Financial Markets This Week

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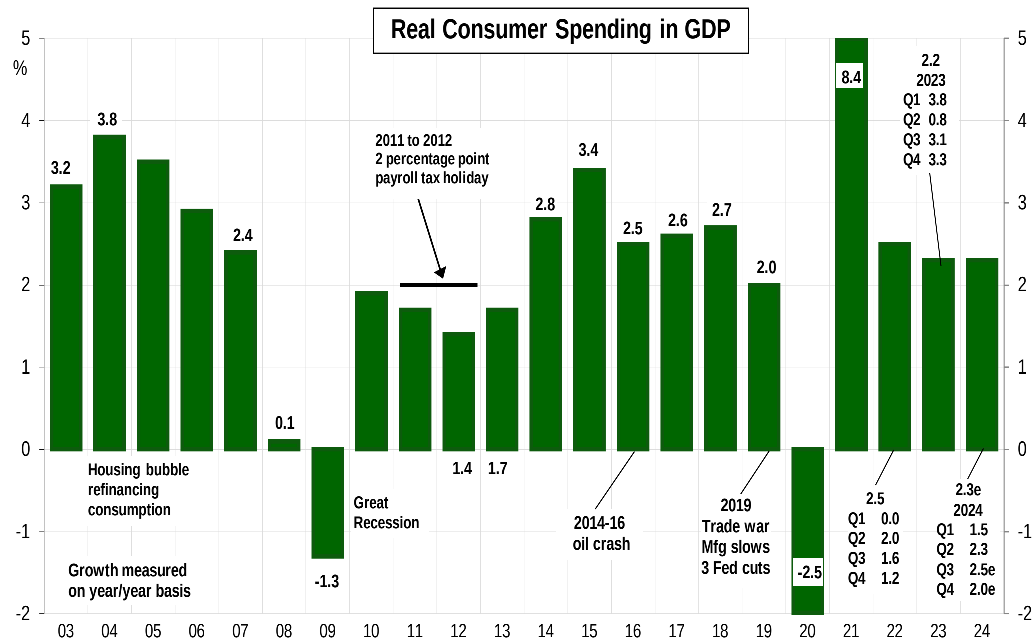
CONSUMERS ARE KEY TO THE FUTURE



Aren't they always? Two-thirds of the GDP economy. Spending is circular in the economy, consumers purchase goods and services, and businesses pay their employees for selling it, and those workers/employees become, and are of course consumers, and workers' spending their paychecks increase retail sales, so round and round it goes. No recession yet with consumers spending 2.3% in Q2 2024. Consumers are key, but keep in mind they do spend on essentials even in the darkest of economic times, paper towels, food, beer and the like. In fact, real consumer expenditures never went negative in the 2001 recession. Almost makes you wonder what a recession is. And looking to the Great Recession from December 2007-June 2009, real consumer spending only dropped 1.3% in 2009, the Great Recession named by, or name repeated by, Yellen frequently as Fed Chair as it was the biggest GDP economic downturn since the Great Depression. Consumption does depend on more jobs and more consumers each period. In fact, economic theory depends heavily on steady annual increases in the population, and it is unclear how the world will go on without growth. A little better than now at 2.5% 2016, 2.6% 2017, and 2.7% in 2018, with the Tax Cuts and Jobs Act in December 2017 not doing all that much, consumer spending did slow to 2.0% in 2019: the events of 2018 caught up with its trade wars "I am a tariff man," Federal government shutdown, stock market falling 20%, manufacturing recession, and Powell cut interest rates three times in 2019 to stabilize the boat.

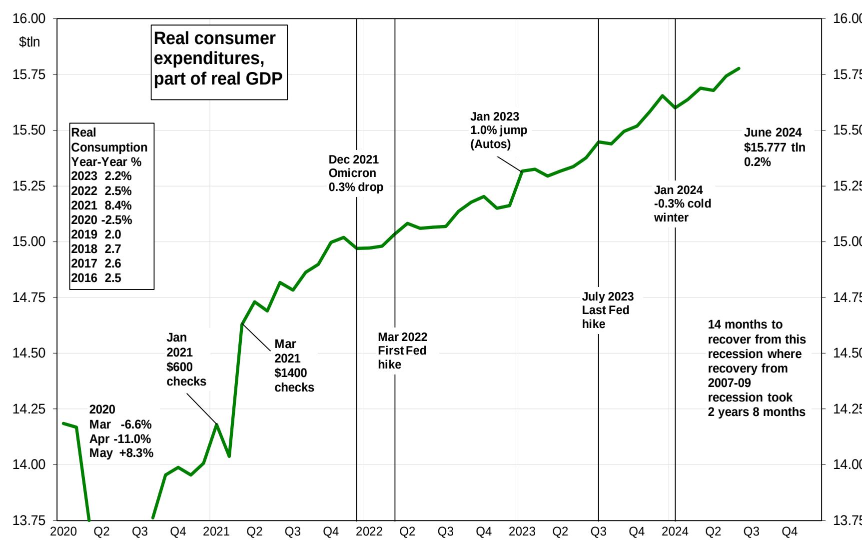
Recession	July 1990-March 1991							
SAAR %	Q1 90	Q2 90	Q3 90	Q4 90	Q1 91	Q2 91		
GDP	4.4	1.5	0.3	-3.6	-1.9	3.2		
Consumer	3.4	1.2	1.6	-3.0	-1.5	3.4		
Recession	March 2001-November 2001							
SAAR %	Q3 00	Q4 00	Q1 01	Q2 01	Q3 01	Q4 01	Q1 02	
GDP	0.4	2.4	-1.3	2.5	-1.6	1.1	3.4	
Consumer	3.9	3.5	1.5	0.8	1.4	6.6	0.9	
Recession	December 2007-June 2009							
SAAR %	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
GDP	2.5	-1.7	2.4	-2.1	-8.5	-4.5	-0.7	1.4
Consumer	1.6	-0.5	1.1	-3.0	-3.5	-1.0	-2.0	2.7

First month of recession dates is actually the last month of growth before turning down

Anyway, consumption has found its groove the last few years after falling and rising spectacularly in the pandemic. 2022 spending 2.5%, and 2.2% in 2023; we forecast 2.3% in 2024 assuming 2.5% in Q3 and 2.0% in Q4. A steady state despite unnerving news headlines from time to time: similar to consumption's pace after the Fed's zero-rates liftoff in December 2015.

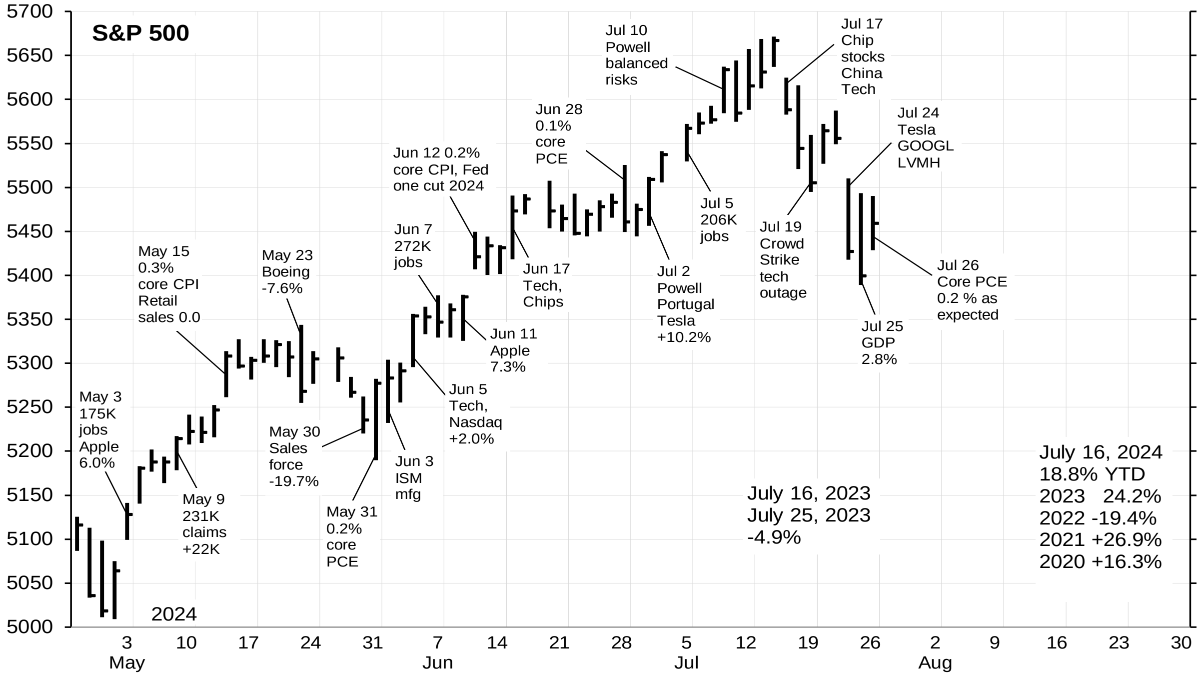
First Line $bln real, Second Line %Chg SAAR	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2
Gross domestic product (GDP)	**22,225.4**	**22,490.7**	**22,679.3**	**22,758.8**	**22,918.7**
	2.1	**4.9**	**3.4**	**1.4**	**2.8**
Personal consumption expenditures	**15,343.6**	**15,461.4**	**15,586.7**	**15,643.0**	**15,733.1**
	0.8	**3.1**	**3.3**	**1.5**	**2.3**
Goods	**5,347.3**	**5,411.3**	**5,451.1**	**5,420.0**	**5,453.9**
	0.5	**4.9**	**3.0**	**-2.3**	**2.5**
Durable goods	2,020.9	2,053.9	2,070.1	2,046.7	2,070.3
	-0.3	**6.7**	**3.2**	**-4.4**	**4.7**
Motor vehicles and parts	599.6	597.8	595.3	573.2	580.0
	-9.1	**-1.2**	**-1.7**	**-14.0**	**4.8**
Furnishings and durable household equipment	413.6	419.2	421.0	421.3	428.5
	0.0	**5.5**	**1.7**	**0.3**	**7.0**
Recreational goods and vehicles	764.5	795.0	809.5	804.6	814.0
	11.2	**16.9**	**7.5**	**-2.4**	**4.8**
Other durable goods	273.7	278.5	284.6	292.0	292.4
	-1.6	**7.2**	**9.1**	**10.8**	**0.5**
Nondurable goods	3,335.4	3,367.3	3,391.1	3,382.1	3,393.7
	0.9	**3.9**	**2.9**	**-1.1**	**1.4**
Food and bev for off-premises use	1,148.5	1,153.9	1,156.2	1,155.6	1,160.8
	0.9	**1.9**	**0.8**	**-0.2**	**1.8**
Clothing and footwear	492.7	500.2	504.4	508.6	504.8
	-7.1	**6.2**	**3.4**	**3.4**	**-3.0**
Gasoline and other energy goods	319.8	319.0	322.4	312.7	317.4
	9.0	**-1.0**	**4.3**	**-11.5**	**6.1**
Other nondurable goods	1,382.0	1,404.0	1,418.3	1,418.3	1,422.1
	1.3	**6.5**	**4.1**	**0.0**	**1.1**
Services	**10,023.1**	**10,078.7**	**10,164.0**	**10,247.3**	**10,303.8**
	1.0	**2.2**	**3.4**	**3.3**	**2.2**
Household services consumption	9,622.9	9,675.8	9,762.2	9,829.2	9,881.1
	1.1	**2.2**	**3.6**	**2.8**	**2.1**
Housing and utilities	2,550.0	2,568.7	2,569.5	2,575.9	2,585.3
	0.7	**3.0**	**0.1**	**1.0**	**1.5**
Health care	2,600.0	2,617.5	2,666.9	2,713.5	2,740.4
	2.5	**2.7**	**7.8**	**7.2**	**4.0**
Transportation services	468.2	469.3	474.2	474.5	479.1
	3.5	**0.9**	**4.2**	**0.3**	**3.9**
Recreation services	587.4	590.7	591.3	595.4	601.4
	1.4	**2.3**	**0.4**	**2.8**	**4.1**
Food services and accommodations	1,041.1	1,059.0	1,075.7	1,066.7	1,069.3
	-0.9	**7.1**	**6.5**	**-3.3**	**1.0**
Financial services and insurance	1,048.7	1,052.2	1,049.8	1,064.1	1,068.2
	4.5	**1.3**	**-0.9**	**5.6**	**1.6**
Other services	1,338.4	1,327.6	1,347.3	1,355.0	1,354.1
	-2.8	**-3.2**	**6.1**	**2.3**	**-0.3**
Final nonprofits consumption	403.8	406.4	405.9	420.8	425.3
	-1.4	**2.6**	**-0.5**	**15.5**	**4.3**

Latest trends for the consumer. Consumer spending would have been 2.1% in Q1, closer to 2.3%"trend" in Q2, if not for a sharp drop in motor vehicles from the cold winter temps in January. Autos are often an important swing factor historically. 0 percent financing after 9/11 lifted consumption 6.6% in Q4 2001 putting an end to that short recession. Cash for Clunkers was only a one month effect on auto sales in August 2009, but Q3 2009 real consumer spending increased finally by 2.7% and the Great Recession ended in June 2009. The biggest category of spending lately, and it's not elective; and it probably can't be still because consumers avoided going to the doctor during the pandemic: Health care was 0.66 percentage points of the 2.3% real consumption in Q2 2024. Dining/hotels had added to stronger 3%-plus quarters for consumption in the second half of last year but are adding little to nothing so far in 2024.



Personal computers and software added a lot in June and for Q2 2024; after jumping during the holiday season, sales fell back but are now on the rise again. Housing and utilities added to spending in June, but it was mostly Electricity and gas. There were more purchases of furnishings, glassware, tableware, tools and hardware even though home sales were down in the dumps in June. Stay tuned. Consumption is steady even though there are 1.1 million more unemployed Americans since the cycle low in the jobless rate in April 2023.

INTEREST RATES

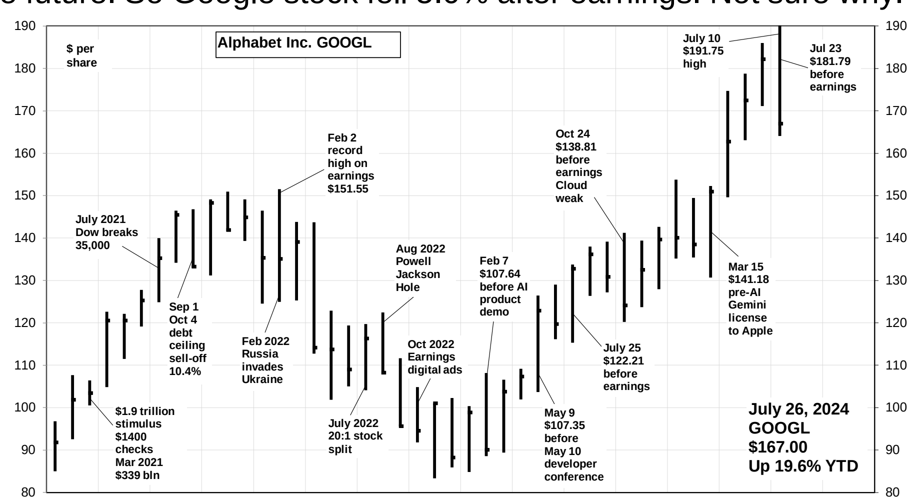


The number is 4.9%, just short of 5.0 before technical buying came in. A 5% drop in anyone's investment portfolio is quite something assuming you get the alerts on your phone to sell, sell, sell like we did. Good time to come with an IPO if you are a prominent hedge fund manager. We put up some markers on the stock chart because we are economists, GDP, PCE inflation, but other things were going on. Another dark day this week for Nasdaq just like the week before, this time a spectacular 3.6% Nasdaq drop Wednesday; there were Tesla and Google earnings Tuesday afternoon and then there was LVMH earnings that has some investors questioning global consumer demand for the luxury goods we could never afford. Don't forget bonds. 4.20% 10-yr yield close Friday versus 4.24% (yawn) last week. Treasury announces new cash needs Monday, July 29 at 3pm: Unless you are in politics, the National Debt is just a number on a piece of paper as far as bond traders are thinking.

Tesla (TSLA) or Alphabet (GOOGL)

Flip a coin, Google or Tesla this week after earnings Tuesday after the close. Google makes money, though some of the AI assisted searches we do seem to be omitting other relevant page views, and Tesla makes nice cars we hear but the valuation may be dependent on space rockets, and robots, and self-driving Taxis some day in the future. So Google stock fell 5.0% after earnings. Not sure why.

Calendar Year Mln $	Revenue	Advertising	Cloud	Operating Income
Q2 2024	84,742	64,616	10,347	27,425
Q1 2024	80,539	61,659	9,574	25,472
Q4 2023	86,310	65,517	9,192	23,697
Q3 2023	76,693	59,647	8,411	21,343
Q2 2023	74,604	58,143	8,031	21,838
Q1 2023	69,787	54,548	7,454	17,415
Q4 2022	76,048	59,042	7,315	18,160
Q3 2022	69,092	54,482	6,868	17,135
Q2 2022	69,685	56,288	6,276	19,453
Q1 2022	68,011	54,661	5,821	20,094
Q4 2021	75,325	61,239	5,541	21,885



FEDERAL RESERVE POLICY

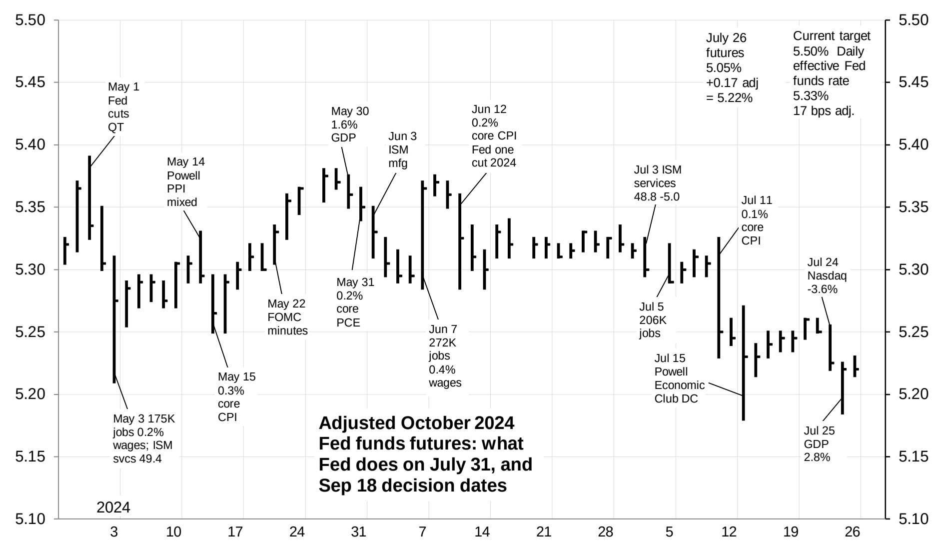
The Fed meets July 30-31, 2024 to consider its monetary policy. A 0.2% core PCE in June especially given core CPI was 0.1% was disappointing to us, as there are not that many months to score a 0.1% change if the target is truly 2.0. We guess it depends on how confident they are that core PCE inflation comes down to their 2.3% forecast at the end of 2025. Core PCE inflation is only a few tenths away at 2.6% year-on-year in today's print for June. Their June forecasts are for just one rate cut in 2024 and four rate cuts in 2025. The market sees the data come and go and continues, Fed funds futures continue, to see two rate cuts to 5.0% at the end of this year. Actually, almost three now. Nothing for next week's dead meeting for July, but one rate cut for the September meeting.

We were waiting for a recession to speed the Fed up, but the weekly jobless claims data won't quite get there yet. We hope the jobless claims data are still relevant as there isn't much else to signal a recession is here except the inverted yield curve, haha. There is some worry that the new generation does not want to apply for weekly unemployment claims as it is a lot of paperwork, and the money is not all that great to make the effort if you are still living at home with Mom and Dad. P.S. Based on history, the 3-month/10-year curve inverted in November 2022 meaning a recession was due anytime from July 2023 to March 2024. Getting late in the day now. We haven't been this disappointed since the leading indicators index broke.

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	24-Jul	17-Jul	10-Jul	3-Jul	3/11/20*	Change from 3/11/20 to Jul 24
Factors adding reserves						
U.S. Treasury securities	4423.725	4423.552	4438.095	4437.894	2523.031	1900.694
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2332.216	2335.932	2335.997	2335.997	1371.846	960.370
Repurchase agreements	0.000	0.100	0.001	0.004	242.375	-242.375
Primary credit (Discount Window)	6.751	6.634	6.803	6.404	0.011	6.740
Bank Term Funding Program	102.410	103.248	105.998	106.284		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.715	2.735	2.788	2.801		
Main Street Lending Program	10.880	10.869	11.199	11.186		
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	0.159	0.163	0.122	0.211	0.058	0.101
Federal Reserve Total Assets	7256.7	7259.5	7275.3	7272.3	4360.0	2896.697
~~3-month Libor %~~ SOFR %	5.34	5.35	5.34	5.33	1.15	4.190
Factors draining reserves						
Currency in circulation	2347.678	2350.408	2356.054	2358.292	1818.957	528.721
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	767.419	766.779	722.328	745.608	372.337	395.082
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	399.121	399.401	422.147	425.898	1.325	397.796
Federal Reserve Liabilities	3980.838	3937.028	3934.269	3950.087	2580.036	1400.802
Reserve Balances (Net Liquidity)	3275.885	3322.446	3341.046	3322.165	1779.990	1495.895
Treasuries within 15 days	63.939	57.058	62.997	63.469	21.427	42.512
Treasuries 16 to 90 days	178.740	184.932	206.784	202.631	221.961	-43.221
Treasuries 91 days to 1 year	543.643	544.310	534.437	538.099	378.403	165.240
Treasuries over 1-yr to 5 years	1479.645	1479.567	1471.206	1471.141	915.101	564.544
Treasuries over 5-yrs to 10 years	637.651	637.630	646.240	646.217	327.906	309.745
Treasuries over 10-years	1520.107	1520.056	1516.431	1516.338	658.232	861.875
Note: QT starts June 1, 2022	Change	7/24/2024	6/1/2022			
U.S. Treasury securities	-1347.054	4423.725	5770.779			
Mortgage-backed securities (MBS)	-375.230	2332.216	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2024	2025	2026	Long Term
Fed funds	5.1	4.1	3.1	2.8
PCE inflation	2.6	2.3	2.0	2.0
Core inflation	2.8	2.3	2.0	
Unemployed	4.0	4.2	4.1	4.2
GDP	2.1	2.0	2.0	1.8
June 2024 median Fed forecasts				



October Fed funds futures discount 28.5 bps of a 25 bps rate cut (114%) on September 18. Almost three 25 bps rate cuts are discounted this year.

Fed funds futures call Fed policy

Current target: July 26 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.485	Aug 2024	July 31
5.215	Oct 2024	Add Sep 18
4.805	Jan 2025	Add Nov 7, Dec 18*
Last trade, not settlement price		

* Not strictly true, Jan 2025 contract has Jan 29 as the expected Fed decision date

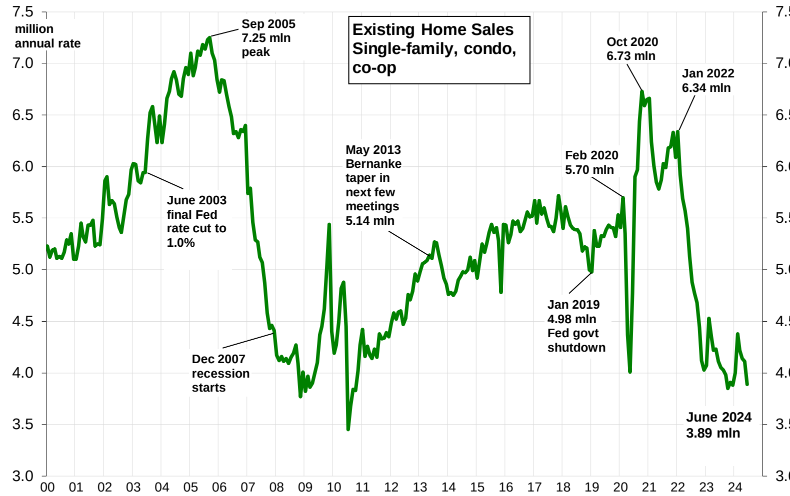
Next up: July CPI inflation report Wednesday, August 14

Monthly % Changes	Jun	May	Apr	Mar	Feb	2024 Jan	2023 Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	2023 Apr
Core CPI inflation	0.1	0.2	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
Core PCE inflation	0.2	0.1	0.3	0.3	0.3	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3
Core PCE YOY	2.6	2.6	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
Core CPI YOY	3.3	3.4	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

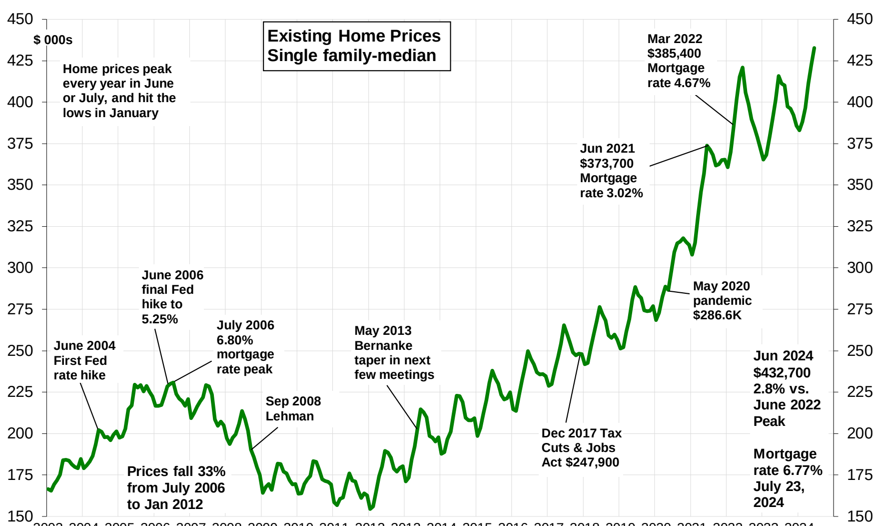
OTHER ECONOMIC NEWS

Housing bubble continued (Tuesday)

Breaking economy news. Existing home sales down, existing home prices up. Maybe higher prices are giving buyers sticker shock finally. Existing home sales fell 5.4% in June to 3.89 million at an annual rate which counts as a recession for the housing sector. Sales tumbled the most in the Midwest down 8.0% and in the South by 5.9%. The South as usual with Texas and Florida accounted for 1.76 million or 45% of nationwide sales. Meanwhile, the housing bubble continues. Single-family existing home prices are up 4.1% the last year to $432,700 in June. Home sales tend to peak temporarily in June or July every year. Prices averaged $357,100 in 2021 coming out of the pandemic.



Net, net, sales activity for existing homes dropped back to housing recession lows in June which comes as a great surprise as spring and summer are normally expected to be some of the hottest sales months of the entire year. Consumer confidence has slipped recently, but we cannot help but wonder whether new highs for home prices are curbing the enthusiasm of home buyers. Mortgage rates may have peaked with Fed officials getting closer to interest rate cuts, but home buyers are still surprisingly cautious with sales down in every region of the US this month. Stay tuned. The housing bubble continues with single-family existing home prices up 2.4% in June to a record $432,700 making it even more unaffordable for inflation-weary consumers looking for a new home. The housing price bubble has not popped yet, but buyers are starting to grow cautious about buying homes at record highs. Fed officials need to be cautious about providing new stimulus to the economy by cutting interest rates because their actions could push up home prices even higher.



Solid growth not too hot, not too cold (Thursday)

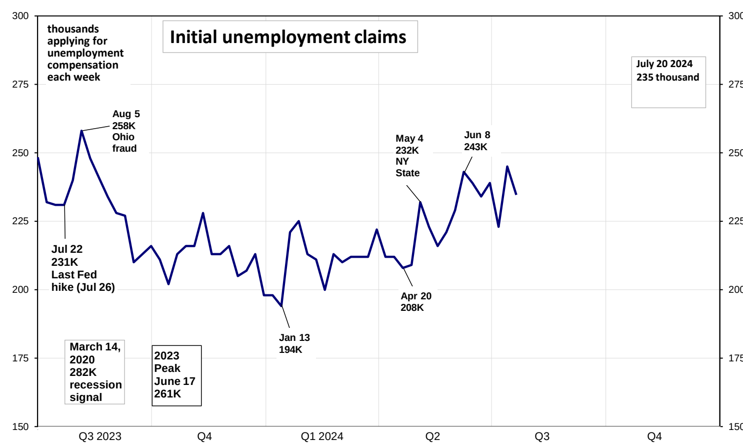
Breaking economy news. First look at second quarter real GDP and weekly jobless claims. If a recession is still coming, it sure has a long fuse. Initial unemployment claims fell 10K to 235K in the July 20 week, not seasonally adjusted claims fell 24,200 and would have been even lower without another Hurricane Beryl week where Texas claims rose 6,413. Real GDP rose 2.8% in the first look at the second quarter which is a rebound from 1.4% in Q1 2024. The recession wolf isn't at the door yet for the economy despite the Fed's recession-level monetary restraint. The only negative is the extra growth was fueled by an increase in inventories.

	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24p
REAL GDP	2.2	2.1	4.9	3.4	1.4	2.8
REAL CONSUMPTION	3.8	0.8	3.1	3.3	1.5	2.3
CONSUMPTION	2.5	0.6	2.1	2.2	1.0	1.6
Durables	1.1	0.0	0.5	0.3	-0.4	0.4
Nondurables	0.1	0.1	0.6	0.4	-0.2	0.2
Services	1.4	0.4	1.0	1.5	1.5	1.0
INVESTMENT	-1.7	0.9	1.7	0.2	0.8	1.5
Business Plant	0.8	0.5	0.3	0.3	0.1	-0.1
& Equipment and	-0.2	0.4	-0.2	-0.1	0.1	0.6
Intellectual Property	0.2	0.2	0.1	0.2	0.4	0.2
Homes	-0.2	-0.1	0.3	0.1	0.6	-0.1
Inventories	-2.2	0.0	1.3	-0.5	-0.4	0.8
EXPORTS	0.8	-1.1	0.6	0.6	0.2	0.2
IMPORTS	-0.2	1.1	-0.6	-0.3	-0.8	-0.9
GOVERNMENT	0.8	0.6	1.0	0.8	0.3	0.5
Federal defense	0.1	0.1	0.3	0.0	0.0	0.2
Fed nondefense	0.3	0.0	0.2	0.1	0.0	0.1
State and local	0.5	0.5	0.5	0.6	0.3	0.3

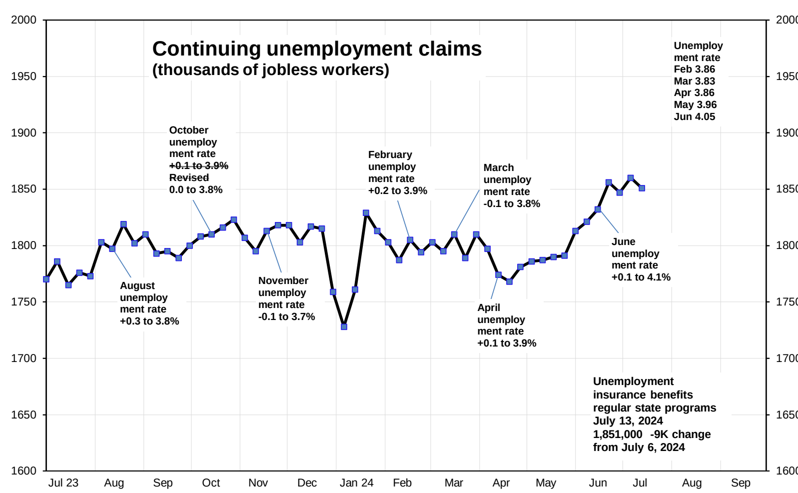
Below line: Percentage point contributions to Q2 2024 2.8% real GDP

Second estimate for Q2 is Thursday, August 29

Net, net, the economy powered back from the soft patch at the start of the year with a moderate gain in the second quarter as business investment in equipment rebounded sharply in the second quarter. Companies would not be investing in the economy's future if they had any doubts about the outlook. Geopolitical and national election risks are not holding businesses back from spending to make the economy go. Solid growth in the economy coupled with the decline in weekly jobless claims signals no recession ahead for the economy, looking all the way out to the horizon, at least for today anyway. Jobless claims would have come down further if not for the Hurricane Beryl impact on Texas filings for unemployment compensation.



Fed officials can have their cake and eat it too because second quarter core PCE inflation fell to 2.7% year-on-year from 2.9% in the first quarter which should mean a good reading for June inflation in the personal income report tomorrow. Stay tuned. The economy hasn't gone off the rails yet. The economic expansion continues with enough growth to keep the labor market in balance without producing too much heat that could allow price pressures to build once again. Inflation looks to be going the Federal Reserve's way and an easing of monetary restraint with an interest rate cut is likely at the September meeting. Economic growth is solid, not too hot and not too cold. Rate cuts are coming. Bet on it.

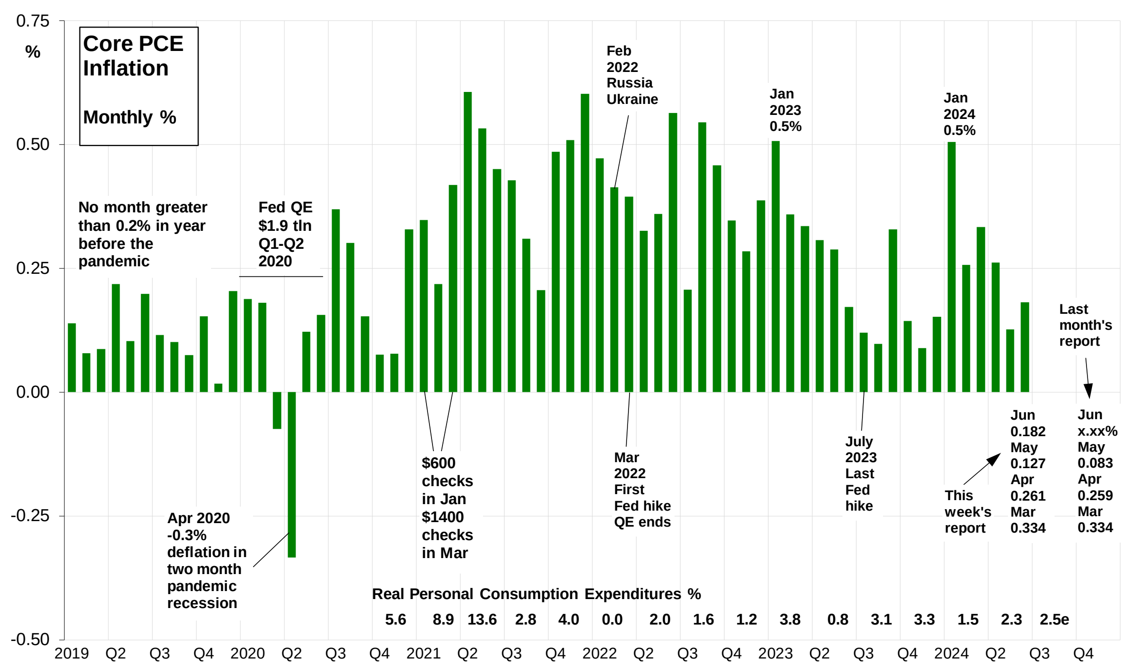


Inflation disappoints 0.182 (Friday)

Breaking economy news. It's a good thing the stock market is battered and bruised with heavy losses this week because inflation disappointed which means Fed rate cuts will not be coming early this summer. There is no reason for the Federal Reserve to rush to judgment on whether the inflation tide has turned or not when they sit down to discuss policy and the outlook next week. Stocks are little changed on the moderate consumer spending and inflation figures for June. No recession if the consumers have anything to say about it with real consumption 2.3% in the second quarter and the third quarter is looking like it will be more of the same with the strong spending in services in June. Real consumption expenditures are up 1.1% in Q3 2024 even before data are released for July, August, and September. Consumers are not dipping into their savings either as personal saving is 3.4% little changed from 3.5% in March, April and May. Wages and salaries are up 0.3% in June following even better paychecks with an increase of 0.6% in May.

Maybe it is just us, but the 0.182% rise in core PCE inflation was a real letdown, May was the lowest monthly change this year with an increase of 0.127%, letdown because this is the time of year when inflation pressures are normally very, very modest. The core PCE inflation rate is 2.6% year-on-year which is where it was the prior month, and the results today are unlikely to thrill Fed officials even if 2.8% is where their forecasts see inflation in the fourth quarter of 2024 and so they have reached this year's goal and gone beyond it already.

Net, net, consumers ramped up their spending on services at the end of last quarter and this will provide some momentum to consumption and real GDP growth in the third quarter. The economy is fine, but Fed officials will not like the stronger than expected core PCE inflation print in June which leaves year-on-year core consumer inflation stuck above 2.5%. There is certainly no reason for Fed officials to rush with an interest rate cut at next week's meeting, as today's data do not give us greater confidence that inflation will make it back to the Fed's 2.0% target. The progress on inflation has come so far, but it looks like the last mile to victory will be harder to achieve than many in the markets had thought.



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