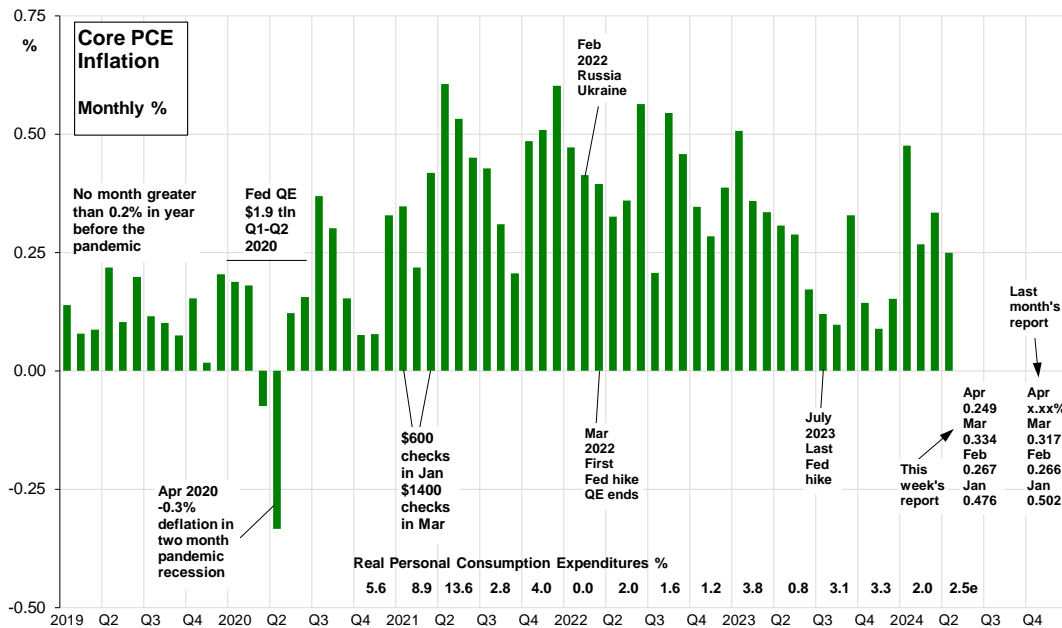
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Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

INFLATION 0.249

Breaking economy news. The personal income report for April. Real consumer spending is running a little more slowly at 1.3% in the second quarter (had been 2.0%) with a surprising slowdown in services to 0.1%, and actual 0.4% drop in durable and nondurable goods purchases. Core PCE inflation fell back to a

If you can't see it, you can't trade. Does not look like April's core PCE inflation is that much different than the first quarter.



0.2% rounded change in April for the first time since late last year, but you might want to hold the applause as the three digit change was 0.249% where a mere hundredth separates a good from a bad core inflation outcome. Core services inflation minus housing as well has been choppy, but it did slow to 0.26% in April from 0.42% in March: it is running 3.4% year-on-year in April; it was 2.0% in 2019 before the pandemic. Durable goods inflation fell 0.2% in April after small but positive changes in the first quarter and this will certainly be welcomed by Fed officials looking for confirmation that the first quarter inflation outbreak is over.

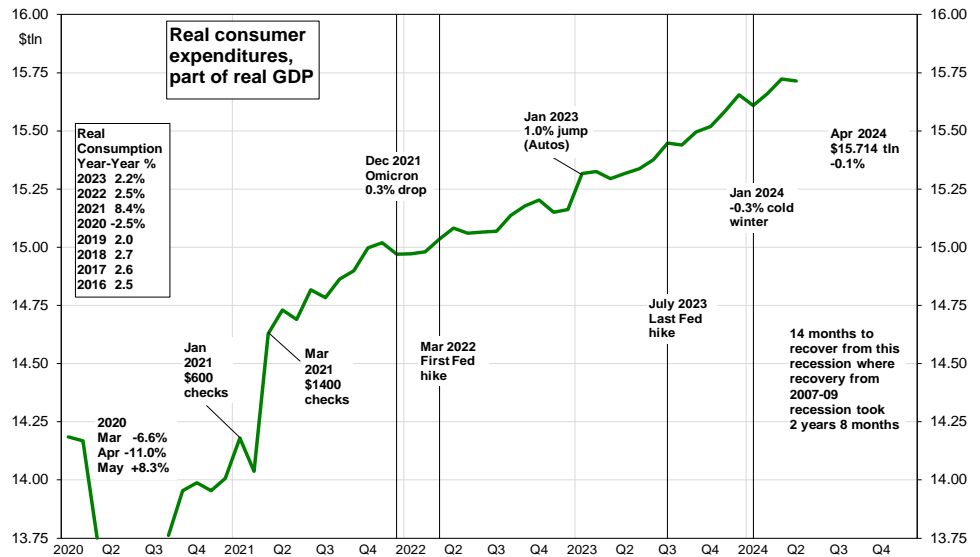
Real consumer spending was revised down to 2.0% in the first quarter from 2.5% in Thursday's GDP report, but there is still some momentum powering real consumption in the second quarter, with May and June data still to come, and real consumption is running at a 1.3% pace in Q2 after last month's personal income

Dec 2022 Weight	Year-Year % Change				Monthly % changes			
	2020	2021	2022	2023	2024	2024	2024	2024
1.000 PCE inflation	1.4	6.2	5.4	2.6	0.4	0.3	0.3	0.3
0.080 Food at home	3.9	5.7	11.1	1.4	0.5	0.1	0.0	-0.2
0.025 Energy goods (gas)	-14.6	47.3	1.6	-1.3	-3.3	3.4	1.5	2.5
0.019 Electricity/Gas	2.6	10.2	15.7	-2.3	1.4	0.7	0.7	-0.7
0.876 Core PCE	1.6	5.2	4.9	2.9	0.5	0.3	0.3	0.2
Durable goods								
0.021 New vehicles	1.8	11.5	7.0	1.0	0.0	-0.1	-0.2	-0.4
0.013 Used vehicles	10.3	37.0	-8.1	-1.0	-3.4	0.5	-1.1	-1.4
0.026 Furnishings	3.6	8.5	4.9	-3.1	0.5	-0.3	0.2	-0.7
0.036 Recreational	-1.2	1.1	-1.5	-5.1	1.6	1.2	0.4	0.2
Nondurable goods								
0.028 Clothing	-4.4	5.6	2.9	1.6	-0.7	1.0	0.6	1.2
0.027 Prescription drugs	-2.4	0.0	1.8	3.3	-0.8	-0.1	0.3	0.2
0.010 Personal care	-0.3	0.4	8.1	3.7	0.6	0.8	0.2	-0.2
0.229 Goods x-foodenergy	0.1	6.2	3.1	-0.1	-0.1	0.3	0.1	0.1
0.647 Services ex-energy	2.1	4.9	5.5	4.0	0.7	0.3	0.4	0.3
0.034 Rents	2.3	3.3	8.3	6.4	0.4	0.5	0.4	0.4
0.116 Home prices	2.2	3.8	7.5	6.3	0.6	0.4	0.4	0.4
0.160 Health care	2.6	2.7	2.6	2.5	0.6	0.2	0.1	0.1
0.033 Transportation	-2.9	8.8	12.4	3.6	0.0	0.2	1.4	-1.1
0.038 Recreation	1.6	4.3	5.8	4.9	0.4	0.5	-0.1	0.3
0.061 Food services	4.3	6.7	7.6	5.1	0.4	0.0	0.3	0.3
0.011 Hotels/Motels	-8.1	20.0	2.5	0.9	2.0	0.2	0.1	0.1
0.072 Financial/Insurance	2.7	7.1	3.8	3.1	1.5	0.3	0.5	0.8
0.083 Other services	1.5	2.8	3.9	2.8	0.9	-0.2	0.9	0.6
0.030 Nonprofits	2.2	13.3	8.7	4.5	0.1	0.9	0.7	0.4
Year-year is Dec/Dec Percent Change								

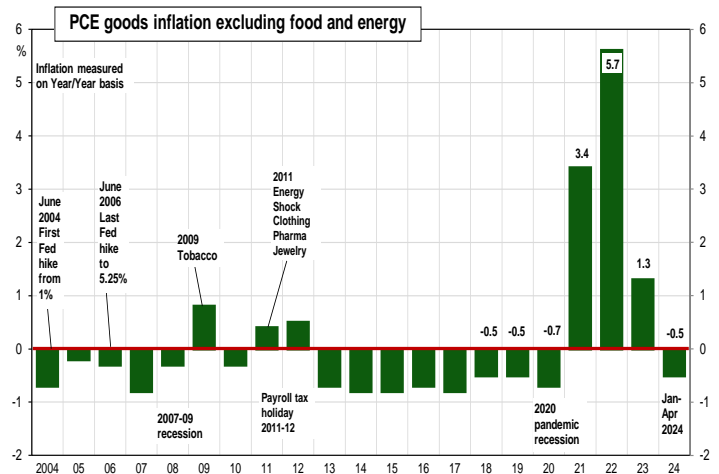
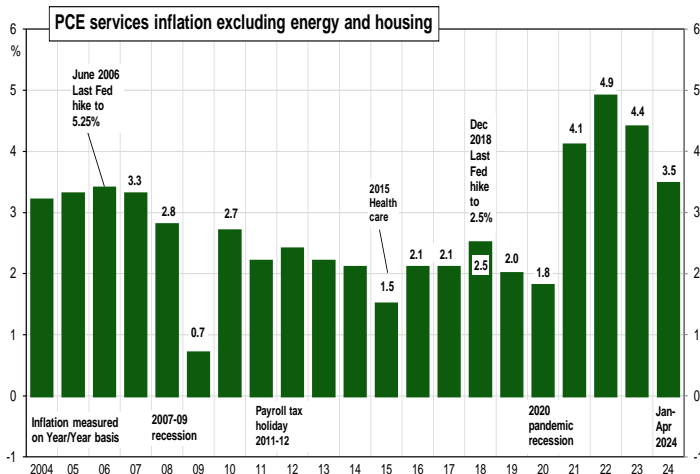
report showed a 2.0% advance. The first quarter itself was slower as a result of the sharp drop in January because of the colder than seasonal winter weather. Consumers are still on their feet, and we expect spending to pick back up as we head into the summer months.

To conclude, Americans reduced their real spending in April which puts a question mark over the strength of the economic expansion and the outlook ahead. Bad news on growth might help limit the inflation outbreak seen in the first quarter this year which has Fed officials trying to wiggle out of those forecasts for interest rate cuts later this year. Core inflation pressures are slowing but more data will be required for Fed officials to

Real PCE spending has slowed with the downward revision to Q1 and drop in April. For April, less gasoline was purchased for driving and fewer computers/software purchased. Clothing was down, as were games/toys nonprescription drugs. Services slowed with less foreign travel.

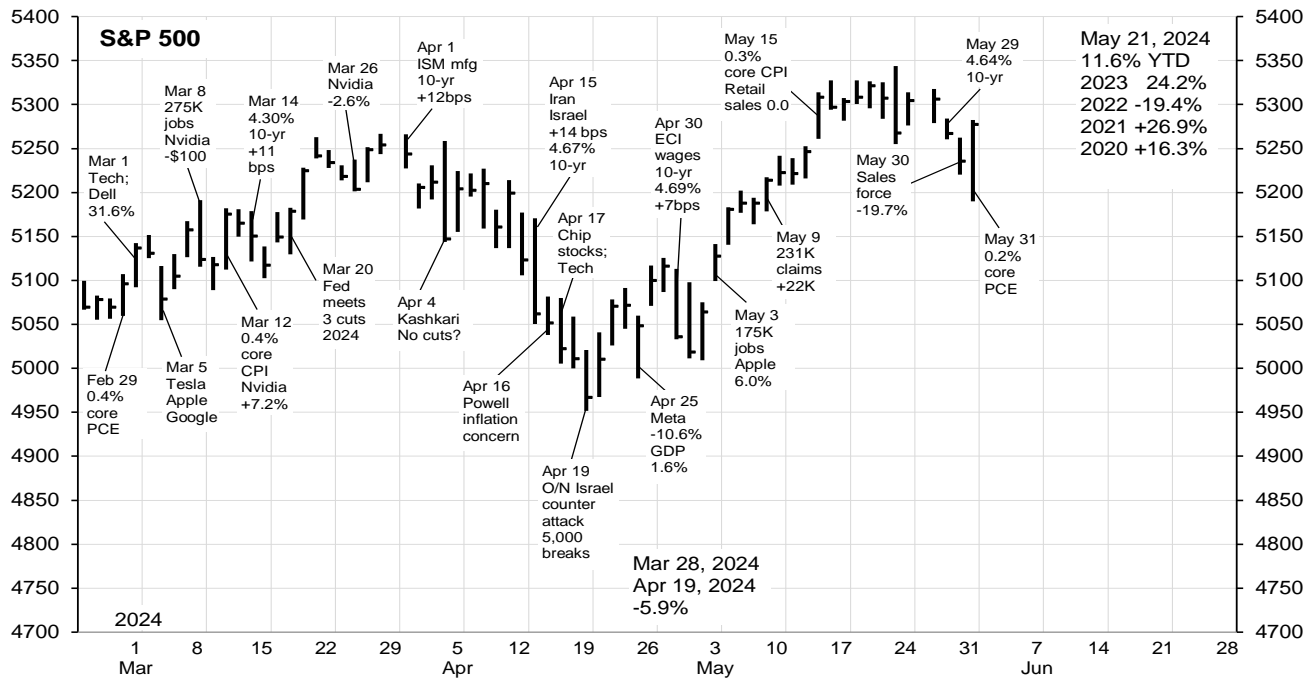


be sure inflation is heading down to their 2.0% target. Stay tuned. Consumers were indeed less confident in April as reported earlier and as a result they stayed home and made no net new purchases of goods and services at the start of the second quarter. Monetary policy works with a lag and apparently the restraint from 5.5% peak Fed rates last July is now showing up with a reduction in real consumption. Bad news on consumer spending coupled with good inflation news is just the ticket for the stock market to rally after being battered this week in part due to higher bond yields which have now reversed direction. Buy stocks, buy bonds, buy it all.



P.S. It is still broadly true that core goods deflation is helping to offset core services minus housing. But the monthly percent changes of core goods have increased slightly February, March, April.

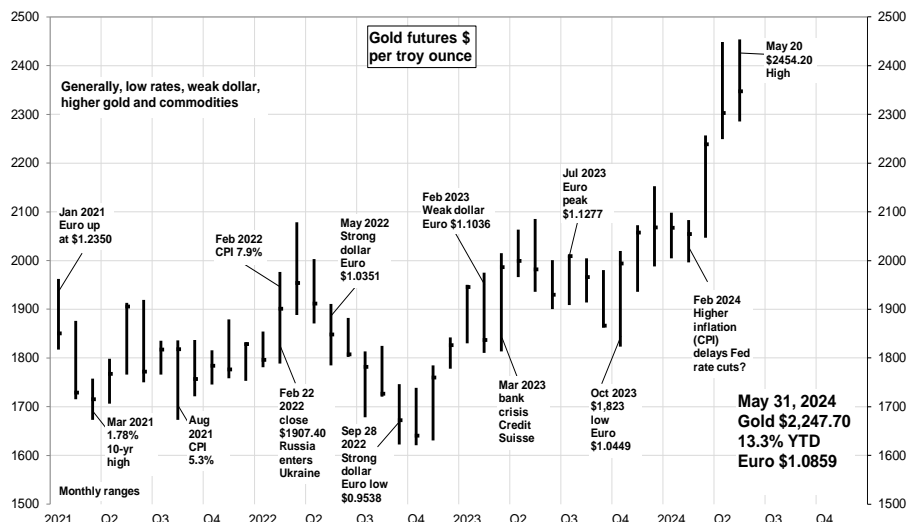
INTEREST RATES



Equity markets could not stop talking about higher bond yields (4.64% peak on Wednesday) as a reason why stocks were falling even as bond yields fell lower to close Friday at 4.50%. The poor 5-yr Treasury auction results on Tuesday pushed yields higher, a rebound in consumer confidence also helped the same day, but less so the economic data. Real GDP was revised down a few tenths to 1.3% all due to the consumer on Thursday, and stocks did not react much, but bond yields fell. Stocks did not like the implications of tech earnings from Salesforce on Thursday (stock down 19.7%) and Dell on Friday (stock down 17.9%), but stocks finally turned back up and sharply, near Friday's close. Core PCE was 0.2% as advertised on Friday, barely at 0.249%, but real consumption actually fell in April. Weak economy, buy stocks, buy bonds.

Gold futures, the future is Gold

Gold keeps moving higher after the start of the move on Friday, March 1 when weak US ISM manufacturing brought 10-yr yields down from 4.26% to 4.18%. Gold moved up to \$2,200 and held there for about three weeks, but when it broke, it moved up quickly by another \$200 to \$2,400. The move to \$2,400 took place as US bond yields moved higher as well. Gold has stalled since April despite news like a third 0.4% monthly CPI inflation report and Iran attacking Israel. Waiting for a new catalyst. No reflation the economy with Fed rate cuts to look forward to as of yet. May 22-23, 2024 saw gold sell off on hawkish Fed minutes, UK inflation ruled out a June BOE rate cut, and S&P services PMI was stronger, aiding the interest rates higher for longer story.



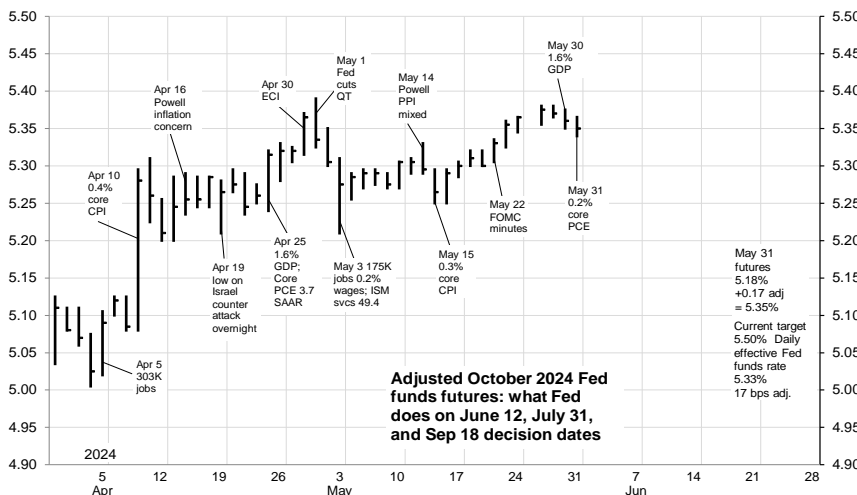
FEDERAL RESERVE POLICY

The Fed meets June 11-12, 2024 to consider its monetary policy. Minneapolis Fed President Kashkari was up early on Tuesday helping to push bond yields up: many more months of good inflation needed before rate cuts. We'd say he speaks too much but business groups are anxious to have him, and the other FOMC members, speak before their crowd. One problem is the inflation target. The 2.0. Core PCE is 2.8% year-to-year right now and the March meeting Fed forecasts were for 2.6% in Q4 2024 and three rate cuts that would bring the Fed rate down to 4.75% to end the year. That changed, the Fed is more patient about cutting rates, because the rapid monthly percent changes in the first quarter, if they continue, would keep core inflation from falling to 2.0%. Core PCE inflation rose 0.249% in April, and even if the monthly changes averaged exactly 0.20% over the next 12 months, some higher, some lower, the simple annual rate would still be 2.4%. For now, they can continue to talk about the 2.0 target and hope there are some 0.1% monthly changes to get core PCE inflation to move down there.

Selected Fed assets and liabilities						Change from 3/11/20 to May 29
Fed H.4.1 statistical release	29-May	22-May	15-May	8-May	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4489.444	4488.767	4488.090	4518.691	2523.031	1966.413
Federal agency debt securities	2.347	2.347	2.347	2.347		0.000
Mortgage-backed securities (MBS)	2354.642	2368.240	2371.983	2372.049	1371.846	982.796
Repurchase agreements	0.005	0.001	0.000	0.001	242.375	-242.370
Primary credit (Discount Window)	6.574	6.664	6.364	6.198	0.011	6.563
Bank Term Funding Program	108.249	109.005	109.595	112.663		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.920	2.925	2.938	2.949		
Main Street Lending Program	11.360	11.304	13.773	14.130		
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	0.112	0.123	0.130	0.125	0.058	0.054
Federal Reserve Total Assets	7335.2	7350.6	7355.3	7404.5	4360.0	2975.129
3-month Libor % SOFR %	5.33	5.31	5.31	5.31	1.15	4.180
Factors draining reserves						
Currency in circulation	2354.005	2349.764	2348.375	2348.973	1818.957	535.048
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	716.020	710.882	706.108	816.809	372.337	343.683
Treasury credit facilities contribution	4.958	4.958	7.438	7.438		
Reverse repurchases w/others	459.314	496.382	443.779	493.427	1.325	457.989
Federal Reserve Liabilities	3944.080	3975.597	3938.885	4073.790	2580.036	1364.044
Reserve Balances (Net Liquidity)	3391.075	3375.014	3416.386	3330.687	1779.990	1611.085
Treasuries within 15 days	60.920	68.095	41.744	89.940	21.427	39.493
Treasuries 16 to 90 days	230.860	224.099	216.735	212.031	221.961	8.899
Treasuries 91 days to 1 year	532.808	532.306	565.935	522.131	378.403	154.405
Treasuries over 1-yr to 5 years	1502.308	1502.016	1501.723	1506.100	915.101	587.207
Treasuries over 5-yrs to 10 years	648.895	648.792	643.410	678.562	327.906	320.989
Treasuries over 10-years	1513.653	1513.459	1518.543	1509.928	658.232	855.421
Note: QT starts June 1, 2022						
Change	5/29/2024	6/1/2022				
U.S. Treasury securities	-1281.335	4489.444	5770.779			
Mortgage-backed securities (MBS)	-352.804	2354.642	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

	Fed Policy-key variables			Long Term
	2024	2025	2026	
Fed funds	4.6	3.9	3.1	2.6
PCE inflation	2.4	2.2	2.0	2.0
Core inflation	2.6	2.2	2.0	
Unemployed	4.0	4.1	4.0	4.1
GDP	2.1	2.0	2.0	1.8
March 2024 median Fed forecasts				

The other problem is core CPI inflation is 3.6% and it is hard for the Fed to explain to the public why this higher inflation rate does not matter when it comes to hitting a 2% target. And it is not a problem, but the ECB is expected to strike first with a rate cut Thursday, June 6 after an advance core CPI report of 2.9% year-year in May versus 2.7% year-year in April. Inflation is low enough for them, why not US.



Only 1 bps change in October Fed funds futures this week (1 bps is 4% odds). The market is discounting 15 bps of a 25 bps rate cut on September 18.

Fed funds futures call Fed policy	
Current target: May 31 -- 5.50%	
Rate+0.17 Contract	Fed decision dates
5.465 Aug 2024	June 12, July 31
5.350 Oct 2024	Adds Sep 18

Next up: May CPI inflation report Wednesday, June 12															
Monthly % Changes	2024												2023		
	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb
Core CPI inflation	0.3	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
Core PCE inflation	0.2	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
Core PCE YOY	2.8	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
Core CPI YOY	3.6	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

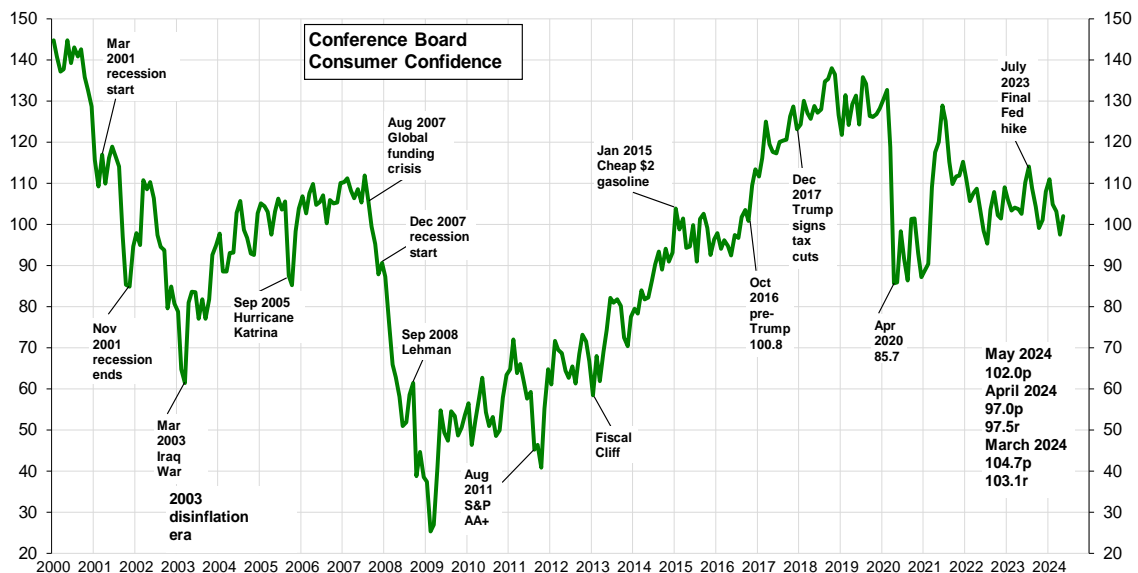
OTHER ECONOMIC NEWS

Confidence confidence rebounds (Tuesday)

Breaking economy news. The consumer confidence index rebounded in May to 102.0 from 97.5 in April that had been initially reported as 97.0. The cutoff date for the survey was May 21.

Net, net, while Americans are not exactly jumping for joy, there is a little more spring in the consumer’s step with confidence rebounding in May. The negative reports on social media about consumer worries and fears look to be overblown. The consumer’s assessment of the labor market remains positive with 37.5% saying jobs are plentiful, while those saying a job is hard to get fell to 13.5% from 15.5% last month.

Some consumers are swayed by the higher prices they pay at the grocery store when it comes to how they assess current economic conditions. But looking at grocery prices is looking backwards in the rearview mirror as price increases at the supermarket have moderated sharply, in fact food at home prices in the CPI index actually fell 0.2% in April. The Biden administration must be tearing their hair out trying to message the public that economic conditions are better than what they think. Stay tuned.



GDP slows to 1.3% stall speed where bad things can happen (Thursday)

Breaking economy news. Second estimate of real GDP sees growth revised down to 1.3% in the first quarter from last month's 1.6% estimate. Real consumption expenditures are 2.0% down from 2.5%. The biggest drag from reduced consumer spending came equally in the categories of (1) motor vehicles and parts, (2) furnishings and household equipment, and (3) store-bought groceries.

Net, net, economic growth slowed to the stall speed in the first quarter upon revision while corporate profits nose-dived which suggests the Fed's restrictive policy is tightening up and could soon even become a noose around the economy's neck. All of a sudden, the economic outlook is looking less and less positive and whether it is geopolitical risks or election jitters, the consumer is clearly rattled and spent less at the shops and malls than we had thought in the first quarter this year. If the consumer does not restart their engines soon, this economy is going to have a hard time in the months to come.

	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24p	Q1 24r
REAL GDP	2.6	2.2	2.1	4.9	3.4	1.6	1.3
REAL CONSUMPTION	1.2	3.8	0.8	3.1	3.3	2.5	2.0
CONSUMPTION	0.8	2.5	0.6	2.1	2.2	1.7	1.3
Durables	-0.1	1.1	0.0	0.5	0.3	-0.1	-0.3
Nondurables	0.1	0.1	0.1	0.6	0.4	0.0	-0.1
Services	0.8	1.4	0.4	1.0	1.5	1.8	1.8
INVESTMENT	0.6	-1.7	0.9	1.7	0.2	0.6	0.6
Business Plant	0.2	0.8	0.5	0.3	0.3	0.0	0.0
& Equipment and	-0.3	-0.2	0.4	-0.2	-0.1	0.1	0.0
Intellectual Property	0.3	0.2	0.2	0.1	0.2	0.3	0.4
Homes	-1.2	-0.2	-0.1	0.3	0.1	0.5	0.6
Inventories	1.6	-2.2	0.0	1.3	-0.5	-0.4	-0.5
EXPORTS	-0.4	0.8	-1.1	0.6	0.6	0.1	0.1
IMPORTS	0.7	-0.2	1.1	-0.6	-0.3	-1.0	-1.0
GOVERNMENT	0.9	0.8	0.6	1.0	0.8	0.2	0.2
Federal defense	0.3	0.1	0.1	0.3	0.0	0.0	-0.1
Fed nondefense	0.3	0.3	0.0	0.2	0.1	0.0	0.0
State and local	0.3	0.5	0.5	0.5	0.6	0.2	0.3
Below line: Percentage point contributions to Q1 2024 1.3% real GDP							
Third estimate for Q1 is Thursday, June 27							

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