

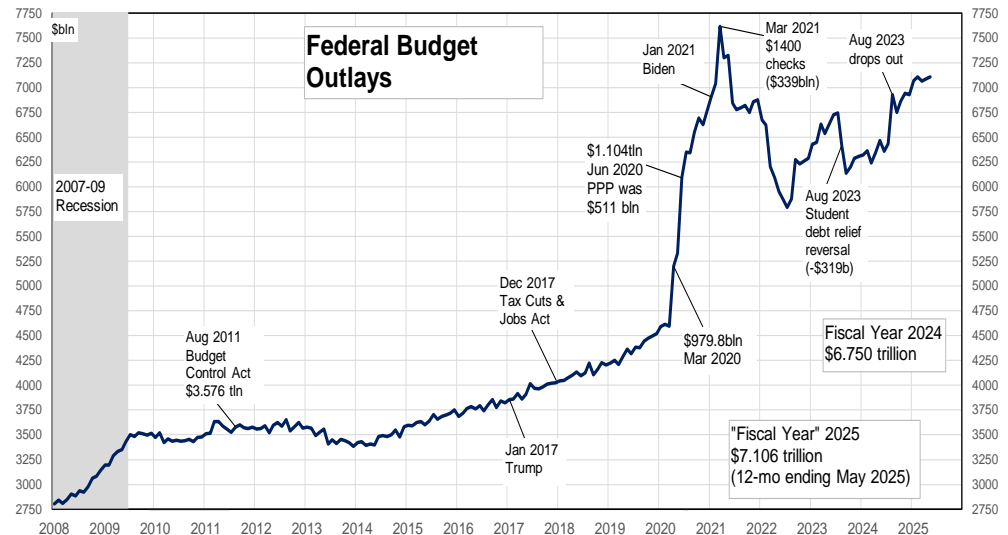
Financial Markets This Week

13 JUNE 2025

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7.1 TRILLION GOVERNMENT SPENDING

Sounds like a big number. The May 2025 Federal budget results. Federal government spending was \$7.106 trillion in the 12 months ending May 2025 up from \$6.75 trillion in FY 2024 (ending September). The House this week approved \$9.4 billion of DODGE cuts (including foreign aid and PBS



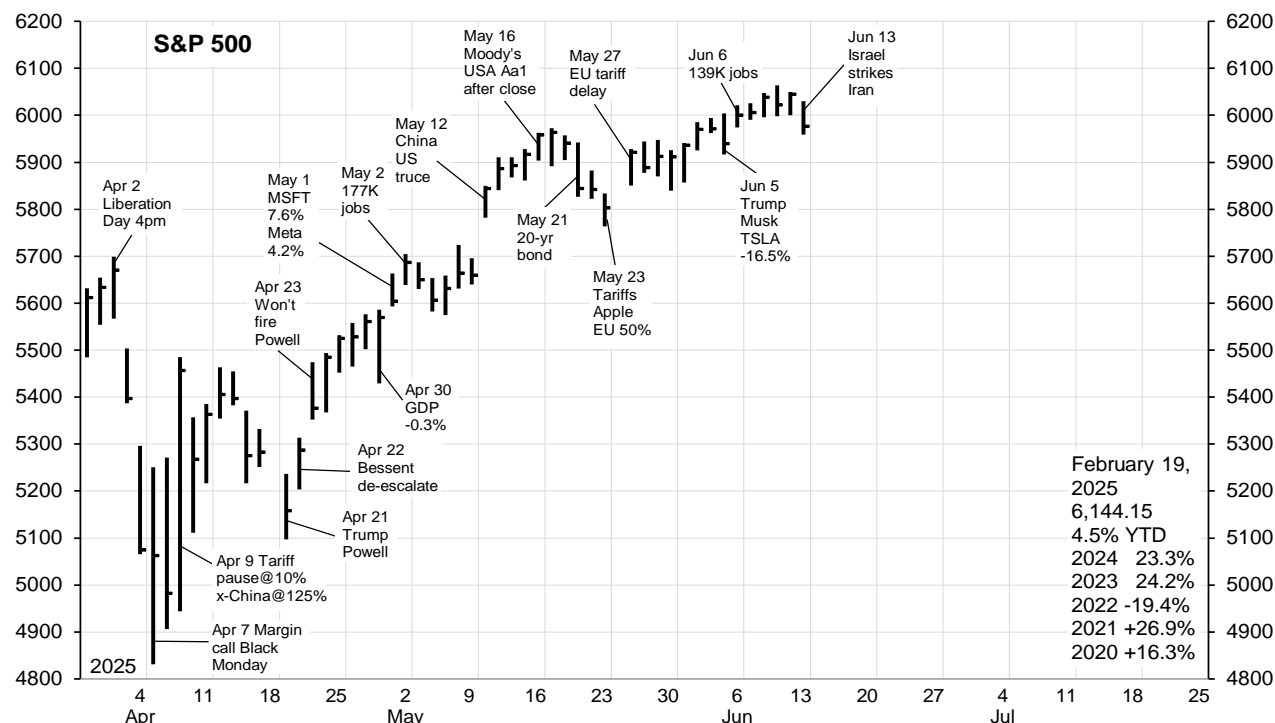
spending) which is 0.13% of the \$7.106 trillion of Federal government outlays. As measured by the nonfarm payroll jobs data, Federal government workers (ex-Post Office) have declined 49.2 thousand to 2.363 million in May 2025 from December last year, but Federal government outlays are \$7.106 trillion through May on a 12 month moving sum basis. As an offset to the Govt spend on people and programs, more import tariff increases are coming, and customs duties in May 2025 (Liberation Day was April 2) were \$22.173 billion versus \$5.225 billion in May 2024. Not that rich, \$17 billion more than a year ago, and $17 \times 12 = 204$ billion more dollars coming in to help fund the Federal budget deficit which \$1.832 trillion in FY2024 and headed higher to parts unknown in the next couple of years.

Our advice to Congress is to not rile up the public with making changes to social security. It is as bankrupt as it ever is, no need to wait for the day in 2033 when it runs out of money. There's no real money in the fund right now. Just rewrite the law and continue to pay the shortfall between tax receipts and benefits paid each month, just like every other government outlay, by borrowing the funds in the largest, deepest, most liquid markets in the world (US Treasuries) because that is what you are doing effectively every month for social security right now. Don't ask for whom the bell tolls for social security, the bell tolls right now. Drop the 2033 pretense.

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
FY2024	1,076.984	1,293.782	-216.798
Jan 25	103.464	114.253	-10.789
Feb 25	87.208	115.022	-27.814
Mar 25	96.422	130.503	-34.081
Jan 25	103.464	114.253	-10.789
Feb 25	87.208	115.022	-27.814
Mar 25	96.422	130.503	-34.081
Apr 25	112.803	118.433	-5.63
May 25	88.333	118.949	-30.616

INTEREST RATES



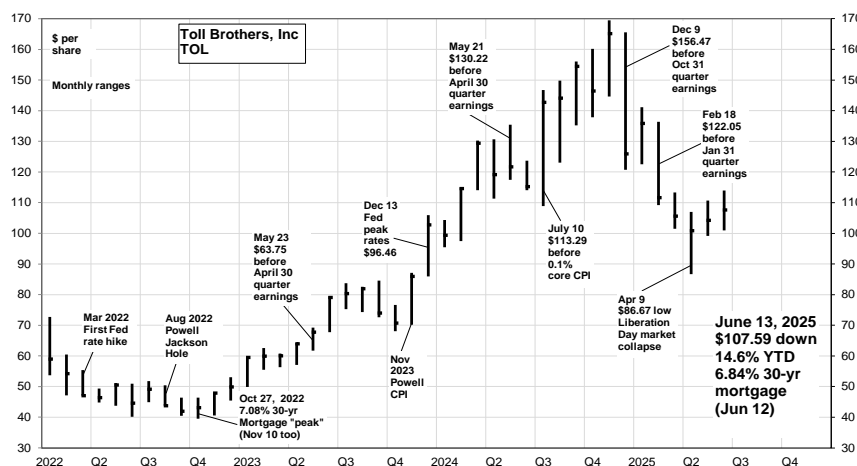
The stock market closed above 6,000 on Friday, June 6 jobs day with 139K more jobs in May, although with downward revisions of 95K to March/April, as prices recovered from the Trump/Musk dustup on Thursday June 5 with the S&P 500 down 0.5% to 5,939.30. Stocks remained above 6,000 on a closing basis all this week until Israel attacked Iran Thursday evening, and the S&P 500 finished the week on Friday down 1.1% on the day at 5,976.97. The S&P 500 is up 1.6% YTD after a gain of 23.3% in 2023. 10-year Treasuries came down to 4.41% on Friday from 4.51%, the prior week's close. There were auctions of 3-years, 10-years, and 30-years, with no apparent reluctance seen on the part of foreign buyers. Indirect bidders, an imperfect proxy for foreign participation, took down 70.6% of Wednesday's \$38.9 billion sale of 10-year notes.

Toll Brothers, Inc. (TOL) down 14.6% YTD; Bond yields remain high

The homebuilder reported earnings Tuesday, May 20 after the close at \$104.51. The stock tried to do better on Wednesday after earnings (up 3.5% intraday), but ended lower with the overall market after a weak 20-year Treasury bond auction. Earnings of \$3.50 beat the consensus of \$2.83 and the shares were actually higher Tuesday evening by about 6%. The luxury homebuilder said the near-term outlook was cloudy due to affordability pressures and a volatile macro environment.

Quarter end	Home Sales Revenue	Home Sales Units	Home Starts	30-yr mortgage	Home Sales
10.31.22	3.580	3,765	869,000	7.08	579,000
1.31.23	1.750	1,826	829,000	6.13	650,000
4.30.23	2.490	2,492	871,000	6.43	665,000
7.31.23	2.670	2,524	1,001,000	6.81	702,000
10.31.23	2.950	2,755	979,000	7.79	681,000
1.31.24	1.930	1,927	1,013,000	6.69	681,000
4.30.24	2.650	2,641	1,053,000	7.17	719,000
7.31.24	2.720	2,814	871,000	6.78	710,000
10.31.24	3.260	3,431	948,000	6.72	621,000
1.31.25	1.840	1,991	1,000,000	6.95	662,000
4.30.25	2.710	2,899	927,000	6.81	743,000

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

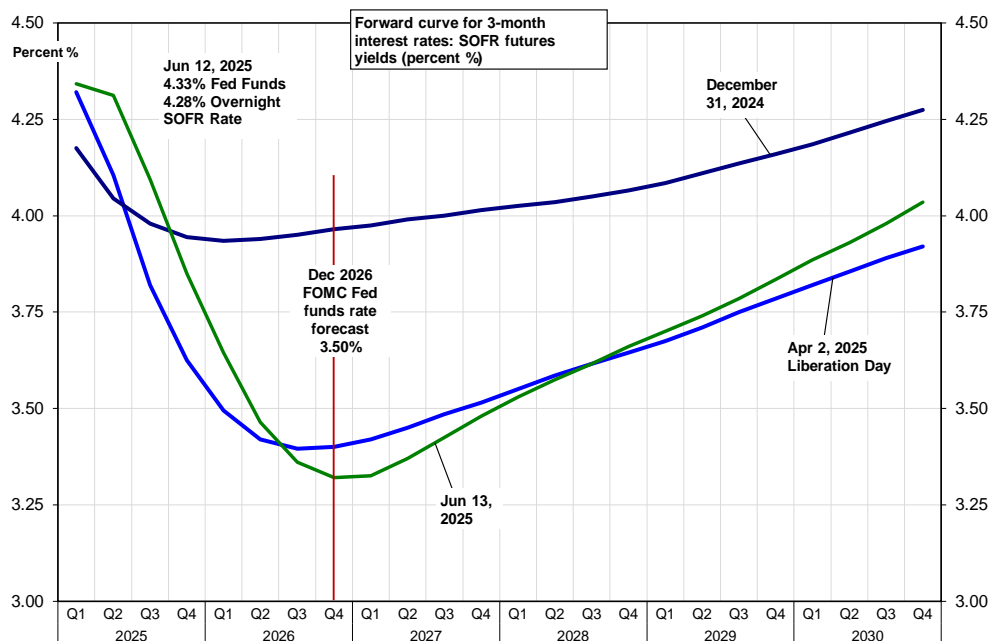


FEDERAL RESERVE POLICY

The Fed meets June 17-18, 2025 to consider its monetary policy. There will be new forecasts to help guide the rate calls of Wall Street interest rate strategists since they are not economists and cannot make forecasts on their own. But no rate cuts are coming despite the President's urging, core PCE inflation has increased just 0.1% in both March and April, making it look like the inflation battle has been won with no tariff effect yet seen. Core PCE year-on-year is down to 2.5%, and is 2.3% if using market-based "observable" prices. On the other hand, the labor market may be losing steam with continuing unemployment claims rising to a new 2025 high suggesting the unemployed remain on the nation's jobless rolls because there are no jobs out there. First-time applications for unemployment compensation remain elevated at 248K in the latest week's data for June 7, suggesting there are companies actually firing workers. Maybe rate cuts will come faster than markets think.

Selected Fed assets and liabilities						Change from 3/11/20 to Jun 11
Fed H.4.1 statistical release	billions, Wednesday data	11-Jun	4-Jun	28-May	21-May	3/11/20*
Factors adding reserves						
U.S. Treasury securities		4212.398	4212.090	4213.730	4213.515	2523.031
Federal agency debt securities		2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)		2156.161	2156.161	2156.161	2169.296	1371.846
Repurchase agreements		0.000	0.001	0.001	0.001	242.375
Primary credit (Discount Window)		3.989	2.885	2.014	1.853	0.011
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		1.746	1.753	1.774	1.778	
Main Street Lending Program		5.319	5.297	5.291	6.715	
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
Central bank liquidity swaps		0.045	0.016	0.017	0.015	0.058
Federal Reserve Total Assets		6728.4	6723.6	6724.1	6740.0	4360.0
3-month Libor % SOFR %		4.28	4.28	4.33	4.26	1.15
Factors draining reserves						
Currency in circulation		2389.822	2391.018	2391.418	2386.494	1818.957
Term Deposit Facility		0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed		277.025	376.160	436.627	475.886	372.337
Treasury credit facilities contribution		2.029	2.029	2.029	3.461	
Reverse repurchases w/others		204.625	168.882	173.641	162.802	1.325
Federal Reserve Liabilities		3298.712	3361.695	3430.132	3456.243	2580.036
Reserve Balances (Net Liquidity)		3429.675	3361.938	3294.014	3283.765	1779.990
Treasuries within 15 days		25.244	97.996	55.149	60.460	21.427
Treasuries 16 to 90 days		240.733	173.191	215.142	210.420	221.961
Treasuries 91 days to 1 year		417.965	429.892	413.353	412.731	378.403
Treasuries over 1-yr to 5 years		1448.310	1420.173	1451.837	1451.750	915.101
Treasuries over 5-yr to 10 years		510.804	536.922	511.286	511.261	327.906
Treasuries over 10-years		1569.342	1557.929	1566.964	1566.894	658.232
Note: QT starts June 1, 2022		Change	6/11/2025	6/1/2022		
U.S. Treasury securities		-1558.381	4212.398	5770.779		
Mortgage-backed securities (MBS)		-551.285	2156.161	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 25 bps rate cut is expected by the September meeting. No change in expectations the last month.

Fed funds futures call Fed policy	
Current target: June 13 -- 4.50%	
Rate+0.17 Contract	Fed decision dates
4.490 Jul 2025	Jun 18*
4.275 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: May PCE inflation report Friday, June 27 at 830am ET

Monthly % Changes	2025				2024								2024		
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
Core CPI inflation	0.1	0.2	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
Core PCE inflation		0.1	0.1	0.5	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3
Core PCE YOY		2.5	2.7	2.9	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0
Core CPI YOY	2.8	2.8	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

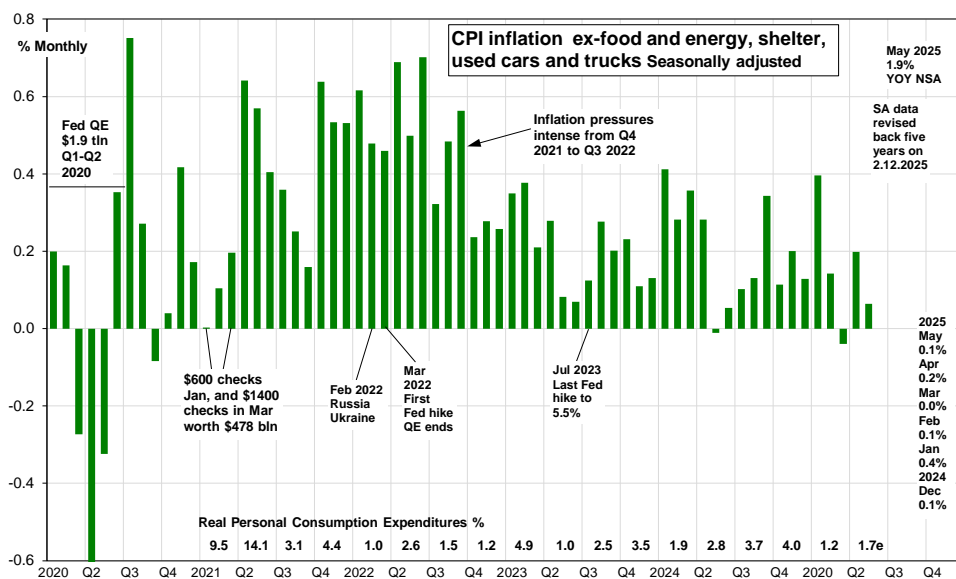
OTHER ECONOMIC NEWS

Inflation shock wave gone missing (Wednesday 830am ET)

Breaking economy news. Slim to none CPI headline and core inflation readings in May of just 0.1% for both. Celebration Day with tariffs for all our trading partners was April 2. No import tariff effect yet on items expected to be impacted like new vehicles which fell 0.3% in May, and clothing which dropped 0.4% in May. Stay tuned. The best is yet to come.

Dec 24	Weight	CPI inflation	Monthly Percent Changes			YOY %
			Mar 2025	Apr 2025	May 2025	May 2025
	100.0	Total	-0.1	0.2	0.1	2.4
	13.691	Food	0.4	-0.1	0.3	2.9
	5.648	Food away from home	0.4	0.4	0.3	3.8
	6.216	Energy	-2.4	0.7	-1.0	-3.5
	2.902	Gasoline	-6.3	-0.1	-2.6	-12.0
	80.094	Ex-food & energy	0.1	0.2	0.1	2.8
	4.393	New vehicles	0.1	0.0	-0.3	0.4
	2.391	Used cars/trucks	-0.7	-0.5	-0.5	1.8
	2.480	Clothing	0.4	-0.2	-0.4	-0.9
	1.527	Medical care goods	-1.1	0.4	0.6	0.3
	35.483	Shelter	0.2	0.3	0.3	3.9
	26.282	Owner equiv. rent	0.4	0.4	0.3	4.2
	6.305	Transportation	-1.4	0.1	-0.2	2.8
	6.747	Medical care services	0.5	0.5	0.2	3.0
Special: Where inflation might come back down to						
	60.705	Services ex-energy	0.1	0.3	0.2	3.6
	19.388	Commodities (core)	-0.1	0.1	0.0	0.3

Net, net, the inflation shock wave from more costly imported goods has yet to arrive on American shores. Today's consumer inflation report is a real head-scratcher for economists as they ponder why the trade war hasn't set off another inflation outbreak yet with core goods prices sitting on store shelves seeing no change in May. The only problem with the consumer no-inflation report is that good news may actually be bad news in disguise if the lack of upward



price pressures is because of a weakening economy with less consumer demand. Inflation is rarely a problem for long in economic recessions and downturns, and today's slight rise in CPI inflation may be a harbinger of worse times to come where the labor markets have already begun to soften and retail spending on cars took a nose-dive in May. Stay tuned. Maybe Fed rate cuts are coming quicker than markets think if the economy runs out of gas. Bet on it. Buy stocks. Buy bonds. Buy it all. The much awaited inflation shock wave has gone missing. Who would've thought.

Claims stick, PPI core goods 0.2% (Thursday)

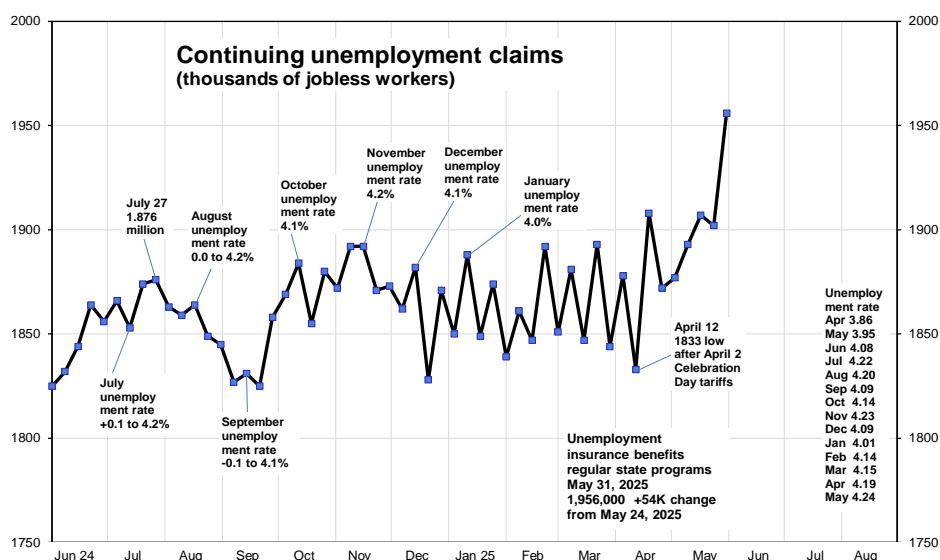
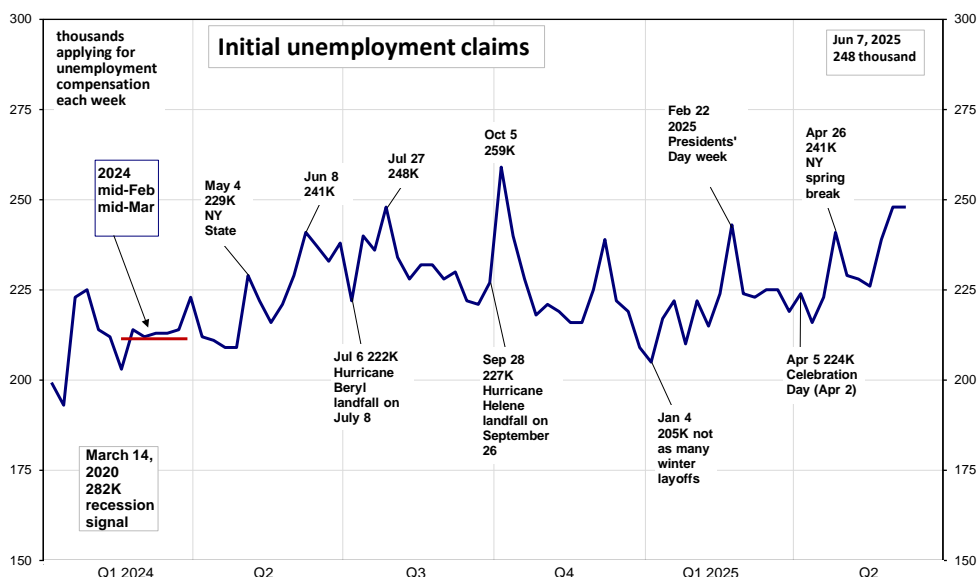
Breaking economy news. PPI final demand goods less foods and energy rose just 0.2% this month after 0.3% increases February-April. During the pandemic inflation outbreak this series peaked at 10.2% year-on-year in April 2022, and was 2.4% still in May 2025. Still waiting on tariff effect.

Meanwhile jobless claims remain elevated at 248K in the June 7 week, and continuing claims were at a new 2025 high of 1.956 million in the May 31 week. The labor market is starting to weaken.

Net, net, the inflation fires are still percolating down at the producer level for goods prices, and price increases there may be coming soon to the consumer level at a store near you. The threat to inflation from import tariffs is real, and it may be just a matter of time before price increases explode like a ticking time bomb at the consumer level. Inflation is not dead. The only caveat being that economic demand may be slowing down with worrying signs already that sales and revenues and orders are declining in many sectors of the American economy. Stay tuned. First-time claims for jobless benefits are elevated for a second week and are an indication that all is not well in the labor market. Stay tuned.

Monthly % SA	Total final demand	Final demand goods				Final demand services			
		Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other
2025									
Jan	0.7	0.7	1.0	2.0	0.2	0.7	1.2	0.6	0.4
Feb	0.1	0.3	1.8	-1.4	0.3	0.1	-0.7	0.0	0.4
Mar	-0.1	-0.9	-2.1	-3.9	0.3	0.3	0.6	-1.0	0.3
Apr	-0.2	0.1	-0.9	0.1	0.3	-0.4	-0.5	0.1	-0.3
May	0.1	0.2	0.1	0.0	0.2	0.1	0.4	-0.2	0.0

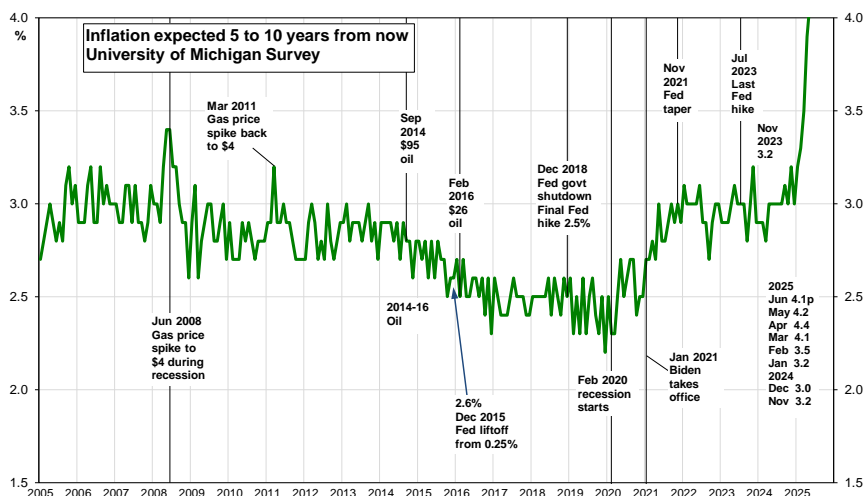
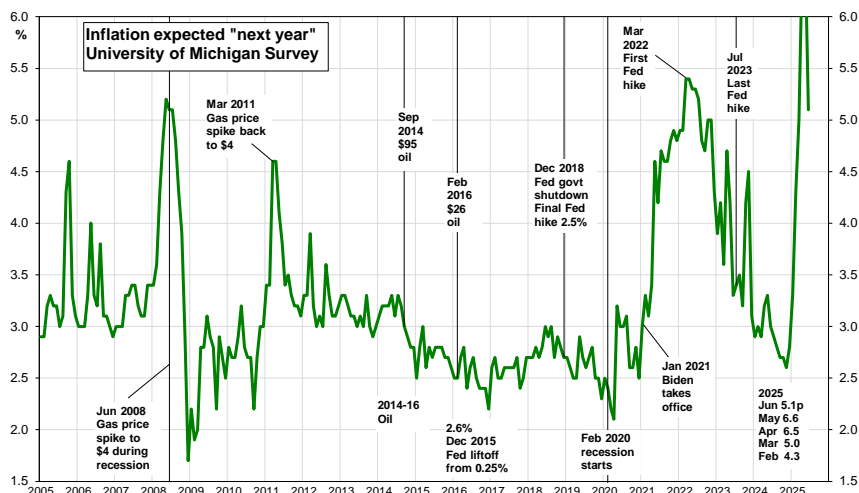
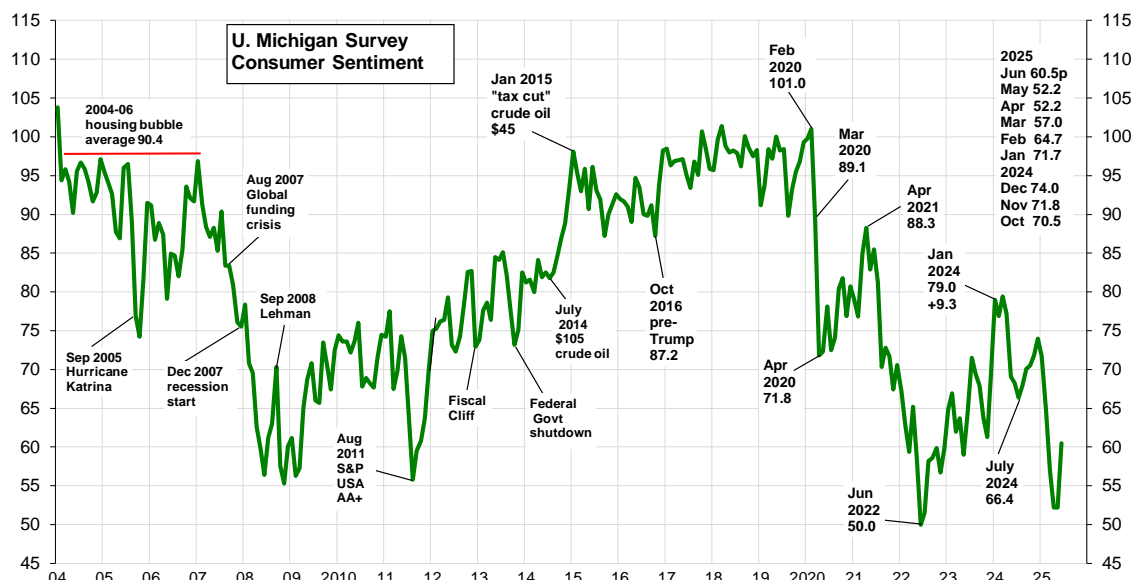
**Final demand goods, less foods and energy is old-fashioned PPI



Michigan sentiment survey improves (Friday 10am ET)

Breaking economy news. Another consumer how-are-you-doing survey from the University of Michigan which is twice a month versus the Conference Board consumer confidence survey the last Tuesday of every month. The Michigan consumer survey rebounded to 60.5 in June from 52.2 in May; the low was 50.0 in June 2022 after Russia invaded Ukraine and the Fed started its rate hikes to curb inflation.

Expectations of inflation fell somewhat even if tariff fears remain off the charts.



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