Financial Markets This Week

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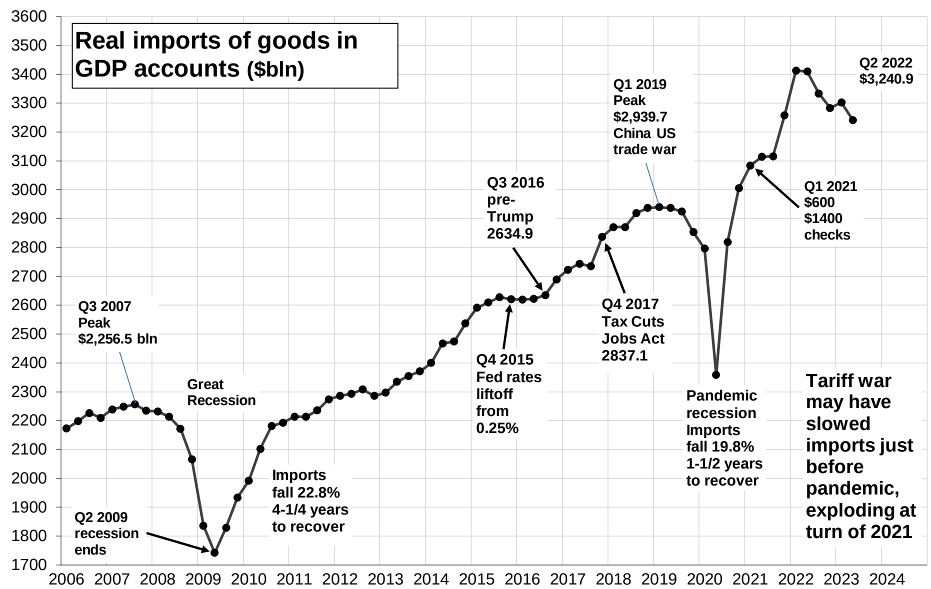
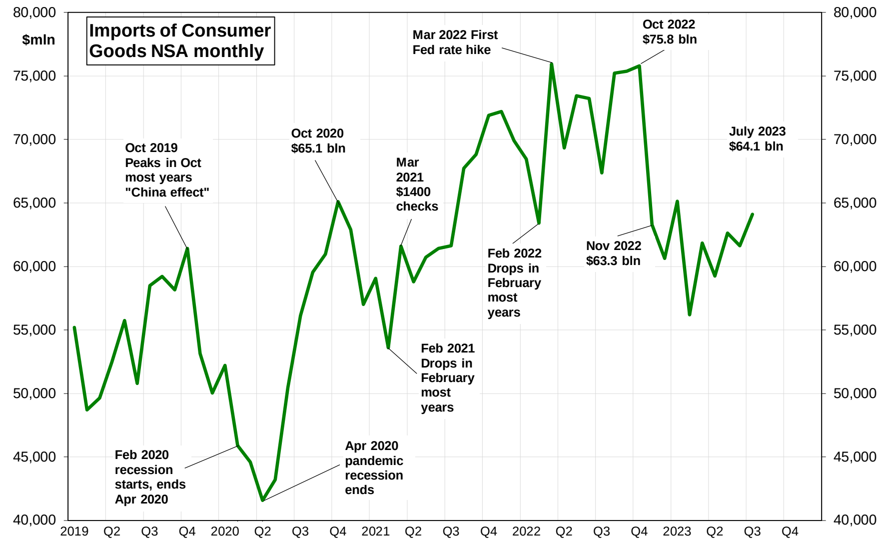
GLOBAL TRADE WINDS

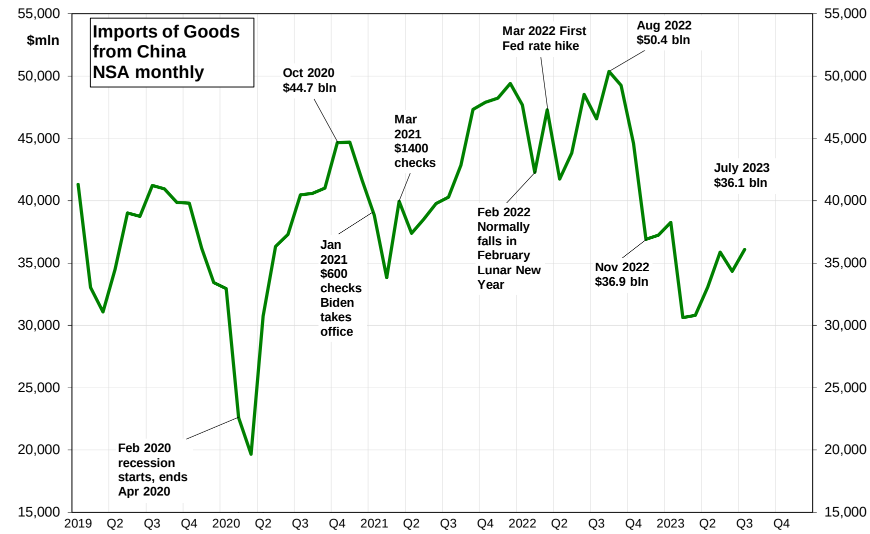


Changes in latitudes, changes in attitudes. Global trade winds have not been blowing as favorably for the world economy. No country has put on extra import duties or restricted trade with one another yet, outside a few commodities, although there's been a lot of talk of the world economy slowing down; growth in China, Germany keep getting mentioned in social media. Less world growth means less global trade which is bad for U.S. exporters, exports that add to economic growth and jobs in America. But do not forget imports. Right now real imports from the GDP accounts have been falling since the start of 2022, and for those of you who believe the US is secretly in recession you are in luck because imports do not generally decline, outside of recessions like the 2007-09 Great Recession and the short two month pandemic recession in 2020.

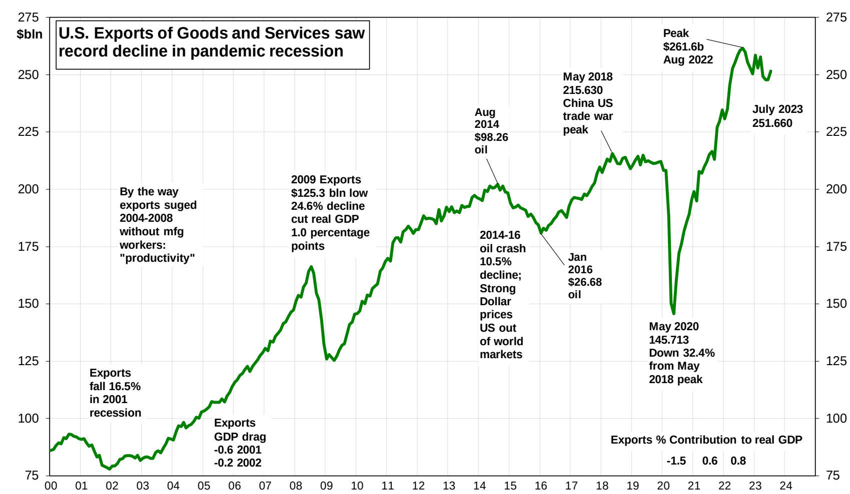
Imports are down and out, but maybe there is some rebalancing going on where consumer demand was strong, boosted in part by those $2,000 checks sent out to Americans in Q1 2021 (who was that down in Washington who recommended another two grand anyway). Importers seemed to have stopped bringing as many goods the last year and a half perhaps to bring bloated inventories under control as the extraordinary demand from consumers and businesses coming out of the pandemic ran its course. Maybe this readjustment is technical and falling goods imports are not indicative of recession. The irony of course is while imports fall in recessions, the decline actually adds to real GDP, Gross Domestic Product, where imports are subtracted from GDP by definition. For example, Q2 2023 real GDP increased 2.1%, but the contribution by imported goods falling 7.2% SAAR was a positive 0.87 percentage point, meaning real GDP would have been just 1.2% if imports had not declined.

We got the July U.S. trade data for goods and and services on Wednesday this week, but the advance report on July trade data for goods was released earlier on Wednesday, August 30 which showed the same thing with minor revisions. Imports of consumer goods are rising back after getting whacked last year. The trend mirrors total imports for goods from China in July that were released in the trade data on Wednesday. China's export-reliant economy is not looking so resilient without trade with the world.



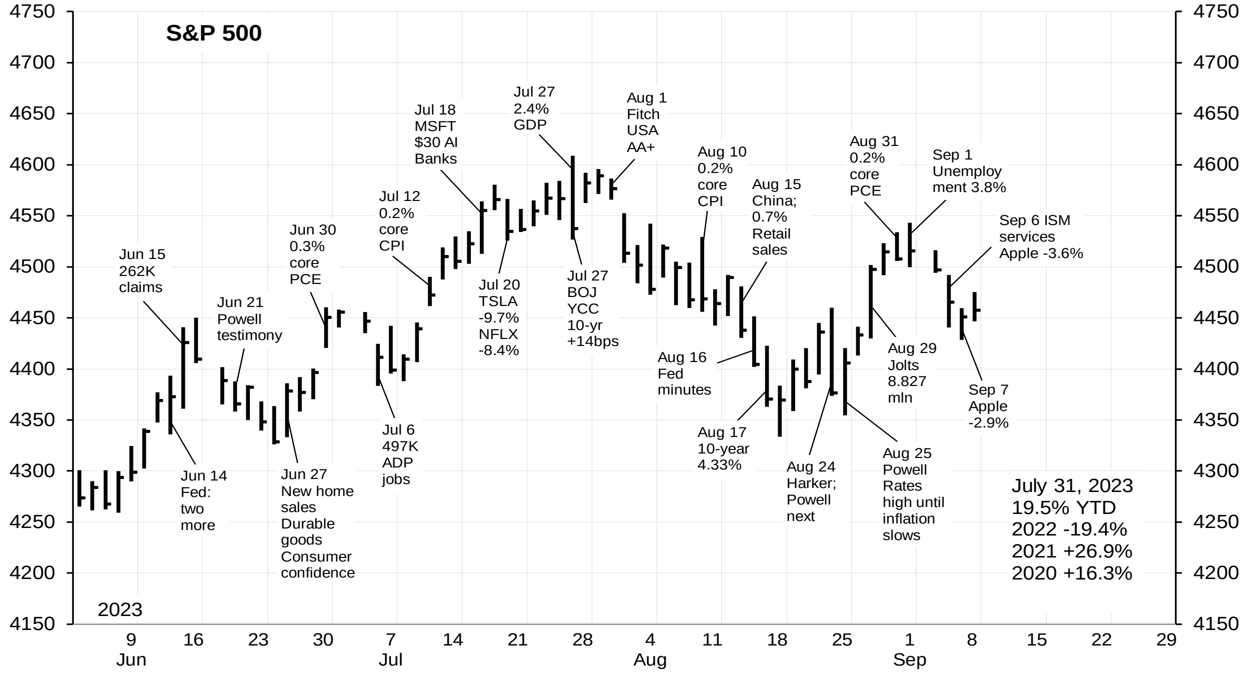


Back to the trend of U.S. exports which is important for manufacturing jobs in this country. Exports of goods stumbled in the second quarter subtracting 1.36 percentage points from 2.1 real GDP growth. The IMF estimates world trade growth will slow in 2023 in part due to U.S. dollar strength given the widespread practice of invoicing products in U.S. dollars. The second quarter declines in both imports and exports in the GDP accounts is part of the trade slowdown picture, but the July trade data this week hint that third quarter exports will rebound somewhat, adding to GDP growth, while imports remain at the same level as the second quarter.



To conclude, world trade, US exports and imports, have settled back after a demand surge coming out of the pandemic. It is too early to say geopolitical tensions have hit trade. Imports of consumer goods, US imports from China, and US exports are showing signs of recovery. It is true that imports only fall in recessions, so the trend needs to be monitored closely.

INTEREST RATES

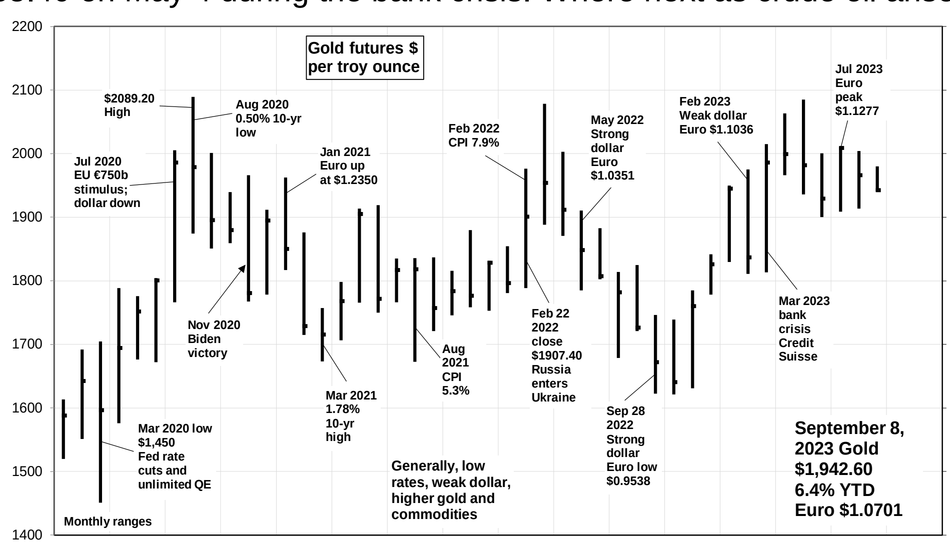


S&P 500 got waylaid on its attempt to recover from the July 27 to August 18 decline of 5.9%. The breakdown looks technical with some key news helping speculators to kick it down hard. ISM services increased on Wednesday and the market acted like it was stronger growth that would prompt a Fed rate hike. Apple news too on Wednesday that China would ban its officials from using their iPhones at work. Apple fell 3.6% Wednesday, -2.9% Thursday. For 10-years, yield curve moves complicated the trend. 10-year yields on the ISM services news rose 5 basis points, but the curve flattened thinking Fed rate hikes ahead, with the 2-year yield up 10 basis points to back over 5%. If you were thinking of locking in 5% for two years, instead of riding money market fund 5% interest day-to-day, now would be the time. The June Fed forecast said rates would drop from 5.75% in 2023 to 3.5% in 2025.

Gold $1,942.60, up 6.4% YTD

If the economy is so resilient, do you still need gold in your portfolio? It sure had a run starting in the 2000s with a falling dollar and rising commodity prices, breaking $500 in 2006 during the housing bubble before the 2007-09 recession and continuing on to a little above $1,900 in September 2011. This year gold peaked at $2,085.40 on May 4 during the bank crisis. Where next as crude oil arises?

S&P 500 Weights	
Top 6: 25% of S&P	
7.06	AAPL
6.60	MSFT
2.16	GOOGL
1.87	GOOG
3.31	AMZN
3.08	NVIDIA
1.82	TSLA
25.90	Top 6



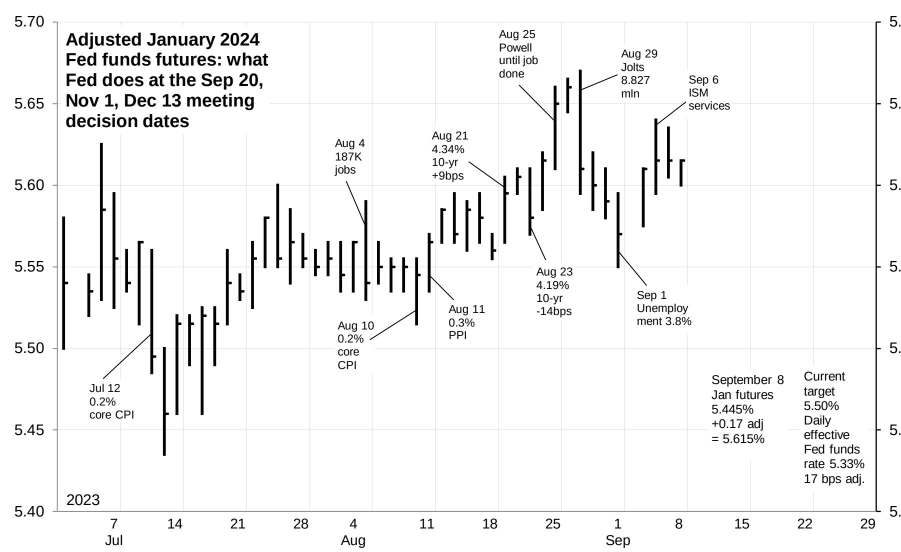
FEDERAL RESERVE POLICY

The Fed meets September 19-20, 2023 to consider its monetary policy. It looks like a 25 bps rate hike to the 5.75% terminal rate forecast by the end of 2023 will not be on the table at this meeting. There will be updated forecasts for where the committee thinks rates will be at the end of 2023, 2024, 2025, <u>and 2026 the first time</u> (oy-vey) released at 2pm ET on Wednesday, September 20 that will be important, if not critical, even if it is nothing the committee formally votes on as Powell always reminds everyone. Nevertheless, 2026 is some time off in the future. Before we get there, the August CPI report is due 830am ET Wednesday, September 13 and we will see if the string of 0.2% core CPI monthly increases continues or not. The odds of a rate hike on November 1 are roughly 50/50.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	6-Sep	30-Aug	23-Aug	16-Aug	3/11/20*	3/11/20
Factors adding reserves						to Sep 6
U.S. Treasury securities	4988.471	5006.839	5006.494	5006.075	2523.031	2465.440
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2498.870	2498.870	2513.140	2517.483	1371.846	1127.024
Repurchase agreements	0.006	0.001	0.000	0.006	242.375	-242.369
Primary credit (Discount Window)	2.051	2.907	2.190	1.966	0.011	2.040
Bank Term Funding Program	107.855	107.527	107.386	107.242		
FDIC Loans to banks via Fed	133.796	134.369	137.171	141.636		
Paycheck Protection Facility	5.526	5.693	5.817	6.055		
Main Street Lending Program	19.556	19.534	19.512	19.497		
Municipal Liquidity Facility	5.621	5.618	5.615	5.612		
Term Asset-Backed Facility (TALF II)	1.216	1.583	1.581	1.580		
<u>Central bank liquidity swaps</u>	<u>0.232</u>	<u>0.232</u>	<u>0.230</u>	<u>0.229</u>	<u>0.058</u>	0.174
Federal Reserve Total Assets	8151.4	8171.4	8189.8	8196.6	4360.0	3791.412
~~3-month Libor %~~ SOFR %	5.30	5.30	5.30	5.30	1.15	4.150
Factors draining reserves						
Currency in circulation	2355.050	2331.504	2328.199	2330.572	1818.957	536.093
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	481.552	500.702	416.031	384.814	372.337	109.215
Treasury credit facilities contribution	13.358	13.358	13.358	13.358		
Reverse repurchases w/others	1606.244	1696.819	1816.533	1796.725	1.325	1604.919
Federal Reserve Liabilities	4860.964	4974.904	5012.398	4967.670	2580.036	2280.928
Reserve Balances (Net Liquidity)	3290.475	3196.542	3177.380	3228.952	1779.990	1510.485
Treasuries within 15 days	41.877	65.077	68.144	71.990	21.427	20.450
Treasuries 16 to 90 days	279.944	255.130	251.632	214.937	221.961	57.983
Treasuries 91 days to 1 year	624.428	634.521	634.931	667.757	378.403	246.025
Treasuries over 1-yr to 5 years	1712.154	1719.220	1719.070	1718.845	915.101	797.053
Treasuries over 5-yrs to 10 years	826.629	832.030	831.951	817.656	327.906	498.723
Treasuries over 10-years	1503.441	1500.862	1500.768	1514.890	658.232	845.209
Note: QT starts June 1, 2022	<u>Change</u>	<u>9/6/2023</u>	<u>6/1/2022</u>			
U.S. Treasury securities	-782.308	4988.471	5770.779			
Mortgage-backed securities (MBS)	-208.576	2498.870	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Jobless claims came back to new lows indicating if the unemployment rate did jump 0.3 percentage points to 3.8% in August, no one bothered to file for unemployment benefit payments which we suppose could be possible given the onerous, initial qualification and ongoing job search requirements in many states. Our unscientific internet search shows Florida with $275 a week and New Jersey $830 a week in jobless benefits. More talk of a soft landing for the economy this week even by Fed officials although the yield curve's recession call is still out there which says recession hits between July 2023 to May 2024. It has made a perfect call looking back to the 1990-91 recession.

Fed funds futures call Fed hikes		
Current target: September 8 -- 5.50%		
<u>Rate+0.17</u>	<u>Contract</u>	<u>Fed decision dates</u>
5.520	Oct 2023	Sep 20
5.620	Nov 2023	Sep 20, Nov 1
5.615	Jan 2024	Sep 20, Nov 1, Dec 13
Last trade, not settlement price		

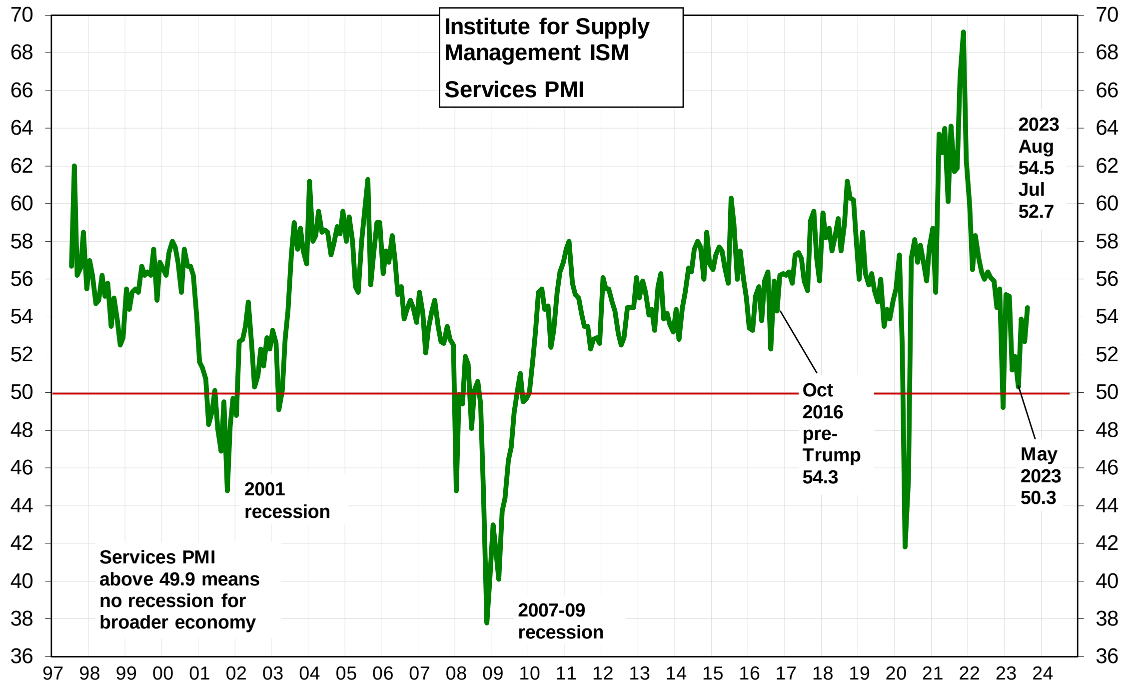


Next up: August CPI inflation report Wednesday, September 13														
Monthly	2023						2023	2022						2022
% Changes	<u>Jul</u>	<u>Jun</u>	<u>May</u>	<u>Apr</u>	<u>Mar</u>	<u>Feb</u>	<u>Jan</u>	<u>Dec</u>	<u>Nov</u>	<u>Oct</u>	<u>Sep</u>	<u>Aug</u>	<u>Jul</u>	<u>Jun</u>	<u>May</u>
Core CPI inflation	0.2	0.2	0.4	0.4	0.4	0.5	0.4	0.4	0.3	0.3	0.6	0.6	0.3	0.6	0.6
Core PCE inflation	0.2	0.2	0.3	0.3	0.3	0.3	0.5	0.4	0.2	0.3	0.5	0.6	0.1	0.6	0.4
Core PCE YOY	4.2	4.1	4.5	4.6	4.6	4.7	4.7	4.6	4.8	5.1	5.2	4.9	4.7	5.0	4.9
Core CPI YOY	4.7	4.8	5.3	5.5	5.6	5.5	5.6	5.7	6.0	6.3	6.6	6.3	5.9	5.9	6.0

OTHER ECONOMIC NEWS

ISM services (Wednesday)

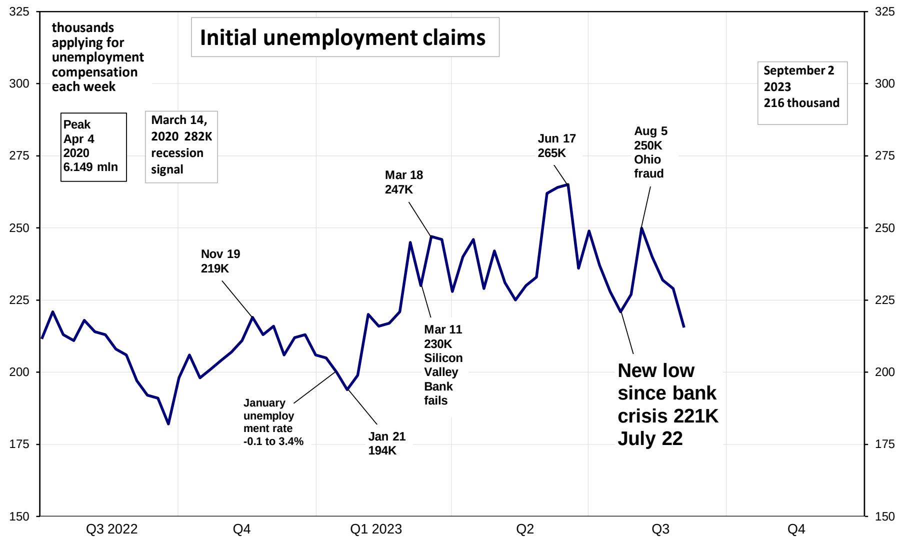
Breaking economy news. ISM services PMI seemed to cause a stock market sell-off at 10am ET on Wednesday. Indeed, the index is headed up from the 50.3 low in May 2023, but not sure this is enough growth to write home about. It is a survey for one thing. Anecdotal evidence as opposed to retail sales or durable orders or a count of the unemployed. Right before this at 945am ET, S&P Global released its own final reading on its services sector PMI. This PMI was 52.3 in July, had a preliminary reading of 51.0 in August which was then revised to 50.5. This report says services sector demand has faltered, and now shows the weakest growth in seven months. Anyway, the market thinks ISM services is strong and could possibly put another rate hike on the table for this year.



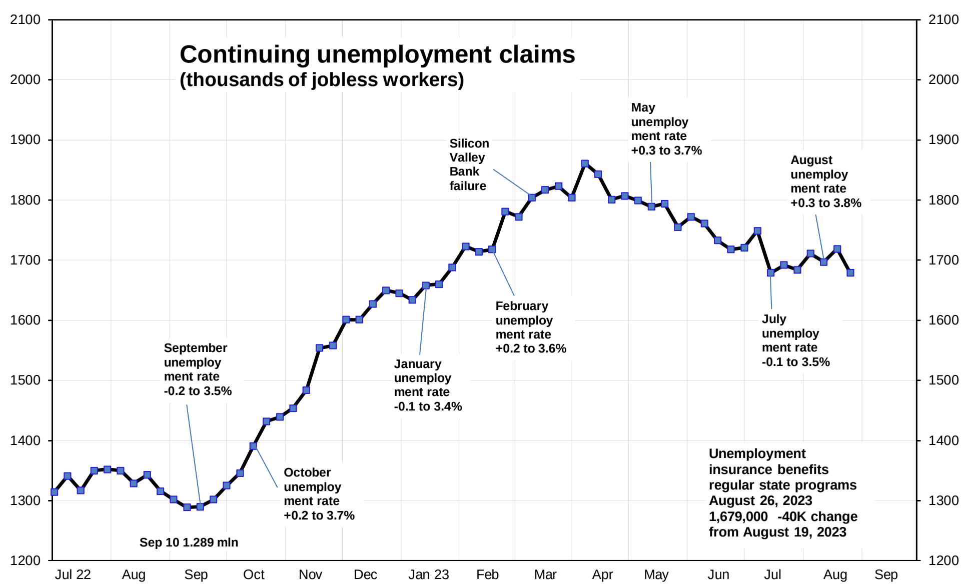
ISM Services PMI				
	Aug 23	Jul 23	Jun 23	May 23
Services PMI	54.5	52.7	53.9	50.3
New orders	57.5	55.0	55.5	52.9
Employment	54.7	50.7	53.1	49.2
Prices	58.9	56.8	54.1	56.2

Jobless claims tumble (Thursday)

Breaking economy news. First-time applications for unemployment claims tumbled 13K to 216K in the September 2 week, and would have been a few thousand lower without the 3,066 increase in Missouri. The data do not support a recession forecast and do not back up that three-tenths jump in the unemployment rate to 3.8% reported last Friday for the month of August.



Net, net, applications for unemployment benefits have tumbled in recent weeks showing the labor market is even further away from rebalancing. We do not know if this is enough for Fed Chair Powell to pull the trigger on another rate hike later this year, but it sure calls into question that three-tenths jump in the unemployment rate to 3.8% in last week's report which showed the sky was falling for the economy. There is no deterioration in the labor markets and time will tell if the job market's failure to rebalance after a year of interest rate hikes will cause the inflation genie to sneak back out of the bottle after the last couple of months of slower prices increases for many goods and services. Stay tuned. Story developing. The flare-up of jobless claims applications after the closure of Silicon Valley Bank back on March 10 is over, the claims that the bank crisis would slow lending and the economy notwithstanding. The labor market is standing tall without a recession in sight. Bet on it.



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