

Financial Markets This Week

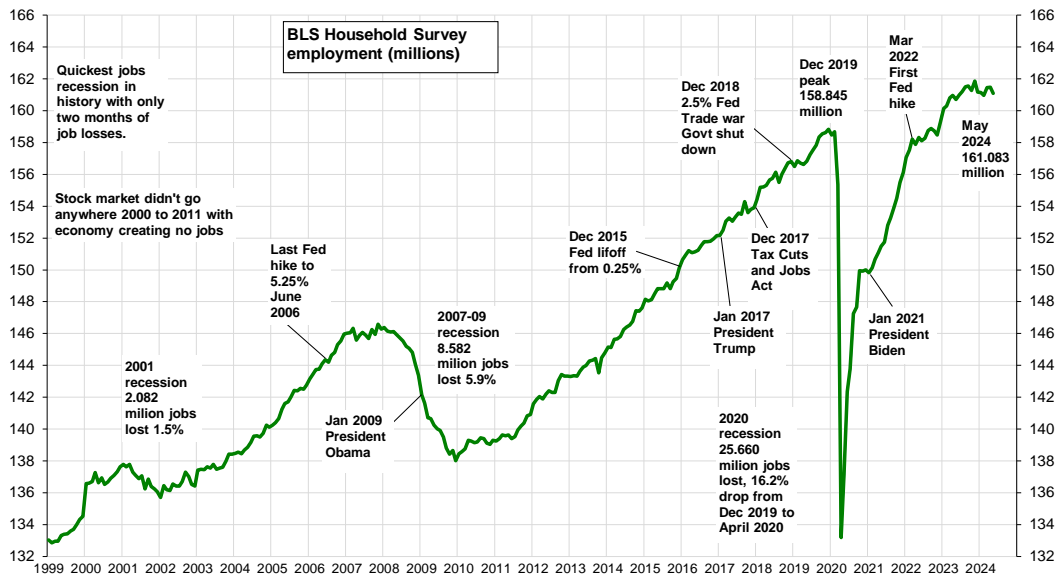
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WHICH JOBS REPORT?

Who do you believe? Payroll jobs 272K boom, or BLS Household Survey employment -408K doom?

On Friday, it was literally the height of confusion trying to make sense of one of the most divergent monthly employment reports that we can ever remember. Is it safe out there for consumers and businesses or is the economy on the cusp of a recession? Don't answer that, ask an economist. Nonfarm



payroll jobs exceeded expectations with a stunning increase of 272 thousand in May, but the Household Survey of employment dropped 408 thousand and the trends between the two labor market indicators could not be more opposite. The drop in Household employment was bad for job seekers, with those no longer in the labor force jumping 433 while the unemployed increased 157 thousand to 6.649 million which is a recession-trigger level unemployment rate of 4.0%. We don't care how you try and slice and dice it, but the economy cannot be on solid ground if there are 6.649 million Americans out of work. The economy is not doing well if it cannot find employment for millions of Americans. Stay tuned. This is not a day for economists to pick up the phone and answer questions about the monthly jobs report as today's numbers defy explanation on whether the economy is running hot or going down for the count, over the cliff into the depths of recession. The economy may be at a turning point and we don't mean in a good way.

Foreign Born 18.0% of Population			
Thousands	May 2024	May 2023	Change
Foreign born			
Population	48,311	46,769	1,542
Employed	30,896	30,259	637
Unemployed	1,093	990	103
Unempl rate	3.4	3.2	0.2
Not in labor force	16,322	15,520	802
Native born			
Population	219,937	219,849	88
Employed	130,445	130,744	-299
Unemployed	5,141	4,710	431
Unempl rate	3.8	3.5	0.3
Not in labor force	84,350	84,396	-46
16 years and over, not seasonally adjusted			

The Household Survey employment measure seems to slow down near the top of the economic cycle before payroll jobs, certainly true that it went nowhere in 2007 before the Great Recession. The interesting thing is that employment for foreign born Americans increased 637 thousand from a year

ago, while employment for native born Americans fell 299 thousand. No job stealing going on here because as you can see the native born population is virtually unchanged over the last year at 219-odd million because native born Americans did not have enough kids 16 years ago and of course many have passed away, the latter is going to continue as the 60 to 78 year old baby boomers continue to age in place somewhere. Anyway, it is hard for the labor market statistics to come up with a story when the population stops going up. And don't bother looking at the unemployment rate too closely as the labor market is strong in the spring and the May unemployment rate needs a seasonal factor to boost it to make it comparable to other months of the year.

We can stop talking about how nonfarm payroll jobs are the best indicator of current economic conditions because the Household Survey measure has diverged by so much from the happy economy trend. Household employment can be erratic, and it is not impossible to see an 800K increase in the months ahead, but until we see that, the outlook will be more on the cloudy side.

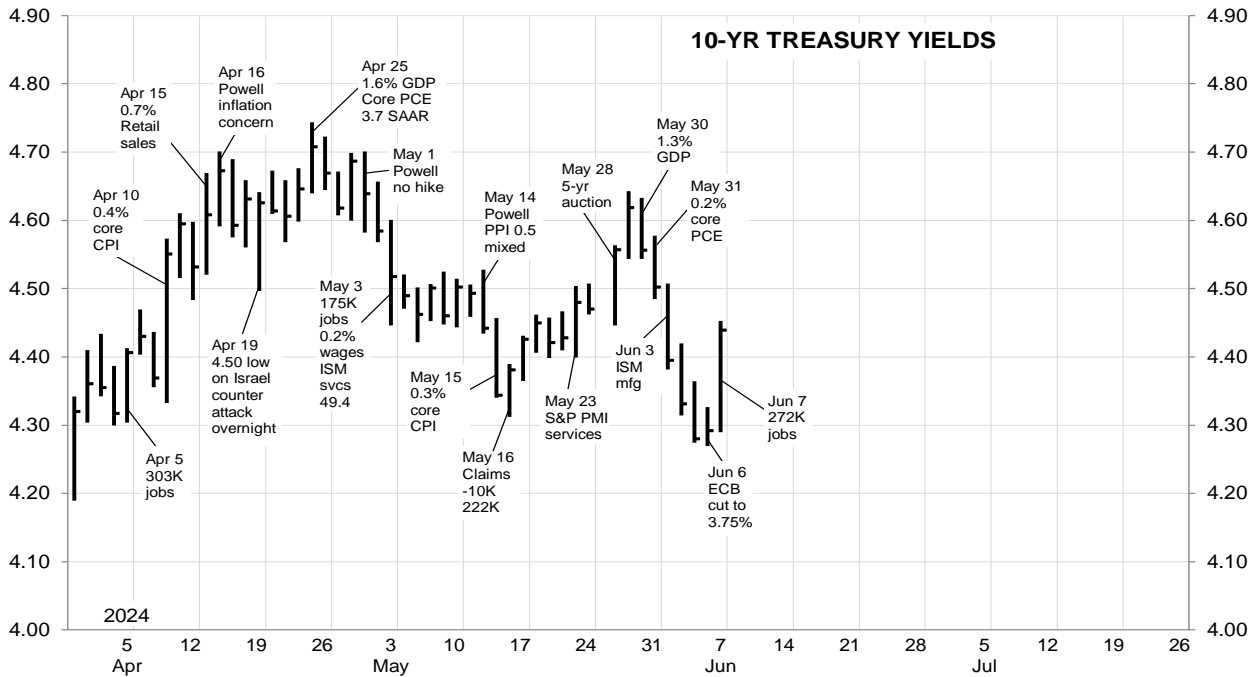
Payroll jobs faster in May

Dec. 2023		May 24	Apr 24	Mar 24	5 months Dec 23 to May 24	12 months Dec 22 to Dec 23
Totals						
157.304	Nonfarm Payroll Employment	272	165	310	1239	3013
134.228	Total Private (ex-Govt)	229	158	232	996	2304
21.723	Goods-producing	25	0	33	103	275
0.600	Mining	-3	-6	2	-8	15
12.960	Manufacturing	8	6	-6	5	26
1.063	Motor Vehicles & parts	3	0	5	7	32
1.108	Computer/electronics	1	-1	-3	-5	1
1.729	Food manufacturing	3	4	0	10	10
12.866	Specialty trade contractors	39	39	39	-754	61
8.120	Construction	21	0	37	108	236
5.148	Specialty trade contractors	13	0	22	64	135
112.505	Private Service-providing	204	158	199	893	2029
28.867	Trade, transportation, utilities	27	43	34	165	161
15.603	Retail stores	13	23	19	95	118
3.209	General Merchandise	-6	8	17	62	118
3.247	Food & Beverage stores	6	2	5	24	24
6.521	Transportation/warehousing	11	20	5	63	-69
1.552	Truck transport	-5	-1	2	-2	-35
0.570	Air transportation	3	1	0	7	40
1.060	Couriers/messengers	3	6	0	22	-10
1.767	Warehousing and storage	1	6	-2	5	-99
3.012	Information	0	-5	2	2	-83
0.494	Computing, data, web hosting	1	0	2	5	8
9.233	Financial	10	-2	4	1	88
2.997	Insurance	5	6	2	16	50
2.496	Real Estate	6	-7	2	2	63
1.378	Commercial Banking	-2	-3	-1	-12	-17
1.115	Securities/investments	0	1	0	-4	33
22.882	Professional/business	33	-1	17	103	149
2.765	Temp help services	-14	-12	-1	-36	-217
2.558	Management of companies	1	-1	-3	0	15
1.673	Architectural/engineering	10	1	0	28	39
2.525	Computer systems/services	2	3	3	17	41
1.194	Legal services	0	2	-4	-5	12
1.158	Accounting/bookkeeping	8	1	4	15	26
25.831	Education and health	86	106	76	448	1058
5.440	Hospitals	15	18	26	106	194
8.635	Ambulatory health care	43	30	28	157	345
3.843	Educational services	2	6	-4	22	93
16.816	Leisure and hospitality	42	12	54	131	561
1.924	Hotel/motels	1	3	1	2	70
12.292	Eating & drinking places	25	9	30	67	309
23.076	Government	43	7	78	243	709
2.360	Federal ex-Post Office	3	3	11	32	82
5.404	State government	5	6	10	51	273
2.637	State Govt Education	-1	5	5	26	183
14.711	Local government	34	-1	56	154	351
8.039	Local Govt Education	10	4	18	51	162

Monthly changes (000s)	May	Apr	Mar	Feb	Jan
Payroll employment	272	165	310	236	256
Private jobs	229	158	232	181	196
Leisure/Hospitality jobs	42	12	54	26	-3
HH Employment Survey*	-408	25	498	-184	-31
Unemployment rate %	4.0	3.9	3.8	3.9	3.7
Participation rate %	62.5	62.7	62.7	62.5	62.5
Not in labor force (mln)	100.516	100.083	99.989	100.285	100.265
... and Want A Job (mln)	5.717	5.637	5.443	5.672	5.793
Average hourly earnings	\$34.91	\$34.77	\$34.69	\$34.56	\$34.51
MTM % Chg	0.4	0.2	0.4	0.1	0.5
YOY % Chg	4.1	4.0	4.1	4.3	4.4

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES



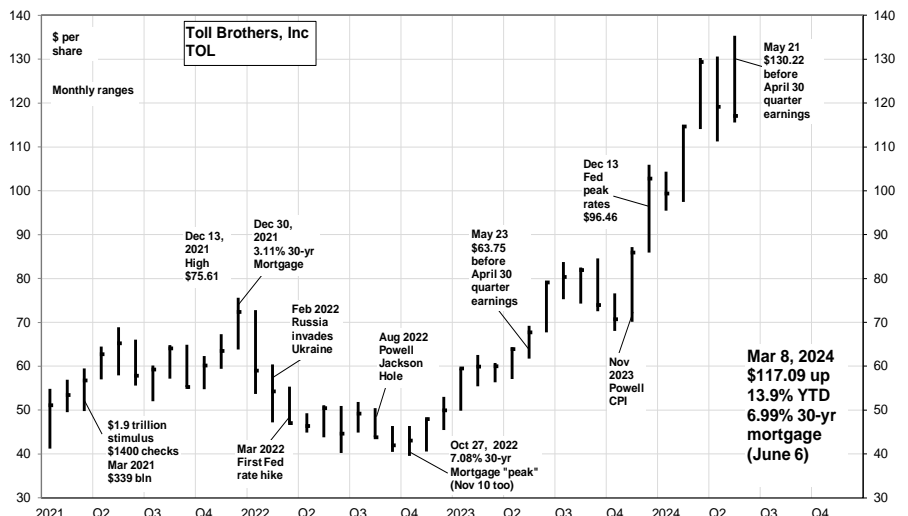
The scramble was on to put a reason on why the markets did what they did on Friday after the surprise monthly jobs report. 272K payroll jobs, versus 175K expected, and hot 0.4% wages seemed to lift bond yields Friday by 15 bps to 4.44%. It would be nice if bonds stopped trading on average hourly earnings (wages) as if it was “inflation,” but markets have done this for many years. Stocks fell and then recovered, more buyers than sellers perhaps. Market action earlier in the week explained by August Fed funds futures was a drop in yields on the surprise decline in ISM manufacturing on Monday: at one point futures discounted 21 bps of a 25 bps rate cut at the September FOMC meeting. But the Friday jobs report sank the ship on that sure-thing idea, and now the chance of a Fed rate cut by the September meeting is a coin toss. S&P 500 closes up 12.1% YTD on Friday.

Toll Brothers, Inc. (TOL) up 13.9% YTD

The stock fell 8.5% the next day after the earnings report after the bell on Tuesday, May 21 even though earnings beat expectations. The company raised full year guidance as well. Higher bond yields early last week, 4.64% 10-yr Treasury as hopes for Fed rate cuts faded, kept the stock from rebounding. The stock has come a long way from last October when mortgage rates peaked at 7.79%; now down to 6.99% this week.

Quarter end	Home Sales Revenue	Home Sales Units	Home Starts	30-yr mortgage	Home Sales
10.31.21	2.950	3,341	1,106,000	3.14	683,000
1.31.22	1.690	1,929	1,191,000	3.55	798,000
4.30.22	2.190	2,407	1,201,000	5.10	636,000
7.31.22	2.260	2,414	906,000	5.30	519,000
10.31.22	3.580	3,765	872,000	7.08	577,000
1.31.23	1.750	1,826	834,000	6.13	639,000
4.30.23	2.490	2,492	876,000	6.43	687,000
7.31.23	2.670	2,524	999,000	6.81	700,000
10.31.23	2.950	2,755	975,000	7.79	673,000
1.31.24	1.930	1,927	1,011,000	6.69	664,000
4.30.24	2.650	2,641	1,031,000	7.17	634,000

Last month of quarter, 1 unit housing starts, new home sales

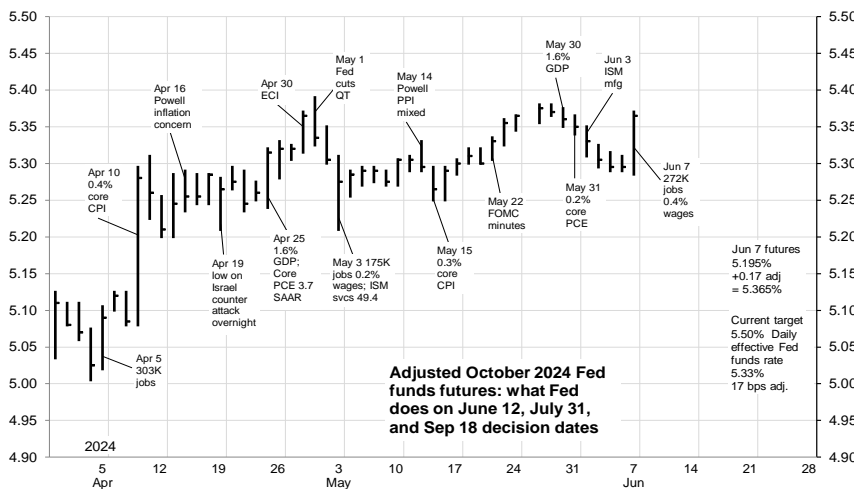


FEDERAL RESERVE POLICY

The Fed meets June 11-12, 2024 to consider its monetary policy. The Fed quarterly forecasts are likely to tell it all the second they are released at 2pm ET Wednesday, June 12. We expect FOMC members will be able to change their forecasts before they are made public after the May CPI inflation report at 830am ET earlier Wednesday morning. There are three rate cuts on the board for 2024 and it is possible that just one will remain even with the Bank of Canada and ECB making first rate cuts this week. If we were voting we would keep two rate cuts, September and December. No need to squeeze in a non-forecast Fed meeting for action. The November 6-7 Fed meeting seems like a nonstarter for a Fed cut, as the national elections are Tuesday, November 5, and who knows what the conversation will be then. The unemployment rate hit 4.0% (3.96) in May which is six-tenths higher than the 3.4% cycle low in April 2023. Fed economic research staff used to think a recession might be brewing if unemployment lifted 0.3 percentage points from the low, or at least they started looking more closely at the economic data. In the past three "normal" recessions of 1990-91, 2001, and 2007-09, the Fed had already cut interest rates for the first time even before unemployment lifted 0.5 percentage points from the low. This time nothing, in fact the Q4 2024 Fed forecast for unemployment is 4.0%. Hope this isn't another mistake. Lots of new Fed member faces coming in from different backgrounds without much experience in markets, rates, monetary policy.

Selected Fed assets and liabilities						Change from
Fed H.4.1 statistical release						3/11/20*
billions, Wednesday data						to Jun 5
Factors adding reserves						
U.S. Treasury securities	4461.236	4489.444	4488.767	4488.090	2523.031	1938.205
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2354.642	2354.642	2368.240	2371.983	1371.846	982.796
Repurchase agreements	0.106	0.005	0.001	0.000	242.375	-242.269
Primary credit (Discount Window)	6.188	6.574	6.664	6.364	0.011	6.177
Bank Term Funding Program	107.834	108.249	109.005	109.595		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.913	2.920	2.925	2.938		
Main Street Lending Program	11.373	11.360	11.304	13.773		
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	0.129	0.112	0.123	0.130	0.058	0.071
Federal Reserve Total Assets	7306.4	7335.2	7350.6	7355.3	4360.0	2946.349
3-month Libor-% SOFR %	5.33	5.33	5.31	5.31	1.15	4.180
Factors draining reserves						
Currency in circulation	2353.159	2354.005	2349.764	2348.375	1818.957	534.202
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	703.314	716.020	710.882	706.108	372.337	330.977
Treasury credit facilities contribution	4.958	4.958	4.958	4.738		
Reverse repurchases w/others	371.841	459.314	496.382	443.779	1.325	370.516
Federal Reserve Liabilities	3848.637	3944.080	3975.597	3938.885	2580.036	1268.601
Reserve Balances (Net Liquidity)	3457.738	3391.075	3375.014	3416.386	1779.990	1677.748
Treasuries within 15 days	20.735	60.920	68.095	41.744	21.427	-0.692
Treasuries 16 to 90 days	253.236	230.860	224.099	216.735	221.961	31.275
Treasuries 91 days to 1 year	536.685	532.808	532.306	565.935	378.403	158.282
Treasuries over 1-yr to 5 years	1489.600	1502.308	1502.016	1501.723	915.101	574.499
Treasuries over 5-yr to 10 years	646.234	648.895	648.792	643.410	327.906	318.328
Treasuries over 10-years	1514.746	1513.653	1513.459	1518.543	658.232	856.514
Note: QT starts June 1, 2022						
U.S. Treasury securities	-1309.543	4461.236	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
	2024	2025	2026	Term
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				



October Fed funds futures saw little change from last Friday. The market is discounting 15.5 bps of a 25 bps rate cut on September 18.

Fed funds futures call Fed policy	
Current target: June 7 -- 5.50%	
Rate+0.17 Contract	Fed decision dates
5.480 Aug 2024	June 12, July 31
5.365 Oct 2024	Adds Sep 18

Next up: May CPI inflation report Wednesday, June 12

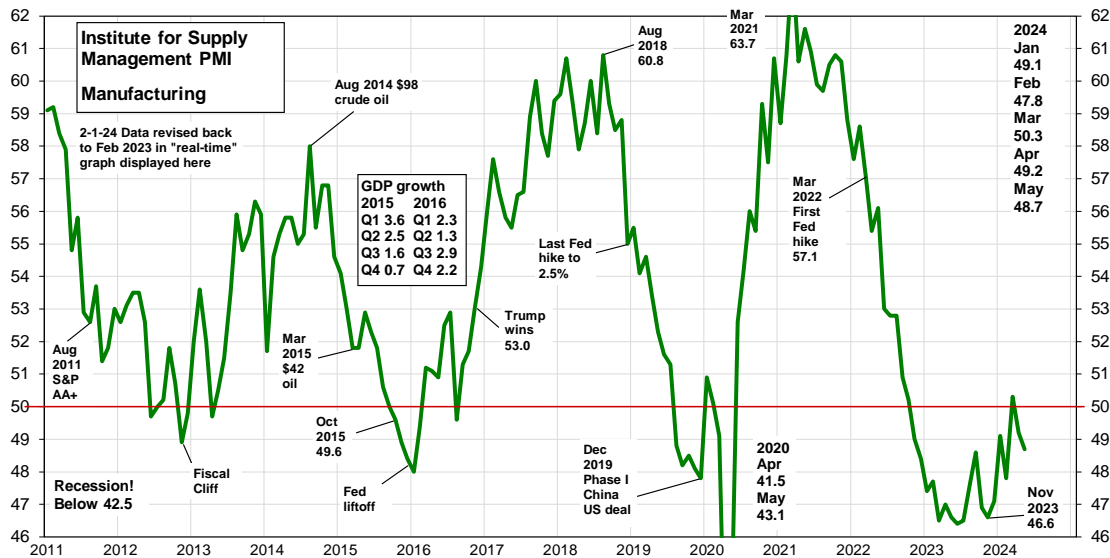
Monthly % Changes	2024												2023		
	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb
Core CPI inflation	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4	0.5	0.3	0.5
Core PCE inflation	0.2	0.3	0.3	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.4
Core PCE YOY	2.8	2.8	2.8	2.9	2.9	3.2	3.4	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

Purchasing managers lose confidence, construction spending down (Monday)

Breaking economy news. ISM purchasing managers for May, and construction spending for April. ISM manufacturing fell below the 50-line that divides an expanding manufacturing sector from one that is in decline. The bond market thought economic weakness meant we were closer to a Fed rate cut. New orders were particularly weak even though the trend from the durable goods report is sideways for nondefense capital goods orders ex-aircraft.

Net, net, factory executives have lost confidence for a second straight month as orders tumble and overall activity is contracting. There was some good news where less inflation was reported by purchasing managers and they increased their hiring which may bode well for a stronger jobs report this Friday. Last month nonfarm manufacturing payroll jobs increased 8 thousand, keeping in mind hiring for all of 2023 was just 26 thousand, ending last year at 12.866 million workers. The construction spending report for April showed manufacturing construction (semiconductors, CHIPS Act) is very strong, rising 0.9% for the month and up 17.1% from a year ago. Private nonresidential construction in total did fall 0.3% in April with big declines in Health care, Educational, and Religious projects. Offices are still being built rising 0.4% this month and up 4.4% from last year to \$86.0 billion. Stay tuned. Construction did not add anything to 1.3% real GDP growth in the first quarter and the second quarter is starting out on a weak note as well.

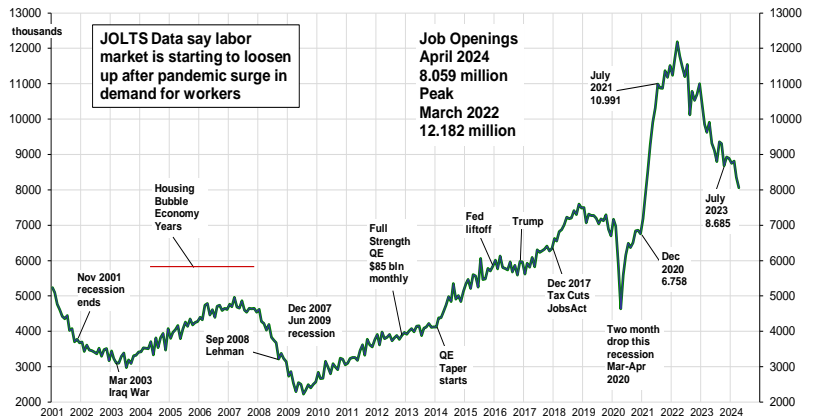


	May	Apr 24	Mar 24	Feb 24
PMI index	48.7	49.2	50.3	47.8
Prices	57.0	60.9	55.8	52.5
Production	50.2	51.3	54.6	48.4
New orders	45.4	49.1	51.4	49.2
Supplier deliveries	48.9	48.9	49.9	50.1
Employment	51.1	48.6	47.4	45.9
Export orders	50.6	48.7	51.6	51.6

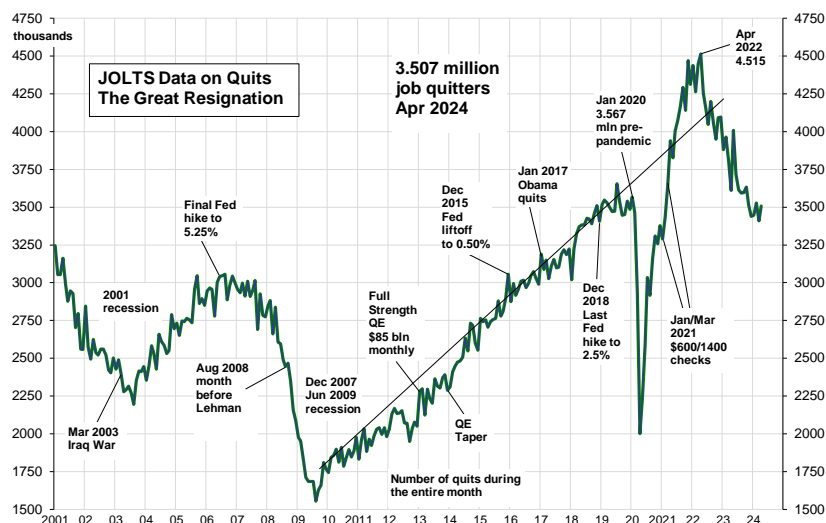
Jolts openings yanked, don't quit (Tuesday)

Breaking economy news. Job openings fell to 8.059 million at the end of April, and the 8.488 million openings at the end of March were revised down to 8.355 million. Openings fall in recessions, but the leading indicator properties of this Jolts series, if there ever was one, has been rendered useless after the strong pandemic demand for labor that has now come back down. Openings grew with the economy fairly steadily since the 2007-09 recession and current openings near 8 million have reverted to trend, or perhaps slightly below.

Net, net, the labor market continues to rebalance meaning it is just a matter of time before the Fed speak chatter turns back to interest rate cuts. Fed officials can only be patient for so long as the economy is clearly slowing down and that can only mean interest rates are coming down. Bet on it. Job openings are disappearing by the thousands. March was 8.488 million, revised to 8.355 million



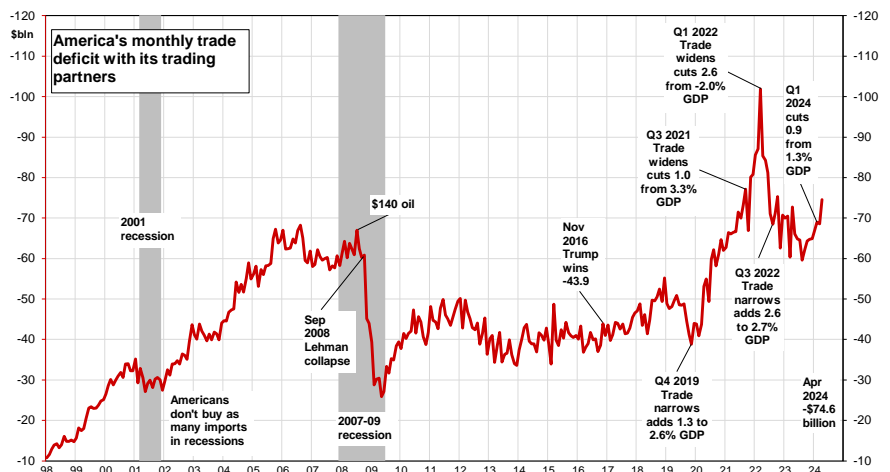
in today's report, and now April is 8.059 million... almost 500 thousand job postings were eliminated virtually overnight. We are shocked at how quickly the labor market is moving in the Fed's direction. One of the biggest industries with job losses is the former high-flyer of health care and social assistance where jobs fell 204K this month versus the total March to April drop of 296K. This is not the time to quit your job and some workers didn't get the message with quits rising 98K to 3.507 million. The number would have been even higher if the 131K drop professional and business services quitters had not occurred. Looks like companies are lean and mean and no one wants to step away from corporate America jobs.



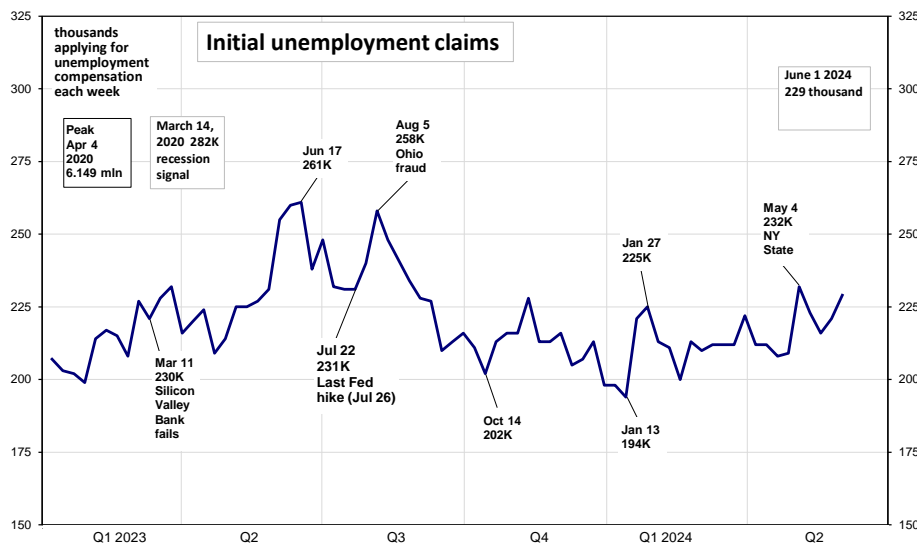
More evidence of slower economic conditions (Thursday)

Breaking economy news. Weekly jobless claims moved up closer to recent highs at 229K in the June 1 week as larger increases in Minnesota and California bucked the seasonal trend. Meanwhile, the trade deficit increased to \$74.6 billion in April from \$68.6 billion in March and this will take a toll on real GDP growth in the second quarter. Imports of goods jumped 3.1% or \$8.1 billion to \$271.9 billion in April to the highest level since July 2022 showing demand in the economy although not domestic demand. Most of the increase in imports in April were accounted for by passenger cars, computers and accessories, and pharmaceutical preparations, although there were other positive contributions from telecom equipment, civilian aircraft, and semiconductors. Imported goods from China increased \$1.7 billion to \$31.6 billion in April, although these are not seasonally adjusted. China imports in April are actually 4.2% lower than a year ago.

Net, net, the latest economic reports from jobless claims to the rising trade deficit show the economy is slowing for a second consecutive quarter this year to a subpar pace of economic growth that is below 2%. There is demand for imported goods and services, but that actually works to retard economic growth. Fed officials may be falling behind the curve with the latest growth worries and with this week's news of Canada and the ECB cutting interest rates from restrictive levels.



The jury may be out as far as whether the US central bank has won the inflation battle, but with economic growth slowing, policy officials may have to shift gears earlier than they thought. Time will tell if the recession-level interest rates from the Federal Reserve to fight inflation actually turns out to be a noose around the economy's neck. Joblessness is not yet at recessionary levels, but the elevated number of new filings for unemployment insurance indicates it may be soon moving in that direction.



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