

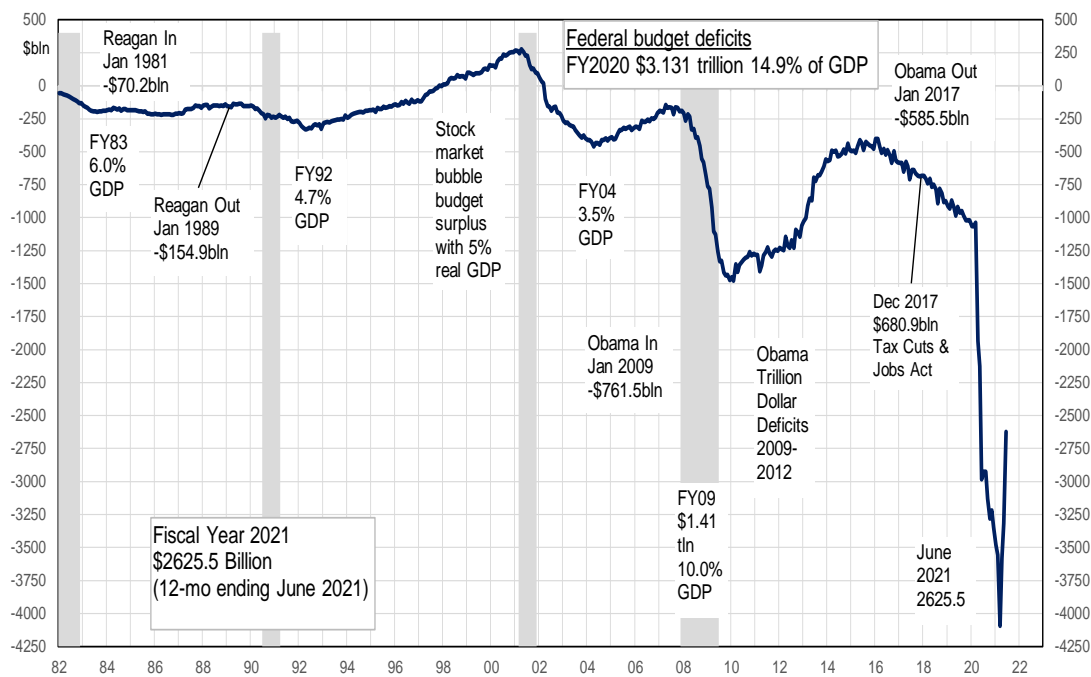
Financial Markets This Week

23 JULY 2021

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EXTRA, EXTRA, JUNE FEDERAL BUDGET DEFICIT \$2.2 TRILLION YTD

Just catching up with the June 2021 Federal budget results the other week. The June deficit was \$174.1 billion or \$2.237 trillion YTD for the fiscal year ending September 2021. The full year FY2020 was \$3.131 trillion. We have graphed the 12-month trailing sum



here which was \$2.625 trillion for June 2021. The deficit on this rolling annual basis was over \$4 trillion in March 2021 due to the 2020 pandemic deficit spending programs, \$738 billion March, \$398 billion May, \$864 billion June, in combination with the \$659 billion March 2021 deficit after the \$1.9 trillion Biden American Rescue Plan. The bond market doesn't care about the Federal budget deficit, how many bonds the U.S. Treasury will auction this year, as 10-year Treasury yields hit as low as 1.13% on Tuesday after being as high as 1.78% in March. Maybe bonds are "betting on an economic slowdown" or Powell's "temporary inflation" or perhaps Congress won't raise the debt ceiling and be unable to sell more bonds after July 31. Senate Minority Leader McConnell said Wednesday morning that he couldn't imagine any Republican senator voting to raise the debt ceiling.

Biden's First Budget										
	2020-21 actual	2020	2021	2022	2023	2024	2025	2026	2027	2028
\$billions Budget deficit	3,129	3,669	1,837	1,372	1,359	1,470	1,414	1,303	1,424	
Baseline deficit	3,129	3,670	1,719	1,148	1,068	1,176	1,115	1,134	1,348	
American Jobs Plan (includes Road and Bridge Repair)			84	92	141	152	177	110	28	
American Families Plan			5,124	13,385	17,416	19,650	21,626	16,958	7,895	
			16	79	88	78	53	-9	-17	

We will use this Biden budget table perhaps one last time because Congress cannot get anything passed. Biden's first FY2022 baseline budget deficit is \$1.719 trillion. The two programs still in considerable doubt are the \$2.3 trillion American Jobs Plan and \$1.8 trillion American Families Plan,

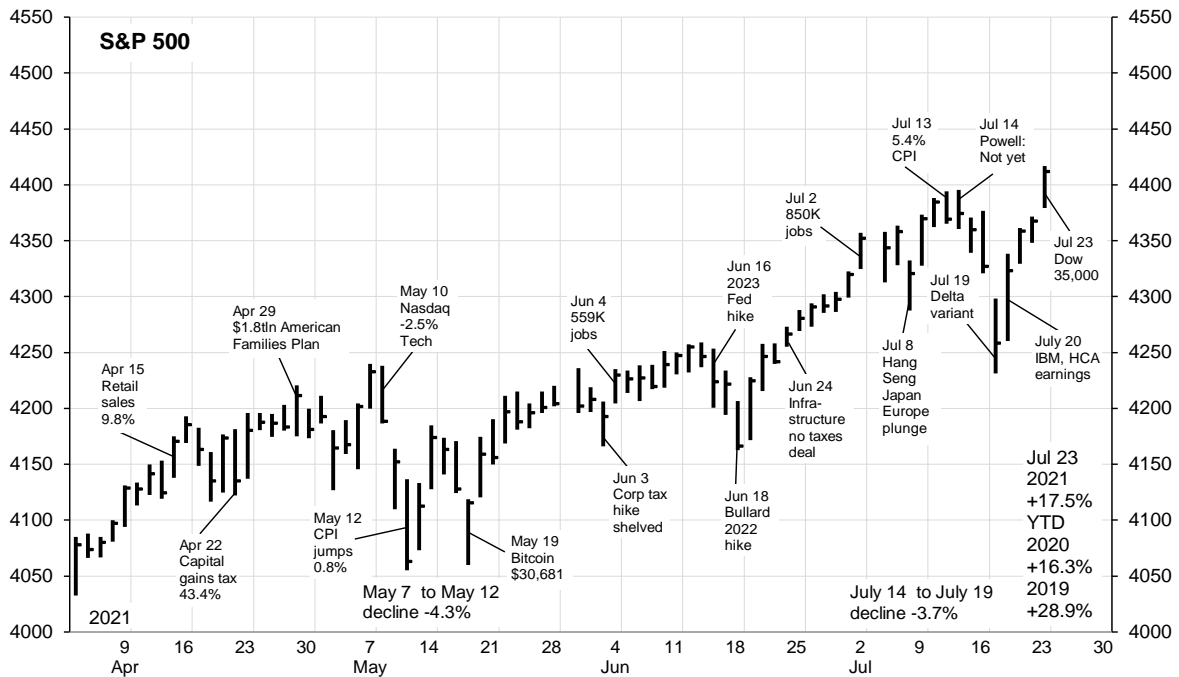
both of which add to spending gradually over many years. The American Jobs Plan itself was to add \$84 billion to the \$1.719 Baseline deficit in FY2022 and Road and Bridge Repair is just \$5.124 billion of that in the first year.

Federal budget outlays are running \$5.294 trillion in FY2021, 5.8% higher than the first three quarters of the prior year. The Economic Impact Payments under the IRS in the Treasury Department is most of the difference. In the Selected Pandemic Stimulus table below these payments were \$139 billion in January (\$600 checks) and \$339 billion in March (\$1400 checks) which is the major reason consumer spending is so strong in the first half of 2021. The Atlanta Fed GDPNow estimate is 7.6% for Q2 2021 real GDP growth released Thursday, July 29 at 830am ET. Food stamps in June have picked up to \$14.537 billion in the Biden administration. Unemployment compensation has stabilized at \$38.752 billion in June versus \$4.165 billion in March 2020 before the pandemic. The Federal budget deficit is past its peak and the Fed's \$960 billion annual QE purchases helps to pay for it for now.

Federal Government Spending (\$bln) Where to cut?	3 Qtrs FY21		3 Qtrs FY20		Fiscal	Fiscal	Full Year FY 2020
	Q4 20-Q2 21	Q4 19-Q2 20	Changes	% chg	Year	Year	
TOTAL BUDGET OUTLAYS	5,294.027	5,004.372	289.655	5.8			6,551.872
Legislative	3.998	4.042	-0.044	-1.1			5.367
Judicial	6.296	6.317	-0.021	-0.3			8.251
Agriculture	177.897	132.254	45.643	34.5			184.223
Commodity Credit Corporation	10.864	18.195	-7.331	-40.3			16.884
Food Stamps	92.193	57.457	34.736	60.5			85.642
Child Nutrition	20.447	19.048	1.399	7.3			22.745
Commerce	10.841	11.808	-0.967	-8.2			15.918
Defense	541.534	516.915	24.619	4.8			690.419
Military Personnel	133.142	122.541	10.601	8.7			161.413
Operation Maintenance	211.525	206.566	4.959	2.4			278.865
Procurement	106.809	104.612	2.197	2.1			139.056
Research Development	80.485	73.609	6.876	9.3			99.875
Military Construction	6.942	6.463	0.479	7.4			8.885
Education	125.366	135.857	-10.491	-7.7			204.415
Office of Federal Student Aid	63.256	104.498	-41.242	-39.5			160.912
Energy	25.307	23.934	1.373	5.7			32.046
Health Human Services	1085.468	1127.768	-42.300	-3.8			1503.953
Medicare	643.277	697.441	-54.164	-7.8			924.285
Medicaid States Grants	382.827	334.978	47.849	14.3			458.469
Homeland Security	69.830	47.142	22.688	48.1			91.963
Housing Urban Development	32.216	22.588	9.628	42.6			33.190
Interior	11.484	12.372	-0.888	-7.2			16.416
Justice	29.194	28.683	0.511	1.8			39.607
Labor	329.308	279.095	50.213	18.0			477.530
State Unemployment Benefits	185.773	102.408	83.365	81.4			195.977
Fed Additional Unemployment	129.330	171.499	-42.169	-24.6			275.021
State	23.249	22.970	0.279	1.2			32.859
Transportation	73.703	66.151	7.552	11.4			100.342
FAA	30.795	23.713	7.082	29.9			30.362
Federal Highway Admin.	46.009	32.526	13.483	41.5			48.742
Treasury	1391.171	1011.799	379.372	37.5			1151.724
TARP	0.356	0.548	-0.192	-35.0			0.676
Coronavirus Relief Fund	196.480	149.466	47.014	--			149.466
IRS	718.072	412.703	305.369	--			448.968
Earned Income Credit	51.710	53.974	-2.264	-4.2			57.577
Child Tax Credit	28.232	26.148	2.084	8.0			27.779
Economic Impact Payments	560.000	271.000	289.000	--			275.000
Interest on Public Debt	419.173	405.423	13.750	3.4			522.652
Veterans Affairs	173.632	160.581	13.051	8.1			218.394
Corps of Engineers	6.475	6.254	0.221	3.5			7.631
Other Defense Civil Programs	46.038	50.645	-4.607	-9.1			65.264
Environmental Protection	6.323	6.800	-0.477	-7.0			8.723
Exec. Office of President	0.317	0.305	0.012	3.9			0.402
International Assistance	16.804	16.961	-0.157	-0.9			21.678
NASA	16.718	15.975	0.743	4.7			21.524
National Science Foundation	4.992	5.138	-0.146	-2.8			7.278
Personnel Management	80.223	78.839	1.384	1.8			105.625
Small Business Admin.	324.843	536.963	-212.120	--			577.412
Social Security Admin.	892.938	863.303	29.635	3.4			1153.914
Retirement Benefits	733.655	701.161	32.494	4.6			940.221
Federal Disability Payments	105.902	108.679	-2.777	-2.6			144.198
Other Independent Agencies	8.448	17.712	-9.264	-52.3			17.650

\$Billions	2020									2021						
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Unemployment compensation	4.165	48.128	93.861	115.619	109.487	55.264	58.713	33.566	25.892	27.703	33.812	43.977	49.080	37.488	35.007	38.752
State	4.165	21.220	29.676	35.212	36.103	31.178	26.288	23.041	22.083	24.669	18.619	21.322	23.441	17.477	16.437	18.684
Federal additional	--	26.908	64.185	80.407	73.384	22.473	7.664	3.242	2.642	2.236	15.002	22.516	25.200	19.944	18.523	20.027
FEMA Lost Wages	--	--	--	--	--	1.973	24.761	7.283	1.167	0.798	0.191	0.139	0.439	0.067	0.047	0.041
Economic Impact Payments		217.000	51.000	3.000	3.000	0.757	0.405	--	--	--	139.000	8.000	339.000	58.000	11.000	5.000
Food Stamps	5.273	7.094	8.551	10.639	10.229	9.271	8.685	8.991	9.107	8.986	8.43	9.105	10.932	10.642	11.463	14.537

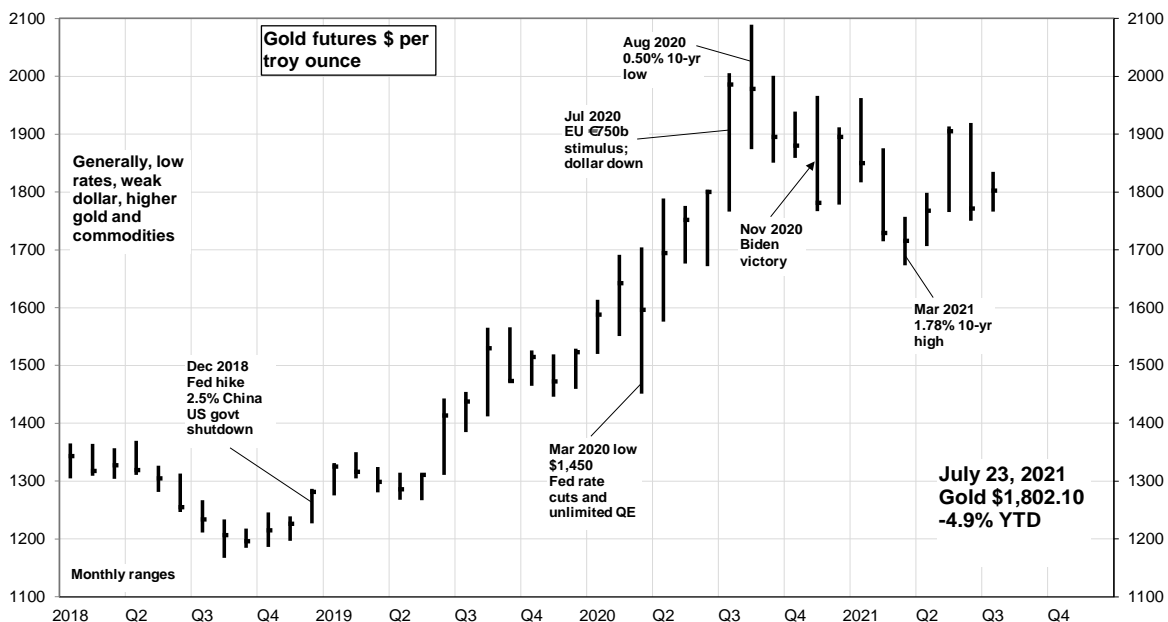
INTEREST RATES



Investors in the U.S. took Monday’s sell-off in stocks starting overnight in Europe on the spread of the Delta variant as another gift. Stocks fell 3.7% over 4 days from July 14-19 high to low. Stocks fell and brought bond yields down with them; down as low as 1.18% Monday from Friday’s 1.29% close. Closing below a round number like 1.25% perhaps brought in mortgage-hedgers, buying duration as the mortgages could be refinanced at lower yields and called away. But who cares about bonds with stocks, after falling 3.7% on Monday from former highs, making a new record Friday +17.5% YTD.

Gold futures down this year: stocks are up, uncertainty, geopolitical risks down

August 2021 gold futures closed Friday at \$1,802.10 down 4.9% YTD for the continuous contract series graphed here. Investors enjoyed a long run from \$400 in 2004 to nearly \$2,000 in 2011 when the stock market wasn’t doing very well. There has been another uptrend of sorts since 2019, and there is a lot of commentary about gold on the internet. Gold is a commodity and it moves inverse to the U.S. dollar. Bond yields have also pushed gold prices around this year.



FEDERAL RESERVE POLICY

The Fed meets on July 27-28, 2021 to consider its monetary policy. It's over. The recession is over so the Fed can take their foot off the gas or stop shooting or something because they won. The National Bureau of Economic Research (NBER) said on Monday, that the [recession ended in April 2020](#). The recession started in February 2020 and ended in two months, the shortest recession in history to be followed by the biggest Fed response in history. If only we had known the worst was over for the economy we could have bought the stock market over a year ago instead of plunging back in on Friday at the close. The recession is over and yet, and yet the Fed continues to buy \$120 billion worth of QE securities each month to "support the recovery" as they have every month since June 2020 even though the war's over and we won. We won. A long time ago. The shortest recession in history to be followed by the longest Fed QE in history.

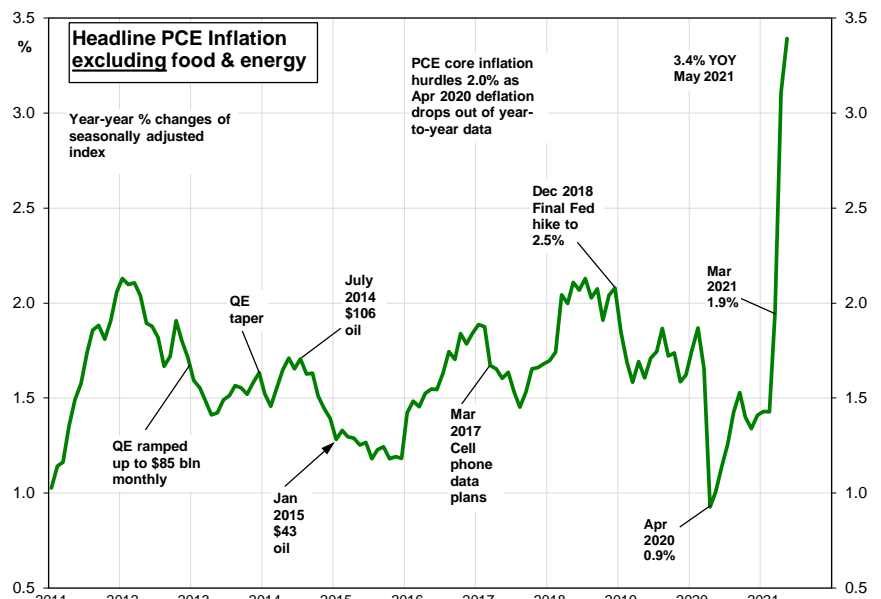
Selected Fed assets and liabilities					March 11 2020** pre-Covid
Fed H.4.1 statistical release billions, Wednesday data	21-Jul	14-Jul	7-Jul	30-Jun	
Factors adding reserves					
U.S. Treasury securities	5242.987	5222.570	5201.725	5183.385	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2422.177	2402.362	2319.637	2319.637	1371.846
Repurchase agreements	0.000	0.000	0.000	0.000	242.375
Primary credit (Discount Window)	0.554	0.386	0.406	0.477	0.011
MMLF	0.000	0.000	0.000	0.000	
PDCF	0.000	0.000	0.000	0.000	
Commerical Paper Funding Facility	0.000	0.000	0.000	0.000	
Paycheck Protection Facility	86.278	87.859	88.376	90.626	
Corporate Credit Facility (CCF)	22.648	22.641	25.931	25.902	
Municipal Liquidity Facility	9.760	9.758	10.742	10.740	
Main Street Lending Program	30.439	30.564	30.555	30.547	
Term Asset-Backed Facility (TALF II)	4.690	4.689	4.689	4.689	
<u>Central bank liquidity swaps</u>	<u>0.475</u>	<u>0.476</u>	<u>0.521</u>	<u>0.568</u>	<u>0.058</u>
Federal Reserve Assets	8289.9	8251.0	8147.1	8126.9	4360.0
3-month Libor %	0.14	0.13	0.12	0.15	0.77
Factors draining reserves					
Currency in circulation	2185.216	2186.973	2188.852	2183.581	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	616.294	657.542	724.898	851.929	372.337
Treasury credit facilities contribution	40.278	40.278	40.278	40.278	
Reverse repurchases w/others	886.206	859.975	785.720	991.939	1.325
Reserve Balances (Net Liquidity)	3974.547	3944.700	3856.203	3511.630	1779.990
Treasuries within 15 days	77.002	75.604	76.653	79.125	21.427
Treasuries 16 to 90 days	285.248	301.951	295.430	267.131	221.961
Treasuries 91 days to 1 year	675.957	653.014	658.430	678.379	378.403
Treasuries over 1-yr to 5 years	2020.368	2025.519	2002.523	1995.709	915.101
Treasuries over 5-yrs to 10 years	959.414	948.634	954.433	950.972	327.906
Treasuries over 10-years	1224.998	1217.847	1214.256	1212.068	658.232

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

MMLF: Money Market Mutual Fund Liquidity Facility; loans secured by assets bought by banks from money market funds
 PDCF: Primary Dealer Credit Facility; o/n and term funding with maturities to 90 days
 CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)

Even Bernanke did maximum strength QE for only one year following the Great Recession. The Fed won't get its preferred measure of inflation, PCE inflation for the month of June, until a couple days after they meet next week. But the writing is on the wall and we know the inflation fires are raging with June CPI inflation up 5.4% year-year and core CPI inflation up 4.5% year-year. Surely it cannot be necessary to keep printing money at emergency, emergency monthly rates with the S&P 500 closing Friday up 17.5% YTD after gains of 16.3% in 2020 and 28.9% in 2019.

Our advice is for the Fed to come out of the July meeting saying they will likely announce a tapering soon which means, nod-nod, hint-hint at the next meeting in September, and then they can begin the tapering in the month of October. If they want they can even give a second heads up at Jackson Hole at the end of August on the 26th through the 28th. Stay tuned. Story developing, developing, the taper story developing slowly. Even former Treasury Secretary Mnuchin said enough: the Fed should stop its QE purchases immediately.



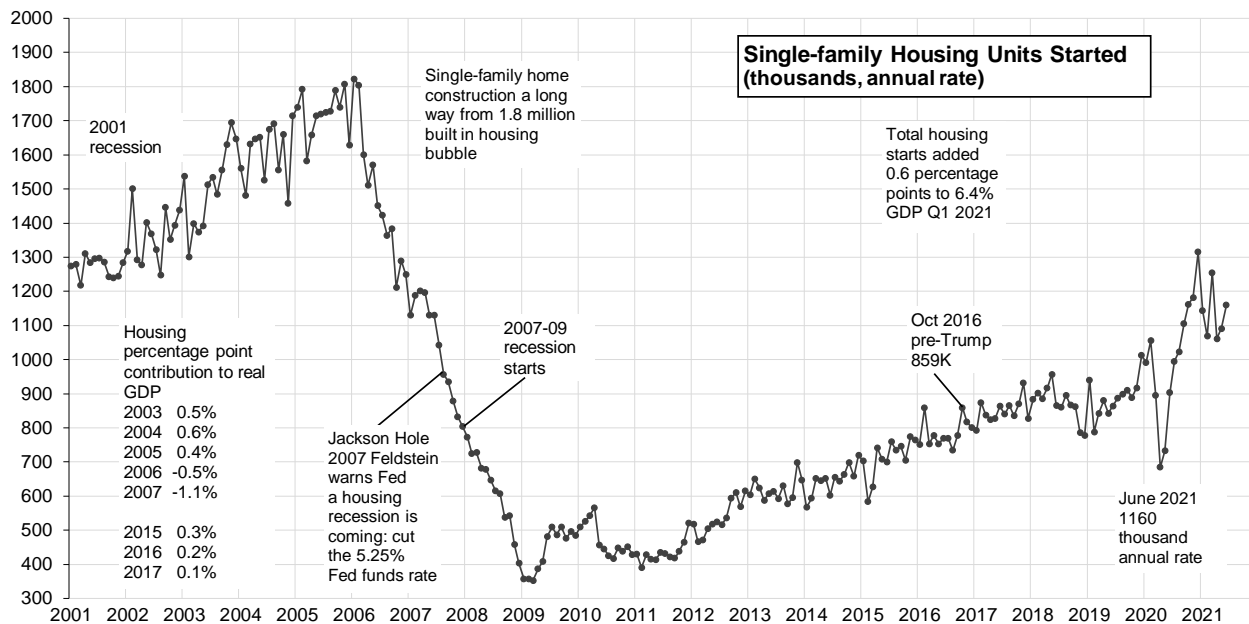
OTHER ECONOMIC NEWS

Single-family housing permits down across country (Tuesday)

Breaking economy news. Residential housing construction data for June this morning. Housing starts jumped 6.3% in June to 1.643 million at an annual rate which is not too far under the recession-recovery peak of 1.725 million in March this year. But permits are slowing again this month and fell 5.1% to 1.598 million at an annual rate and permits point the way downward for residential housing construction. The bottom line is that the housing bubble in prices will continue because the supply of new homes is not enough to match demand. The stay-at-home economy continues to persist amid signs that Americans are starting to go back to work at the offices and shops and factories around the country.

Net, net, the housing market continues to cool this summer from the peak of activity in the first quarter when the Federal government stimulus checks sent confidence soaring. Builders are more cautious and taking out fewer permits for new construction as the earlier confidence during the economy's reopening has started to falter. There is a housing bubble in prices and unfortunately, builders are not applying for enough permits for single-family homes to meet the feverish demand seen in many markets. The peak in single-family home permits for construction was 1.268 million in January this year, and new permits were down to 1.063 million in June 2021. The bubble in home prices will continue with the tailwinds of lower mortgage rates and the relative scarcity of single-family homes for sale around the country. Home prices haven't peaked yet. Get yours while you can.

Housing Permits Total, Single-Family, Multi-Family											
	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Jun 2021	1598	1063	483	143	65	208	130	871	637	376	231
May 2021	1683	1134	491	156	71	223	138	898	678	406	247
Jun 2020	1296	850	405	128	54	186	119	685	484	297	193
% Chgs											
Jun/May	-5.1	-6.3	...	-8.3	-8.5	-6.7	-5.8	-3.0	-6.0	-7.4	-6.5
Jun/Jun	23.3	25.1	...	11.7	20.4	11.8	9.2	27.2	31.6	26.6	19.7



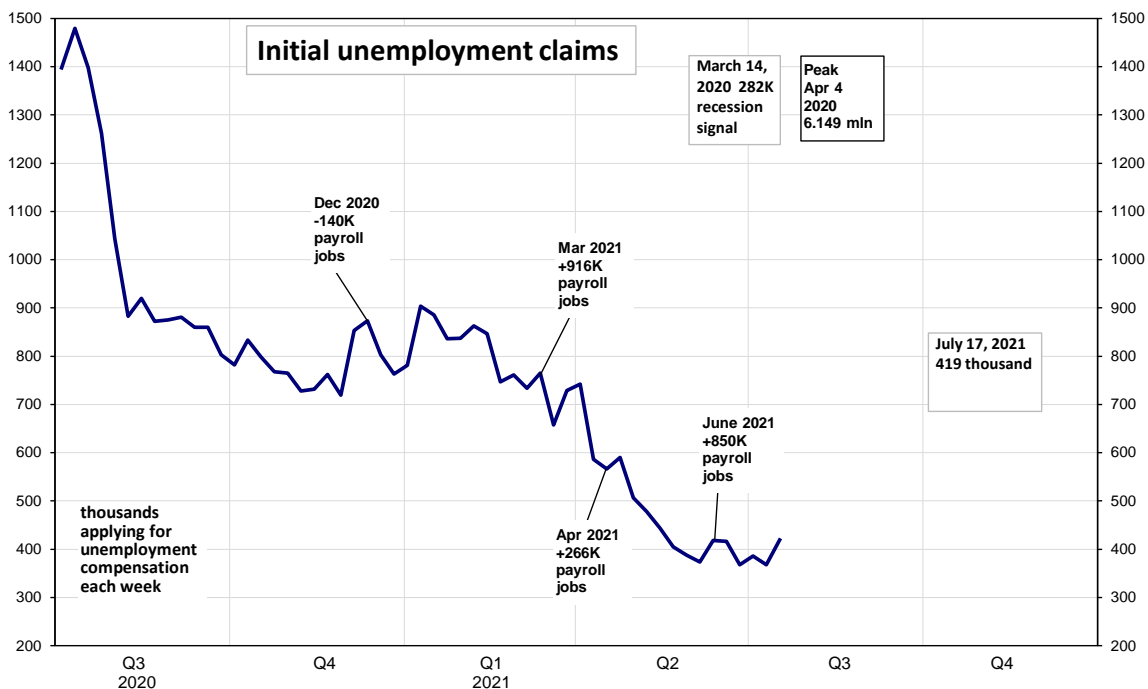
Jobless claims rise again (Thursday)

Breaking economy news. Weekly jobless claims rose 51 thousand to 419 thousand in the July 17 week. Last week's lowest level of filings since the recession ended was revised up from 360K to 368K. The rise in new filings for jobless benefits show that the economy's troubles are not over yet. The fastest growth in any recovery in U.S. history has yet to put the millions without jobs back to work. Fed officials will talk about the proper amount of support to provide the economy at next week's meeting, but the labor market is still not back to normal and policymakers will not be in a rush to cut back the \$120 billion amount of QE purchases of Treasuries and mortgage-backed securities regardless of the recent outbreak of inflation for many goods and services that American consumers purchase.

Total unemployment benefits paid to Americans which are released with a lag fell 1.262 million to 12.573 million in the July 3 week. The mystery continues why benefits payments are so large while the official number of unemployed behind June's 5.9% unemployment rate is just 9.484 million.

Net, net, the rise in jobless claims this week tells us that the labor market's troubles are not completely behind us and the Delta variant may yet throw a monkey wrench into the economic recovery from the shortest recession in American history. The original signal of recession was when jobless claims first increased to 282 thousand in the middle of March 2020 as the pandemic hit and new applications of 419K in the July 17, 2021 week remain elevated against this marker of stress in the labor market. The national emergency of recession is over, but the labor market is not back to normal yet.

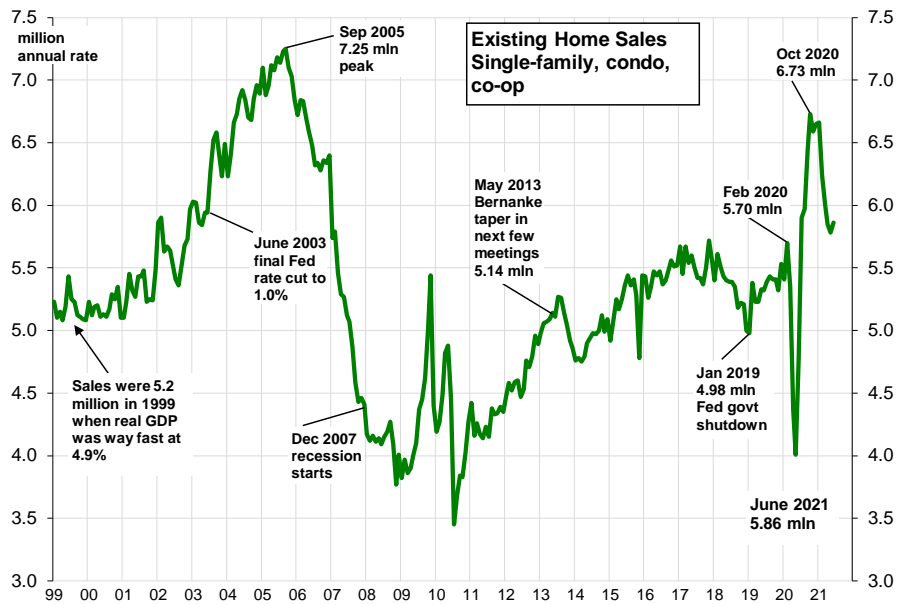
Unemployment Benefits Recipients		Prior Year
<u>3-Jul-21 Program</u>		
3,125,841	Regular State	17,260,955
9,887	Federal Employees	15,080
5,903	Newly Discharged Veterans	14,028
5,133,938	Pandemic Unemployment Assistance	14,103,921
4,134,716	Pandemic Emergency UC	1,062,698
98,447	Extended Benefits	35,546
1,022	State Additional Benefits	2,534
<u>64,079</u>	<u>STC/Workshare</u>	<u>440,708</u>
12,573,833	TOTAL	32,935,470



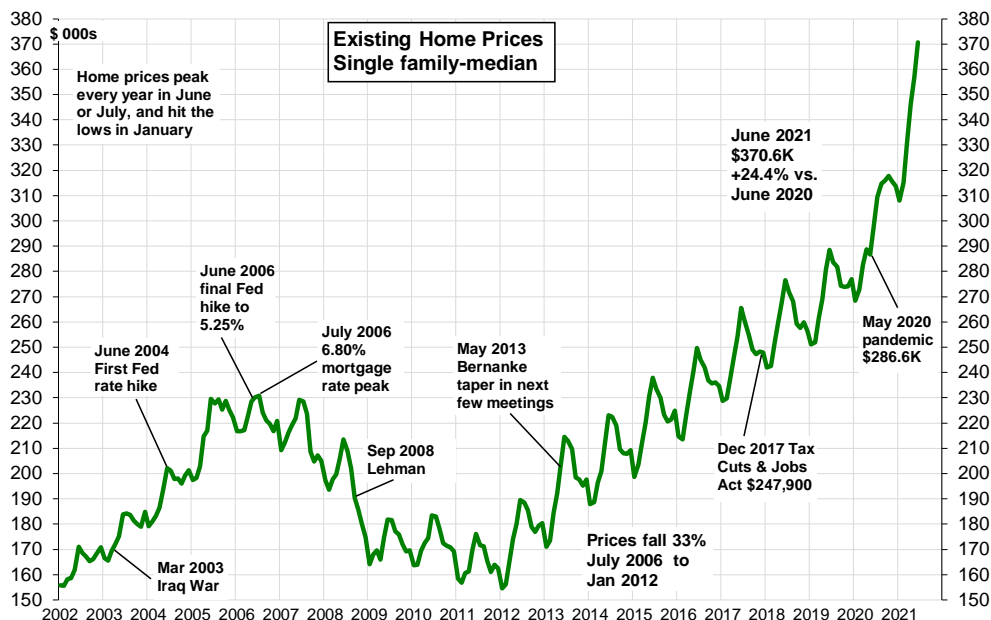
Housing price bubble for existing home sales (Thursday)

Breaking economy news. Existing home sales rose 1.4% in June to 5.86 million at an annual rate which didn't make for much of a market-moving headline. The sales turnover is still less than it was back at the peak of 6.73 million in October 2020 during the panic to work from home at a new home.

If you are a Federal Reserve official working on your comments for next week's FOMC meeting, maybe take a look at home prices and see the work your easy money policies are doing. There's a new housing bubble. It wouldn't still be inflating if mortgage rates were 100 bps higher than the 2.78% they are right now in the July 22 week. Free money. Free money for speculation. This is your doing. You continue to ease monetary policy aggressively even though there is no evidence that the unemployment rate will fall any faster than it was going to do naturally without your help.



Net, net, home prices nationwide continue to soar and it is hard to see how this is a good thing for the economy. The median price of a single-family home in America is \$370,600 in June 2021 which is 28.4% higher than it was in April 2020 when the quickest recession in history ended. This is not a normal occurrence in the first year of recovery from recession when folks are supposed to be broke. If the Fed is trying to help support the housing market, an interest-rate sensitive sector of the economy where monetary policy can really have an impact, their help is not required. In fact, all the Fed's money printing is doing is inflating asset-price bubbles from stocks to homes which increases the risk of a new downturn in the years to come when the bubble stops or pops.



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