Financial Markets This Week

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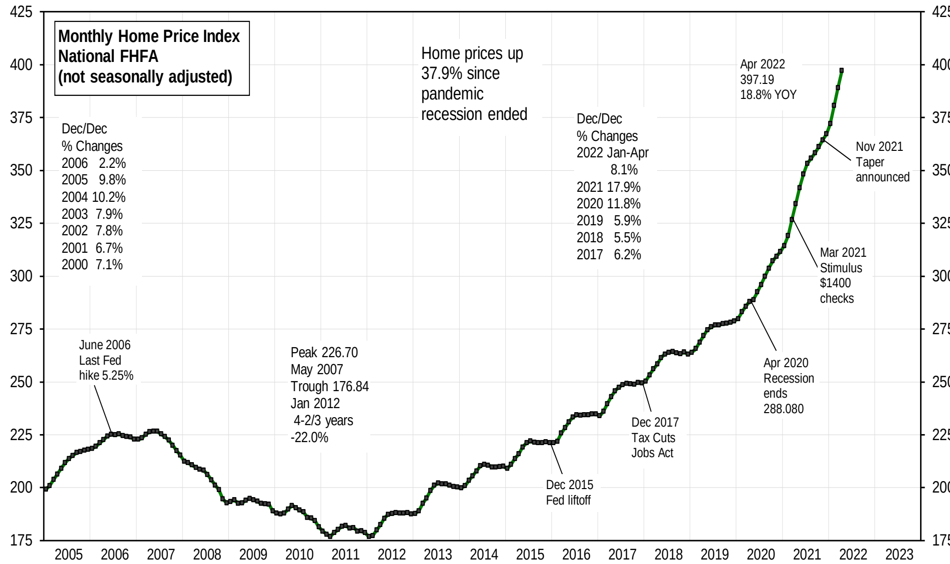
1 JULY 2022

HOME INFLATION OR INFLATION-INFLATION, PRICES ARE UP



Policymakers in Washington are winning with Thursday's May PCE inflation, 6.3% headline and 4.7% core prices. The data are better than CPI inflation for May released a few weeks ago 8.6% headline and 6.0% core prices.

That's fine for inflation-inflation. Did you see the home prices data released this week? We don't want to criticize the Fed Chair, unlike the whole wide world of ex-Washington policymakers, for missing the inflation threat to America. But don't look now, the housing bubble is worse than the 2004-06 one that broke the economy sending production, orders, sales, spending down over the cliff into the so-called Great Recession—the deepest drop since the Great Depression in the 1920s.

The nationwide home price index is up 37.9% since the pandemic recession ended in April 2020. The biggest year for home prices in the last housing bubble was 10.2% in 2004, and the current bubble has that beat with a 17.9% jump in 2021. The Fed practices risk management throughout the organization, but they missed this big one. What's going to happen when the bubble stops inflating, is it going to pop or will it be a slow leak that won't crash the car. The last bubble peaked in May 2007 and turning the index into a price, home values fell 22.0% for 4-2/3 years. Home prices were $176,840 in January 2012 and are $397,190 in April 2022 today. Not good. Home-inflation: You will go bankrupt trying to buy a home with a risk the price could drop if the bubble pops. Inflation-inflation. Your savings in the bank lost at least 6.3% of its purchasing power the last year. Congress may have an investigation some day into how this all happened.

Turning to the Fed's inflation battle, they are closer to being on 2% target using PCE inflation rather than CPI inflation certainly. We are closely tracking core and services prices to see how bad it is. Inflation starts with goods prices and can quickly spread into services prices where inflation can stick.

Core PCE inflation monthly changes have been 0.3% the last four months which is better than core CPI. Powell has said earlier they thought inflation had calmed down a little with 0.3% or 0.2% monthly changes last July through September before core PCE inflation worsened with 0.5% monthly changes

Core Consumer Inflation and stickier services prices ex-energy

Monthly	2022					2022	2021									2021
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
Core CPI inflation		0.6	0.6	0.3	0.5	0.6	0.6	0.5	0.6	0.3	0.2	0.3	0.8	0.7	0.9	0.3
Services x-energy		0.6	0.7	0.6	0.5	0.4	0.3	0.4	0.4	0.2	0.1	0.3	0.4	0.4	0.5	0.3
Core PCE inflation		0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.2	0.3	0.3	0.5	0.6	0.6	0.4
Services x-energy		0.3	0.4	0.4	0.3	0.3	0.4	0.5	0.3	0.2	0.3	0.4	0.4	0.4	0.4	0.5

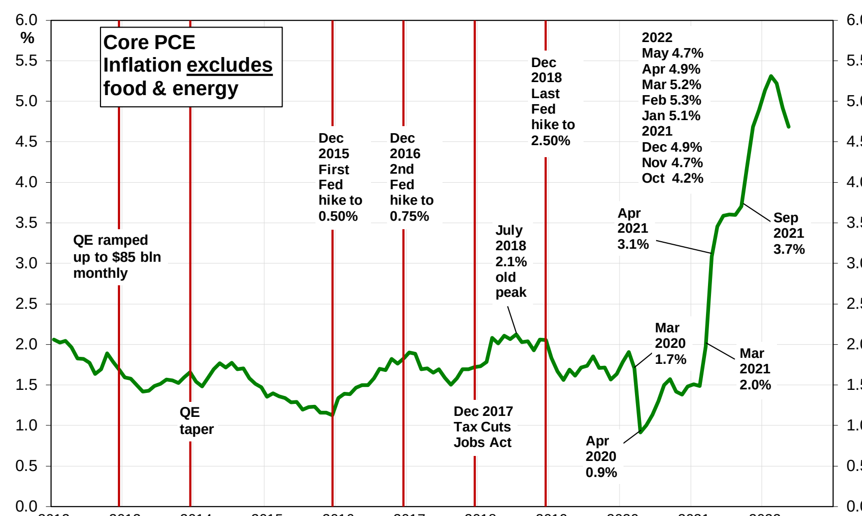
from October 2021 to January 2022. Core monthly PCE running 0.3% since January, is a hurray, but not a hip, hip, hurray for our bank account because 0.3% is 3.6% per year which does us no good unless banks raise the interest on our savings account to 3.6%. Retiree savings are slowly, not so slowly, bleeding away.

Dec 2021		Year-Year Inflation		
Weight		Dec 2020	Dec 2021	May 2022*
1.000	PCE inflation	1.3	5.8	6.9
0.079	Food at home	3.9	5.7	15.2
0.018	Energy goods	-15.0	46.4	70.5
0.018	Electricity/Gas	2.4	9.8	22.7
0.886	Core PCE	1.5	4.9	4.3
0.120	Durable goods	1.4	10.6	2.5
0.023	New vehicles	2.0	11.9	6.4
0.013	Used vehicles	9.3	48.4	-16.2
0.028	Furnishings	3.2	8.8	11.9
0.034	Recreational	-0.9	1.4	0.1
	Nondurable goods			
0.027	Clothing	-4.6	5.0	6.4
0.035	Prescription drugs	-2.4	-0.2	3.2
0.010	Personal care	-0.3	0.3	8.3
0.650	Services ex-energy	2.0	4.2	4.3
0.039	Rents	2.3	3.3	6.8
0.122	Home prices	2.2	3.8	5.8
0.171	Health care	2.6	2.7	2.1
0.024	Transportation	-2.6	8.9	17.2
0.028	Recreation	1.8	4.5	5.7
0.050	Food services	3.8	4.5	6.5
0.005	Hotels/Motels	-7.5	21.6	9.1
0.086	Financial/Insurance	1.5	3.5	-1.8
0.079	Other services	1.3	2.9	4.1
0.035	Nonprofits	4.0	11.3	4.2

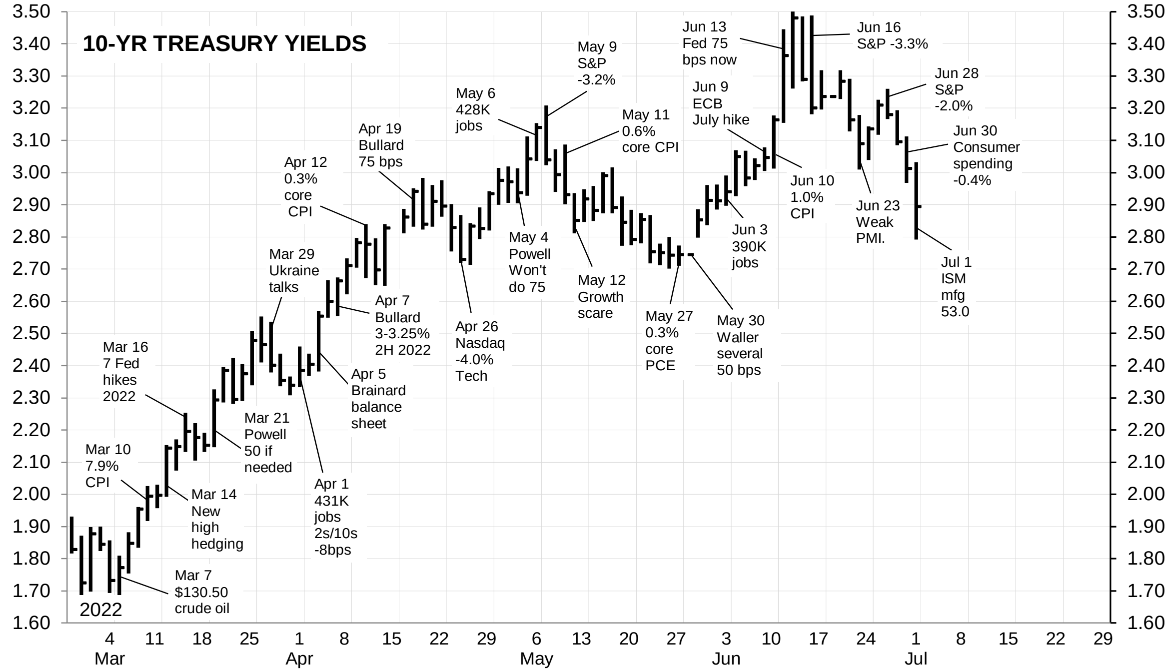
* May 2022 is SAAR off Dec 2021

Why is 4.7% core PCE inflation 1.3 percentage points less than 6.0% core CPI inflation anway? Both consumer measures see housing inflation running about 5% (don't ask if it was 20% like in the national home price index), but the 30.4% weight of housing in core CPI is much greater than 13.8% in core PCE. Medical care has been another major difference between the two consumer inflation measures over time. Medical care services inflation in CPI is 4.0% year-year, but has a smaller 8.8% weight in core CPI. Health care in PCE has a larger 19.3% weight, but is running slower at 1.9% year-year.

Review and Outlook: Inflation is a real problem with sharply higher prices to pay for goods and services. Maybe core PCE inflation peaked at 5.3% year-year in February, but that is really besides the point. Where is inflation going? How low, when? Home price inflation may be the greater worry with the risk of another housing crash like the one that started the 2007-09 recession. Soft-landing or hard landing for the economy from the Fed's front-loaded rate hikes may not rein in inflation as much as hoped or feared. CPI inflation was double-digits in 1979-81, and with Volcker and two recessions, CPI fell to 3.2% in 1983 which is too high for today because few in America have their wages, investments, savings, indexed to inflation. Most are losing in every way. In fact, forget 3.2% in 1983, a one-year disinflation trick: CPI was 4.3% in 1984 and 3.6% in 1985. The Fed's inflation victory may lie years in the future. Years after Americans have lost all their savings for retirement with the 58 to 76 year old baby boomers retiring at a rate of 10,000 per day.



INTEREST RATES



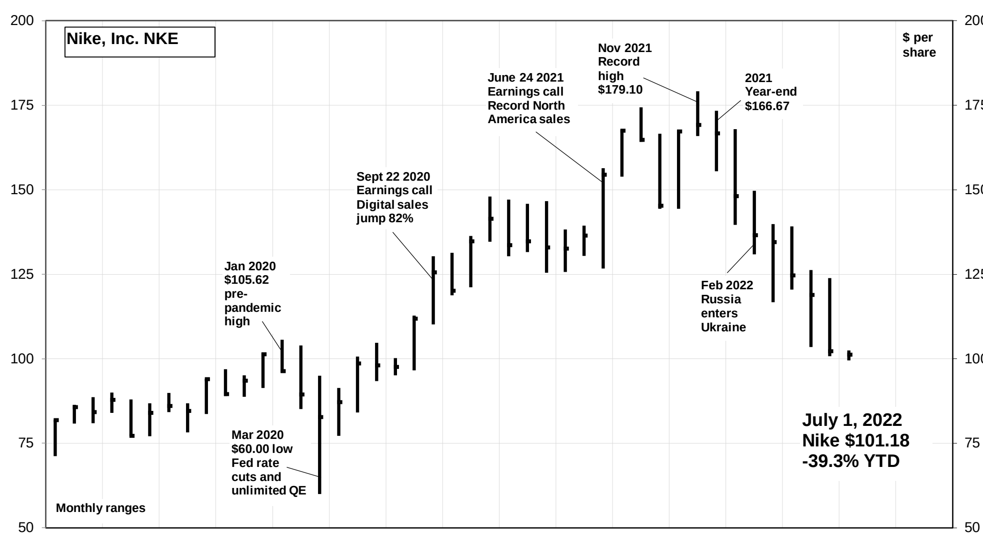
Another recession plunge in bond yields this week. Hard to believe 10-yr yields closed 2.89% early Friday for the July 4th weekend versus the year's 3.50% high on June 14. Market doesn't know Fed thinks it is going to double its 1.75% rate by the end of the year. We thought bonds had learned better, but not the case: whenever the ISM manufacturing index comes down from the high 50s or 60s closer to the 50 line that separates an expanding manufacturing sector from a contracting one, the bond market rallies. Friday's yield low of 2.80% was made after the ISM report. Stocks made their low at the same time as bond yields with stocks confused whether recession means the Fed stops rate hikes or recession is bad for earnings. Speaking of recession, GDP fell 1.6% in Q1, and the Atlanta Fed GDPNow Q2 guess went from +0.7 to -1.0% after consumption Thursday, and to -2.1% after ISM.

Nike, Inc. (NKE) down 43.5% from November 5, 2021 record high

Nike closed $110.50 before earnings Monday evening, June 27. The earnings beat expectations, China sales are expected to rebound from COVID lockdowns, but inventories were higher. Gross margins were down from last year's fourth quarter on China related Covid disruptions and elevated freight and logistics costs. North America Footwear Sales are down against the first spring quarter coming out of the pandemic.

Nike Footwear Sales ($millions)

Quarter	North America	Europe (EMEA)	Greater China	Asia Pac LatAm
5.31.2022	3,580	2,030	1,178	1,197
2.28.2022	2,532	1,569	1,554	1,005
11.30.2021	2,852	1,806	1,235	887
8.31.2021	3,264	1,983	1,449	1,022
5.31.2021	3,793	1,831	1,316	1,007
2.28.2021	2,382	1,606	1,614	903
11.30.2020	2,512	1,731	1,567	991
8.31.2020	2,957	1,802	1,251	758
5.31.2020	1,606	887	1,149	559
2.29.2020	2,628	1,711	1,075	963



FEDERAL RESERVE POLICY

Selected Fed assets and liabilities					March 11
Fed H.4.1 statistical release					2020**
billions, Wednesday data	29-Jun	22-Jun	15-Jun	8-Jun	pre-Covid
Factors adding reserves					
U.S. Treasury securities	5763.933	5763.344	5762.730	5771.393	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2709.328	2728.815	2727.567	2707.446	1371.846
Repurchase agreements	0.001	0.000	0.000	0.000	242.375
Primary credit (Discount Window)	3.604	3.147	3.706	1.191	0.011
Paycheck Protection Facility	18.082	18.621	18.949	19.536	
Corporate Credit Facility (CCF)	0.000	0.000	0.000	0.000	
Municipal Liquidity Facility	5.541	5.540	5.538	5.537	
Main Street Lending Program	26.387	26.374	26.363	26.687	
Term Asset-Backed Facility (TALF II)	2.198	2.197	2.196	2.196	
Central bank liquidity swaps	0.184	0.197	0.199	0.183	0.058
Federal Reserve Assets	8962.2	8984.0	8982.1	8967.9	4360.0
~~3-month Libor %~~ SOFR %	1.51	1.45	0.70	0.76	1.15
Factors draining reserves					
Currency in circulation	22811.158	2278.628	2276.909	2278.876	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	759.845	745.052	769.937	683.892	372.337
Treasury credit facilities contribution	17.940	17.940	17.940	17.940	
Reverse repurchases w/others	2226.976	2259.458	2162.924	2140.277	1.325
Reserve Balances (Net Liquidity)	3118.611	3115.589	3189.605	3292.602	1779.990
Treasuries within 15 days	93.370	80.281	79.168	55.157	21.427
Treasuries 16 to 90 days	325.023	338.185	333.462	369.205	221.961
Treasuries 91 days to 1 year	810.874	810.763	816.561	807.534	378.403
Treasuries over 1-yr to 5 years	2084.018	2074.295	2074.069	2083.436	915.101
Treasuries over 5-yrs to 10 years	1019.834	1029.136	1028.941	1026.805	327.906
Treasuries over 10-years	1430.814	1430.684	1430.529	1429.257	658.232

**March 11, 2020 start of coronavirus lockdown of country

The Fed meets on July 26-27, 2022 to consider its monetary policy. Powell said at the press conference on June 15 they could move 50 or 75 bps. A 75 bps rate hike would put the Fed funds rate at 2.5% neutral. Fed funds futures say 75 bps on July 27 to 2.5% and another 50 bps to 3.0% on September 21. The Fed says they are data dependent and we will see if the monthly employment report on Friday, July 8 moves the needle between 50 or 75 bps on the July 27 decision date.

Good news. The Fed pushed the 2023 first meeting decision date to February 1 which means more or less the January 2023 Fed funds futures contract discounts where the speculators and market wizards, brokers really, barely traders let alone investors, think the Fed funds rate target will be at the end of 2022 after adding back 17 bps. January Fed funds futures say about 3.5% at year-end in perfect harmony with the latest Federal Reserve forecast. The Treasury market isn't buying any of this front-loaded 3.5% stuff and has recession on the brain. The 2-yr yield fell 20 bps to 2.84% this week.

Fed funds futures call Fed hikes

Current target: July 1 -- 1.75%

Rate+0.17	Contract	Fed meetings	
2.435	Aug 2022	July 26-27	
2.975	Oct 2022	July, Sep 20-21	
3.49	Jan 2023	July, Sep, Nov, Dec	
75	July 27 to 2.5%		
50	Sep 21 to 3.0%		Currently
25	Nov 2 to 3.25%		discounted
25	Dec 14 to 3.5%		

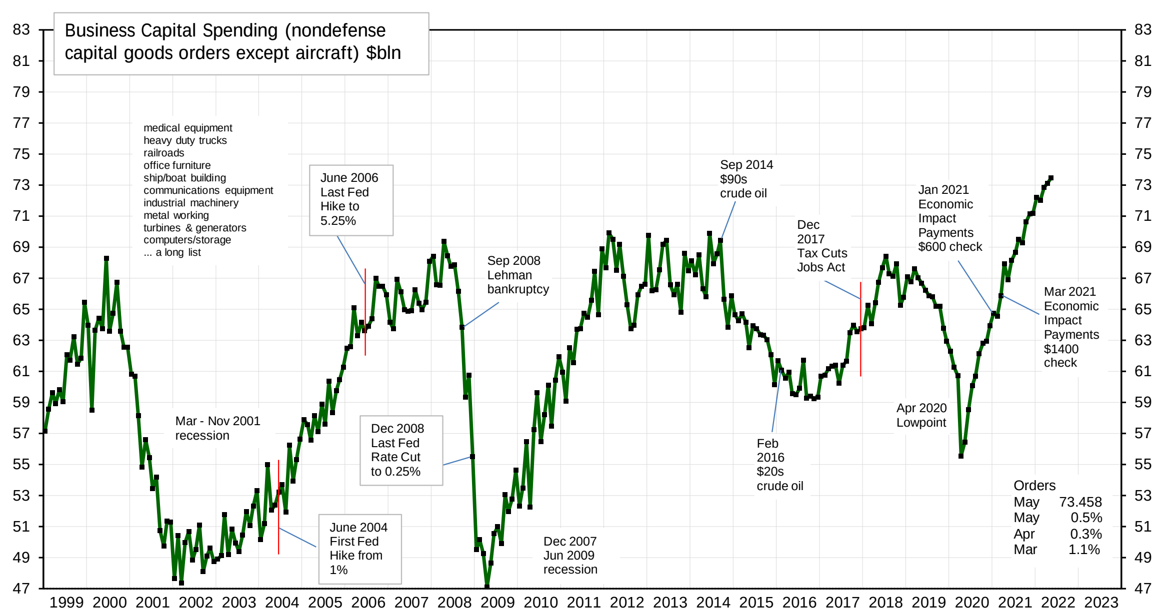
The ECB Forum on Central Banking, "Challenges for monetary policy in a rapidly changing world," was June 27-29 this week in Sintra, Portugal. On Wednesday afternoon, the Policy panel with Bailey of the Bank of England, Carstens of the Bank for International Settlements (BIS), Lagarde at the ECB and Powell made the most news headlines, something from Powell on inflation being hard to understand. "I think we now understand better how little we understand about inflation." Both Lagarde and Powell are lawyers. About ten minutes in, Powell was asked if the U.S. economy could handle the rate hikes in the short term, and he said the U.S. economy was actually in pretty strong shape. Looking back on the year of reopening ending December 2021, the U.S. economy grew 5.5% and they thought growth in 2022 would moderate to a more sustainable path. They seek to slow growth so supply can catch up with demand and hope growth remains positive. U.S. households have a lot of excess savings from the pandemic when they could not get out to spend. That was Wednesday when Powell spoke of the cash-flush consumer; on Thursday, real consumption expenditures had big downward revisions and actually declined sharply by 0.4% in May. The Atlanta Fed GDPNow, doing it so Wall Street economists don't need to, revised its tracking of Q2 GDP from +0.7 to -1.0%, and then Friday, after ISM manufacturing (why?) and construction spending, dropped the forecast further to -2.1%. Q1 2022 -1.6% and now potentially a second quarterly decline of 2.1%, two-quarters being one definition of recession. No job losses yet. Maybe unemployment claims were supposed to fall further seasonally, during the start of summer employment and have not, so it is closer to being a recession signal than we thought. Will be interesting weeks to come.

OTHER ECONOMIC NEWS

Business orders up a storm (Monday)

Breaking economy news. Durable goods orders and shipments remain strong with shipments increasing 11.4% in the first five months of the year versus the same period in 2021. If the economy is in recession, companies don't seem to know it. There's some inflation behind the surge in orders as producer prices for some goods used in manufacturing are up 10 percent or more the last year. But nevertheless, there are a lot of dollars flowing though the economy right now. Businesses would not order new equipment if they thought consumers and other companies were looking to pull back their purchases. The Federal Reserve is hell-bent on demand destruction to rein in inflation, but the front-loaded rate hikes are doing nothing at the moment to slow the manufacturing economy down. Machinery orders up 1.1% in May, Motor vehicles and parts orders up 0.5%, Communications equipment orders jumping 2.0%. The only declines are in Computers and related products, and Electrical equipment and appliances.

Net, net, the business confidence surveys show worries about the future of the economy, but factory orders for new equipment hit a new record in May. Business continues to expand and there is no sign in today's orders data that recession is on the horizon. Order backlogs are healthy with shipments literally flying out the door. This isn't what a manufacturing recession looks like. Factories are running all out. Our proxy for business capital investment, nondefense capital goods orders excluding aircraft, rose 0.5% in May and business investment is still adding to economic growth in the second quarter. The odds of a second quarter of negative real GDP growth are dropping like a stone. Stay tuned. Story developing.



Exports and inventories are rising (Tuesday)

Breaking economy news. The advance look at the international trade deficit in goods fell modestly to $104.3 billion in May from $106.7 billion in April. The figures are inflation-driven certainly, but the year-on-year growth is simply staggering. Apparently, to get around the supply-chain disruptions you have to over-order if you are a business struggling to keep up with demand. Exports of goods in May rose 1.2% and are 22.0% higher than last year. Imports of goods in May fell 0.1% May but are 21.3% higher than a year ago. The era of globalization can't be over yet with the volume of goods in America coming in and going out running at double-digit rates.

Meanwhile, the advance look at retail inventories show the store shelves are still chock full perhaps due to merchants having the wrong goods out on display or maybe consumers have sticker shock. We have to admit we shop at Target and we can't understand when the CEO says they have the wrong merchandise out on the floor. Nothing looks amiss to us walking the aisles. Maybe the CEO meant he over-ordered. May retail inventories are up 1.1% for the month and 17.3% higher than a year ago. Motor vehicle inventories are 10.7% higher than last year but the increase matches closely with the higher cost of buying a new car the last year.

Net, net, the economy wasn't barreling towards a slowdown in May with over-ordering and inflation pushing up inventories, and exports to the world keeping American factories and workers busy. It isn't easy to forecast recession with exports and inventories adding to growth this quarter no matter how hard economists try. Exports and inventories are still rising in May at least and this means the recession clouds offshore will have to sit on the horizon for another month. The Fed's takedown of the economy isn't bearing fruit yet. Bet on it, if you can find a place to invest safely.

ADVANCE TRADE STATISTICS FOR MAY

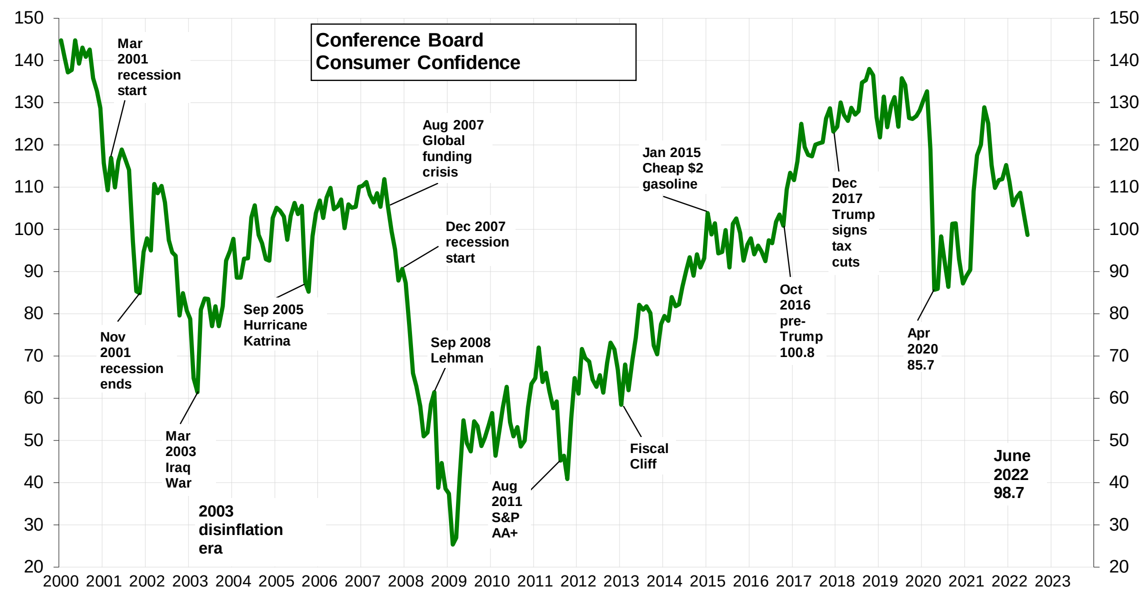
	Monthly				Percent changes		
Seasonally adjusted	May	Apr	Mar	May	May 22	Apr 22	May 22
Trade	2022	2022	2022	2021	Apr 22	Mar 22	May 21
Balance	-104,310	-106,701	-125,664	-86,812			
Exports	176,592	174,583	168,586	144,803	1.2	3.6	22.0
Foods, Feeds, & Beverages	15,910	17,513	15,328	13,920	-9.2	14.3	14.3
Industrial Supplies (1)	72,392	69,585	67,283	52,443	4.0	3.4	38.0
Capital Goods	47,182	47,481	46,243	43,750	-0.6	2.7	7.8
Automotive Vehicles, etc.	13,344	13,024	12,932	11,504	2.5	0.7	16.0
Consumer Goods	21,439	20,715	20,314	17,775	3.5	2.0	20.6
Other Goods	6,327	6,266	6,486	5,411	1.0	-3.4	16.9
Imports	280,902	281,284	294,251	231,615	-0.1	-4.4	21.3
Foods, Feeds, & Beverages	18,114	18,284	17,838	15,213	-0.9	2.5	19.1
Industrial Supplies (1)	72,220	70,690	76,027	51,931	2.2	-7.0	39.1
Capital Goods	71,291	71,682	74,263	62,276	-0.5	-3.5	14.5
Automotive Vehicles, etc.	34,094	33,727	32,352	29,123	1.1	4.3	17.1
Consumer Goods	74,571	76,393	82,723	63,277	-2.4	-7.7	17.8
Other Goods	10,612	10,508	11,047	9,794	1.0	-4.9	8.3

(1) Includes petroleum and petroleum products.

Another consumer confidence survey succumbs to inflation (Tuesday)

Breaking economy news. Consumer confidence took a hit in June, falling to 98.7 from a downward revised 103.2 in May. Don't look now but consumers are steadily losing confidence due to the upward spiral of food and gasoline prices where the Conference Board survey of consumers is starting to wake up and smell the coffee that the Michigan Survey has been drinking for months now. It's not about jobs, it's about inflation. Consumers in the latest survey made the same mistake that Fed officials did and focused on the labor market for too long instead of the sharp rise of inflation, the worst outbreak since the 1980s.

Net, net, the consumer is starting to lose some gas and is much less confident about what the future holds for their lives in the days and years to come. Consumers are said to be buoyed by the savings they have in the bank even though banks aren't paying interest on their deposits and inflation has dropped the purchasing power of their money by an astonishing 8.6% the last year. It won't be a frank and beans year for cash-strapped consumers, it will be just plain beans on the dinner tables across America. We aren't sure who is to blame for inflation but it is the consumer that is paying the price. Watch out below for the economy in the weeks and months to come because if consumers pare back their purchases as much as the confidence surveys are falling, the economy will be in real trouble in the second half of this year. Stay tuned. Story developing.

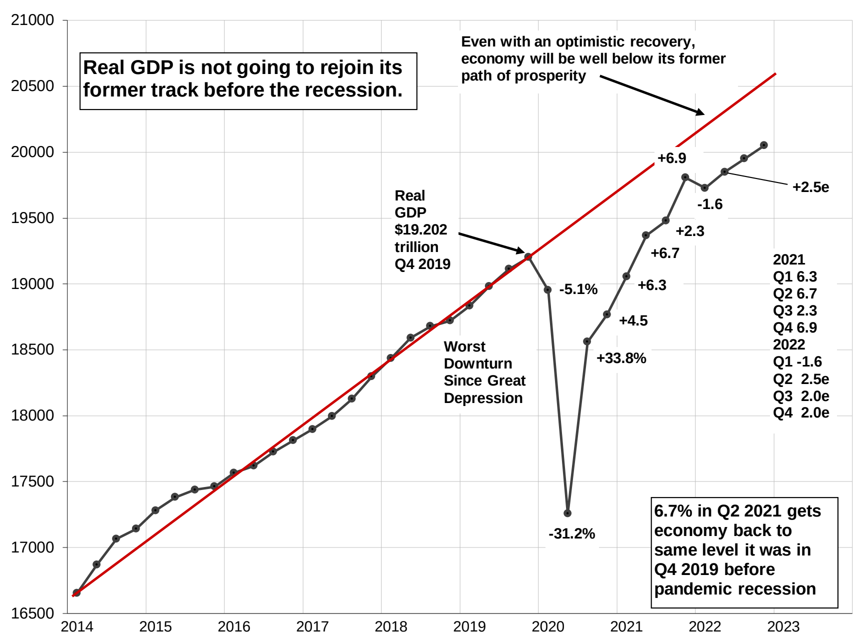


Consumers buy less to keep GDP afloat (Wednesday)

Breaking economy news. Third look at Q1 2022 real GDP was revised to -1.6%. First it was -1.4, second it was -1.5, third it is -1.6%. The economy is slowly sliding in the direction of weakness as consumers are buying less to keep GDP afloat. The two-quarter definition of a recession is just another month away, possibly with the advance report on Q2 2022 real GDP due for release on Thursday, July 28. Consumer spending got whacked from 3.1% in last month's estimate to just 1.8% in today's report. Consumers shifted their spending from higher priced goods like groceries and gasoline to services, but for how long is the question with services inflation picking up in April and May. Consumer spending is a ticking time bomb as the personal saving of current wages and salaries continues to plummet.

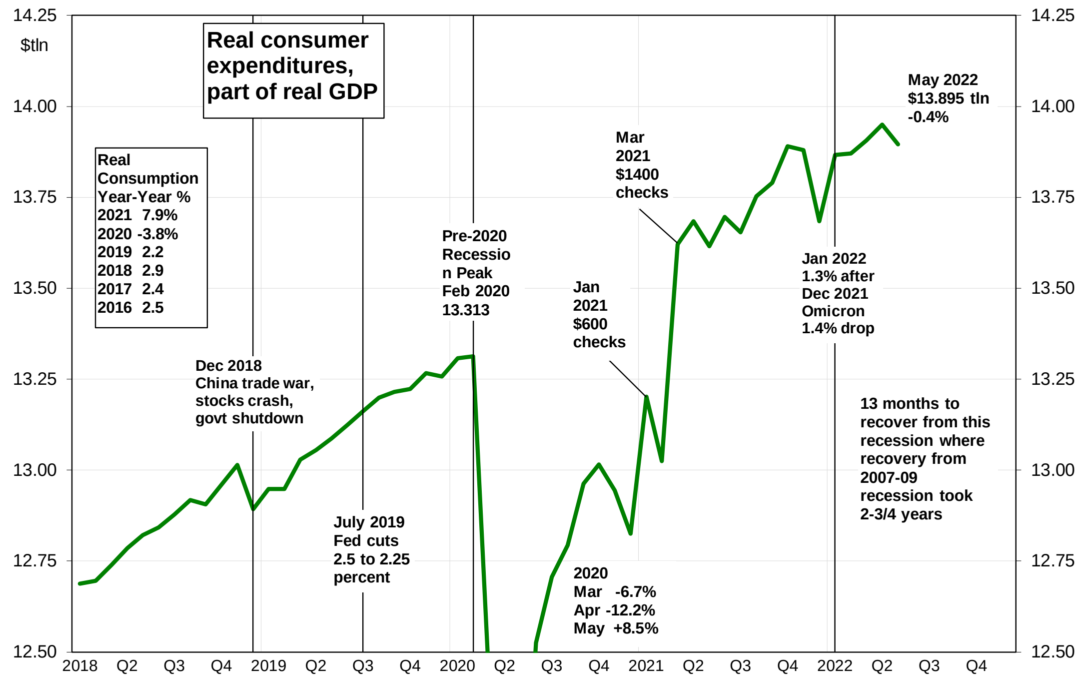
	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22p	Q1 22r	Q1 22f
REAL GDP	4.5	6.3	6.7	2.3	6.9	-1.4	-1.5	-1.6
REAL CONSUMPTION	3.4	11.4	12.0	2.0	2.5	2.7	3.1	1.8
CONSUMPTION	2.3	7.4	7.9	1.4	1.8	1.8	2.1	1.2
Durables	0.1	3.5	1.0	-2.5	0.2	0.4	0.6	0.5
Nondurables	-0.2	2.2	2.0	0.3	0.1	-0.4	-0.6	-0.6
Services	2.3	1.8	4.9	3.6	1.5	1.9	2.1	1.3
INVESTMENT	4.0	-0.4	-0.7	2.1	5.8	0.4	0.1	0.9
Business Plant	-0.2	0.1	-0.1	-0.1	-0.2	0.0	-0.1	0.0
& Equipment and	1.3	0.8	0.7	-0.1	0.2	0.8	0.7	0.7
Intellectual Property	0.5	0.8	0.6	0.5	0.5	0.4	0.6	0.6
Homes	1.3	0.6	-0.6	-0.4	0.1	0.1	0.0	0.0
Inventories	1.1	-2.6	-1.3	2.2	5.3	-0.8	-1.1	-0.4
EXPORTS	2.1	-0.3	0.8	-0.6	2.2	-0.7	-0.6	-0.6
IMPORTS	-3.7	-1.3	-1.0	-0.7	-2.5	-2.5	-2.6	-2.7
GOVERNMENT	-0.1	0.8	-0.4	0.2	-0.5	-0.5	-0.5	-0.5
Federal defense	0.2	-0.3	0.0	-0.1	-0.2	-0.3	-0.3	-0.4
Fed nondefense	-0.4	1.0	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1
State and local	0.1	0.0	0.0	0.5	-0.2	-0.1	-0.1	-0.1
Below line: Percentage point contributions to Q1 2022 -1.6% real GDP								
First estimate for Q2 is Thursday, July 28								

Net, net, the economy remains where it was, perched on the edge of the cliff in the first quarter, but with the overall macro environment deteriorating by the day, we wonder how long it can avoid falling further into the depths of recession and joblessness. Corporate America is sounding the alarm, warning of earnings misses and belt-tightening to come. The Federal Reserve is planning on rate hikes faster than anytime since the 80s, so the economy is in danger of running out of punch in the second half of the year. Stay tuned. Story developing. If the consumer says they are on edge, so too must the economy be. Buckle up as the stock market has already crashed this year which means the economy can't be far behind.



Economy and core consumer inflation slowing (Thursday)

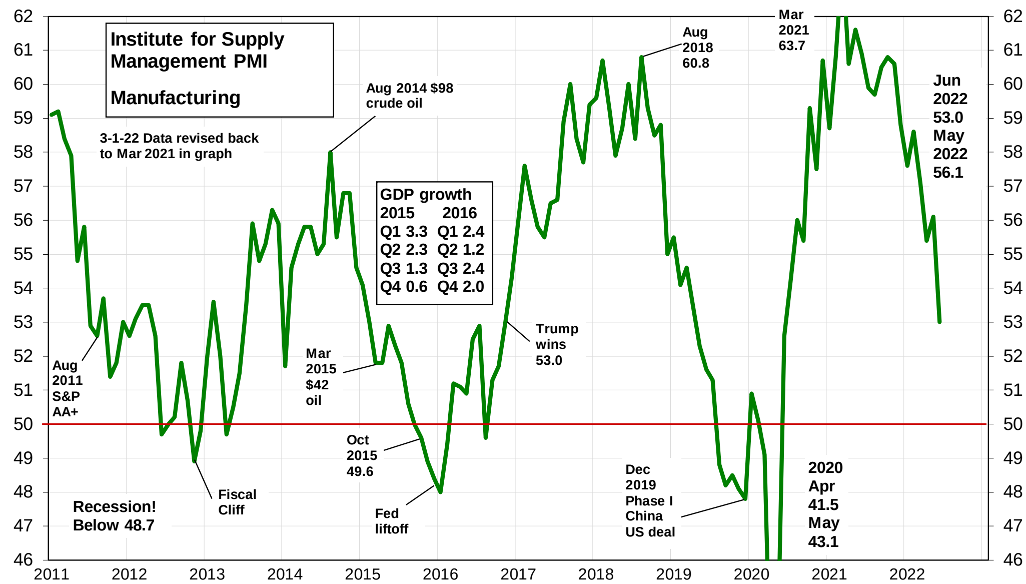
Breaking economy news. The May personal income report and weekly jobless claims. Weekly jobless claims were 231 thousand in the June 25 week and remain elevated if not quite dangerously so. The personal income report shows signs of an economic slowdown. Consumers cut back their real expenditures of durable and nondurable goods in May and didn't shift enough purchases into services to keep real spending positive. The drop in overall real consumer spending of 0.4% is the biggest hit to growth since the Omicron scare for the economy back in December. Inflation has peaked technically with PCE inflation running 6.3% year-on-year in May down slightly from the 6.6% record this economic cycle in March this year. Core PCE inflation pressures are much slower, rising 0.3% again in May for a fourth consecutive month. Core PCE inflation peaked at 5.3% in February 2022 and is 4.7% year-on-year in today's May data.



Net, net, the Fed hasn't won the war on inflation just yet, but there are somewhat encouraging signs that the economy is slowing down. Americans' purchases of goods on the store shelves fell sharply in May, and weekly jobless claims remain elevated, an early warning sign that companies are adjusting their headcounts. Core PCE inflation has risen 0.3% each of the last four months which is significantly slower than the 0.5% monthly increases in the prior four months from October last year through this January. Underlying inflationary pressures are lessening which is tentative evidence that the Fed's front-loading of interest rate hikes is working. Powell has said a soft-landing for the economy will be hard to achieve, but at the moment the news is good that prices aren't rising as fast and economic demand is starting to slow. At the same time, despite the market's recession fears, job layoffs have not quite reached high enough levels to make the call that the economy is headed over the cliff into the depths of recession. Stay tuned. Story developing.

ISM purchasing managers are on edge (Friday)

Breaking economy news. The ISM purchasing managers index fell 3.1 percentage points to 53.0 in June from 56.1 in May. Employment fell further below 50 in a sign of worsening contraction for hiring. Somehow new orders plunged to negative territory with a reading of 49.2 in June from 55.1 in May. The new orders reading is surprising as May core capital goods equipment orders from the durable goods report released Monday this week show business investment in new equipment set a new record high. The manufacturing sector of the economy looks on the brink as the manufacturing PMI has continued to slide towards the line where growth turns to freefall. At the moment, 15 manufacturing industries are still growing, while three are in decline: Paper Products, Wood Products, and Furniture.



Net, net, with talk of recession in the air, manufacturing executives are clearly on edge at the start of summer with declining orders and headcount reductions the most worrisome characterization of the current business climate as the economy sails into the second half of the year. You can't have a recession without job losses and purchasing managers say they are cutting staff. Job layoffs haven't hit the weekly unemployment benefits statistics yet, but manufacturers say factory job cuts are here. The employment PMI was below 50 last month as well and yet May nonfarm payroll jobs for manufacturing went up 18K. We will see what happens in next Friday's monthly employment report for June.

ISM manufacturing index

	Jun 22	May 22	Apr 22	Mar 22
PMI index	53.0	56.1	55.4	57.1
Prices	78.5	82.2	84.6	87.1
Production	54.9	54.2	53.6	54.5
New orders	49.2	55.1	53.5	53.8
Supplier deliveries	57.3	65.7	67.2	65.4
Employment	47.3	49.6	50.9	56.3
Export orders	50.7	52.9	52.7	53.2

In the meantime, the bond market rally is screaming recession is here with 10-year yields down an incredible 17 bps to 2.80% with the manufacturing PMI news pouring gas on the rally's fire. The stock market can't decide if recession is good because it stops the Fed rate hikes, or bad for the obvious economy and profits implications when the economy goes off the track and into the ditch. Stay tuned. Story developing. Nothing in today's report to celebrate this July 4th holiday weekend. ISM purchasing managers on edge, has pushed bond yields over the edge. Bet on it.

Analyst Certification

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